

To the shareholders of the Joint Stock Company “Banca Intesa”

# Auditors’ Report

**on the Annual accounting (financial) statements  
Of the Joint Stock Company  
“Banca Intesa”  
for the 2016 reporting year**

Set out below is an unofficial translation of the auditors’ report on the statutory financial statements of the Joint Stock Company “Banca Intesa” as at 1 January 2017 and for 2016. The statutory financial statements to which the auditors’ report relates have been prepared in accordance with the accounting and reporting regulations of the Russian Federation. Russian accounting and reporting regulations differ from accounting frameworks in other jurisdictions. Consequently, the accompanying statutory financial statements are not intended to present the financial position, financial performance and cash flows of the Joint Stock Company “Banca Intesa” in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than the Russian Federation.

**Joint Stock Company “Banca Intesa”**  
*Auditors’ report*  
*on the Annual accounting (financial) statements for the 2016 reporting year*

### **Information on the audit firm**

**Name of the audit firm:** Joint Stock Company “KPMG”.

**Location (legal address):** 18/1, Olympiysky prospect, Room 3035, Moscow, 129110.

**Postal address:** 10, Presnenskaya Naberezhnaya, Block C, floor 31, Moscow, 123112.

**State registration:** Registered by the Moscow Registration Chamber on 25 May 1992, Registration No. 011.585.  
Entered in the Unified State Register of Legal Entities on 13 August 2002 by the Moscow Inter-Regional Tax Inspectorate No. 39 of the Ministry for Taxes and Duties of the Russian Federation, Registration No. 1027700125628, Certificate series 77 No. 005721432.

**Membership in a self-regulating auditors’ organisation:** Member of the Self-regulating organization of auditors “Russian Union of auditors” (Association).  
The Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: No. 11603053203.

### **Information on the audited company**

**Name of audited company:** Joint Stock Company “Banca Intesa”

**Location (legal address):** 2, building 2, Petroverigsky per., Moscow, 101000.

**Postal address:** 2, building 2, Petroverigsky per., Moscow, 101000.

**State registration:** Registered by the Central Bank of the Russian Federation. Certificate of incorporation No. 2216 dated 31 December 1992.  
Entered in the Unified State Register of Legal entities on 11 September 2002 by the Moscow Inter-Regional Tax Inspectorate No. 39 of the Ministry for Taxes and Duties of the Russian Federation, Registration No. 1027739177377, Certificate series 77 No. 010860133.

## **Auditors’ report**

To the shareholders of the Joint Stock Company “Banca Intesa”

### ***Report on the Audit of the Annual accounting (financial) statements***

We have audited the accompanying annual accounting (financial) statements of the Joint Stock Company “Banca Intesa” (hereinafter the “Bank”) for the 2016 reporting year.

The annual accounting (financial) statements set on 108 pages, comprise:

- the balance sheet (published form) as at 1 January 2017;
- the statement of financial performance (published form) for 2016;
- the appendices to the balance sheet and the statement of financial performance including:
  - the statement on capital adequacy for risks coverage, amounts of provisions for doubtful debts and other assets (published form) as at 1 January 2017;
  - information on mandatory ratios, financial leverage ratio and short-term liquidity ratio (published form) as at 1 January 2017;
  - the cash flow statement (published form) for 2016.
- the explanatory notes to the annual accounting (financial) statements.

### ***Management’s Responsibility for the Annual accounting (financial) statements***

Management of the Bank is responsible for the preparation and reliability of the annual accounting (financial) statements in accordance with the requirements of the Russian reporting legislation related to the annual accounting (financial) statements preparation by credit institutions and for the system of internal control necessary for the preparation of the annual accounting (financial) statements which are free from material misstatements, whether due to fraud or error.

### ***Auditors’ Responsibility***

Our responsibility is to express an opinion on the annual accounting (financial) statements in all material respects based on our audit. We conducted our audit in accordance with the Federal Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit in order to obtain sufficient assurance as to whether the annual accounting (financial) statements are free from material misstatements.

The audit included performing procedures to obtain audit evidence confirming the amounts and disclosures in the annual accounting (financial) statements. The selection of the procedures is a matter of our judgment, which is based on the assessment of risk of material misstatement, whether due to fraud or error. In the process of risk assessment we considered the system of internal control relevant to the preparation and reliability of the annual accounting (financial) statements in order to select appropriate audit procedures, but not for the purpose of expressing an opinion on the effectiveness of internal control.

The audit also included an assessment of the appropriateness of the Bank’s accounting policy and the reasonableness of the estimates made by management, as well as the evaluation of the overall presentation of the annual accounting (financial) statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on the reliability of the annual accounting (financial) statements.

## **Opinion**

In our opinion, the accompanying annual accounting (financial) statements present reliably, in all material respects, the financial position of the Bank as at 1 January 2017 and its financial performance and cash flows for the 2016 reporting year in accordance with the requirements of the Russian reporting legislation related to annual accounting (financial) statements preparation by the credit institutions.

## **Report of findings from procedures performed in accordance with the requirements of the Federal Law dated 2 December 1990 No 395-1 On Banks and Banking Activity**

Management of the Bank is responsible for the Bank’s compliance with mandatory ratios and for maintaining internal control and organizing risk management systems in accordance with requirements established by the Bank of Russia.

In accordance with Article 42 of the Federal Law dated 2 December 1990 No. 395-1 *On Banks and Banking Activity* (the “Federal Law”), we have performed procedures to examine:

- the Bank’s compliance with mandatory ratios as at 1 January 2017 as established by the Bank of Russia;
- compliance of elements of the Bank’s internal control and organisation of its risk management systems with requirements established by the Bank of Russia.

These procedures were selected based on our judgment and were limited to enquiries, analyses, inspections of documents, comparisons of the Bank’s internal policies, procedures and methodologies to applicable requirements established by the Bank of Russia, as well as recalculations, comparisons and reconciliations of numerical data and other information.

Our findings from the procedures performed are reported below.

- Based on our procedures with respect to the Bank’s compliance with mandatory ratios as established by the Bank of Russia, we found that the Bank’s mandatory ratios as at 1 January 2017 were within the limits established by the Bank of Russia.

We have not performed any procedures on the accounting records maintained by the Bank other than those which we considered necessary to enable us to express an opinion as to whether the Bank’s accounting (financial) statements present fairly, in all material respects, the financial position of the Bank as at 1 January 2017, and its financial performance and its cash flows for 2016 in accordance with Russian reporting legislation.

- Based on our procedures with respect to compliance of the Bank’s internal control and organisation of its risk management systems with requirements established by the Bank of Russia, we found that:
  - as at 31 December 2016, the Bank’s Internal Audit department was subordinated to, and reported to, the Board of Directors, and the Risk Management department was not subordinated to, and did not report to, divisions accepting relevant risks in accordance with regulations and recommendations issued by the Bank of Russia;
  - the Bank’s internal documentation, effective on 31 December 2016, establishing the procedures and methodologies for identifying and managing the Bank’s significant credit, operational, market, interest rate, legal, liquidity and reputational risks, and for stress-testing was approved by the authorized management bodies of the Bank in accordance with regulations and recommendations issued by the Bank of Russia;

**Joint Stock Company “Banca Intesa”**

*Auditors’ report*

*on the Annual accounting (financial) statements for the 2016 reporting year*

- as at 31 December 2016, the Bank maintained a system for reporting on the Bank’s significant credit, operational, market, interest rate, legal, liquidity and reputational risks, and on the Bank’s capital;
- the frequency and consistency of reports prepared by the Bank’s Risk Management and Internal Audit departments during 2016, which cover the Bank’s credit, operational, market, interest rate, legal, liquidity and reputational risk management, was in compliance with the Bank’s internal documentation. The reports included observations made by the Bank’s Risk Management and Internal Audit departments as to their assessment of the effectiveness of the Bank’s procedures and methodologies, and recommendations for improvement;
- as at 31 December 2016, the Board of Directors and the Management Board of the Bank had responsibility for monitoring the Bank’s compliance with risk limits and capital adequacy ratios as established by the Bank’s internal documentation. With the objective of monitoring effectiveness of the Bank’s risk management procedures and their consistent application during 2016 the Board of Directors and the Management Board of the Bank periodically discussed reports prepared by the Risk Management and Internal Audit departments, and considered proposed corrective actions.

Our procedures with respect to elements of the Bank’s internal control and organization of its risk management systems were performed solely for the purpose of examining whether these elements, as prescribed in the Federal Law and described above, are in compliance with the requirements established by the Bank of Russia.

Director  
JSC “KPMG”  
(power of attorney dated 16 March 2015 No. 155/15)

Shevarenkov E.V.

17 February 2017

## Banking Statutory Financial Statements

Territory Code OKATO	Credit Institution's (Branch's) Code	
	OKPO	Registration Number (/Index Number)
4528655000	17512023	2216

BALANCE SHEET  
(published form)  
at 1 January 2017

Credit institution: "Banca Intesa" (Joint-Stock Company) / "Banca Intesa" JSC  
Postal address: 2, Petroverigsky per., 101000, Moscow, Russian Federation

Form Code by OKUD 0409806  
Quarterly (Annual)  
thousand rubles

No.	Item	Comment No.	As at the reporting date	As at the beginning of the year
1	2	3	4	5
<b>I. ASSETS</b>				
1	Cash	4.1	873 624	949 676
2	Credit institutions' balances with the Central Bank of the Russian Federation	4.1	1 459 800	845 729
2.1	Mandatory cash balances	4.1	268 738	193 955
3	Due from credit institutions	4.1	1 965 761	7 583 472
4	Financial assets at fair value through profit or loss	4.2	1 545	-
5	Net loans receivables	4.3	42 491 551	52 489 713
6	Net investments in securities and other financial assets available-for-sale	4.4	3 538 812	2 588 765
6.1	Investments in subsidiaries and affiliates	4.5	3 000	3 000
7	Net investments in securities held to maturity		-	-
8	Current income tax asset		542	1 303
9	Deferred tax asset	5.3	477 518	397 475
10	Fixed assets, intangible assets and inventories	4.6	1 974 734	1 078 678
11	Non-current assets held for sale	4.6	200 913	309 021
12	Other assets	4.7	1 136 116	2 277 550
13	<b>Total assets</b>		<b>54 120 916</b>	<b>68 521 382</b>
<b>II. LIABILITIES</b>				
14	Loans, deposits and other amounts due to the Central Bank of the Russian Federation		-	-
15	Due to credit institutions	4.8	9 165 345	22 013 178
16	Customer accounts (non-credit institutions)	4.9	27 763 150	28 625 602
16.1	Individuals deposits, including deposits of individual entrepreneurs	4.9	10 381 559	10 218 999
17	Financial liabilities at fair value through profit or loss	4.10	-	599
18	Issued debt instruments	4.11	4 817 151	5 000 000
19	Current income tax liability		3 721	3 265
20	Deferred tax liability	5.3	134 452	76 019
21	Other liabilities	4.13	825 333	1 302 755
22	Provisions for contingent credit related commitments, other possible losses and for transactions with offshore residents		75 427	71 050
23	<b>Total liabilities</b>		<b>42 784 579</b>	<b>57 092 468</b>
<b>III. SOURCES OF EQUITY</b>				
24	Shareholders' (participants') equity		10 820 181	10 820 181
25	Treasury shares		-	-
26	Share premium		-	-
27	Reserve fund		260 927	260 927
28	Fair value re-measurement of securities available-for-sale, net of deferred tax liability (gross with deferred tax asset)		21 830	9 977
29	Fixed assets revaluation, net of deferred tax liability		515 972	294 096
30	Revaluation of long-term employee payables (receivables)		-	-
31	Revaluation of hedging instruments		-	-
32	Cash received in the form of grant financing (contribution to assets)		-	-
33	Retained earnings (accumulated losses) of prior years		43 733	977 285
34	Retained profit (loss) for the reporting period		- 326 306	933 552
35	<b>Total sources of equity</b>		<b>11 336 337</b>	<b>11 428 914</b>
<b>IV. OFFBALANCE SHEET LIABILITIES</b>				
36	Credit institution's irrevocable liabilities		5 499 035	8 843 891
37	Guarantees and sureties issued by the credit institution		12 138 514	14 715 970
38	Nonlending liabilities		12 762	21 490

## Banking Statutory Financial Statements

Territory Code OKATO	Credit Institution's (Branch's) Code	
	OKPO	Registration Number (/Index Number)
4528655000	17512023	2216

STATEMENT OF FINANCIAL RESULTS  
(published form)  
for 2016

Credit institution: "Banca Intesa" (Joint-Stock Company) / "Banca Intesa" JSC  
Postal address: 2, Petroverigsky per., 101000, Moscow, Russian Federation

Form Code by OKUD 0409807  
Quarterly (Annual)  
thousand roubles

## Part 1. Profit or loss

No.	Item	Comment No.	As for the reporting period	As for the corresponding period of the last year
1	2	3	4	5
1	Total interest income including interest received from:		6 503 308	8 993 390
1.1	Placement with credit institutions		494 139	318 550
1.2	Loans to customers (non-credit institutions)		5 662 753	8 405 146
1.3	Provision of financial lease services		38 210	75 223
1.4	Investments in securities		308 206	194 471
2	Total interest expense including interest paid on:		2 901 998	3 897 251
2.1	Funds attracted from credit institutions		921 483	1 984 926
2.2	Funds attracted from customers (non-credit institutions)		1 525 328	1 185 226
2.3	Issued debt instruments		455 187	727 099
3	Net interest income (negative interest margin)		3 601 310	5 096 139
4	Total change in provision for possible losses on loans and similar debts, amounts due from credit institutions and on accrued interest income, total, including:	5.1	864 653	-2 236 048
4.1	Change in provision for possible losses on accrued interest income	5.1	118 082	-213 551
5	<b>Net interest income (negative interest margin) after provision for possible losses</b>		<b>4 465 963</b>	<b>2 860 091</b>
6	Net income from transactions with financial assets at fair value through profit or loss	5.2	842 154	-1 539 552
7	Net income from transactions with financial liabilities at fair value through profit or loss			
8	Net income from transactions with securities available-for-sale		5 558	-369
9	Net income from transactions with securities held to maturity			
10	Net income from trading in foreign currency	5.2	-90 752	680 865
11	Net income from foreign exchange translation	5.2	-823 378	1 443 814
12	Net income from transactions with precious metals			
13	Income from equity participation			
14	Fee and commission income		825 461	958 960
15	Fee and commission expense		153 559	163 121
16	Change in provision for possible losses on securities available-for-sale			
17	Change in provision for possible losses on securities held to maturity			
18	Change in provision for other losses	5.1	306 438	-178 517
19	Other operating income		818 966	182 677
20	Net income (expense)		6 196 851	4 244 848
21	Operating expense		6 383 028	5 241 264
22	Profit (loss) before taxation		-186 177	-996 416
23	Tax benefit (expense)	5.3	-140 129	62 864
24	Profit (loss) from continuous operations		-323 767	-878 977
25	Profit (loss) from discontinued operations		-2 539	-54 575
26	<b>Profit (loss) for the reporting period</b>		<b>-326 306</b>	<b>-933 552</b>

## Part 2. Other comprehensive income

thousand roubles

No.	Item	Comment No.	As for the reporting period	As for the corresponding period of the last year
1	2	3	4	5
1	Profit (loss) for the reporting period		-326 306	-933 552
2	Other comprehensive income (loss)		X	X
3	Captions, which are not reclassified to profit or loss, total, including:		277 345	367 620

3.1	change in fixed assets revaluation fund		277 345	367 620
3.2	change in payables (receivables) revaluation fund on post-employment defined benefit plans			
4	Income tax, related to captions, which may not be reclassified to profit or loss		55 469	73 524
5	Other comprehensive income (loss), which may not be reclassified to profit or loss, net of tax		221 876	294 096
6	Captions, which may be reclassified to profit or loss, total, including:		14 816	77 094
6.1	change in financial assets available-for-sale revaluation fund		14 816	77 094
6.2	change in fund of cashflow hedge			
7	Income tax, related to captions, which may be reclassified to profit or loss		2 963	15 419
8	Other comprehensive income (loss), which may be reclassified to profit or loss, net of tax		11 853	61 675
9	Other comprehensive income (loss), net of tax		233 729	355 771
10	Comprehensive income (loss) for the reporting period		-92 577	-577 781



Banking Statutory Financial Statements		
Territory Code OKATO	Credit Institution's (Branch's) Code	
	OKPO	Registration Number (Index Number)
4528655000	17512023	2216

STATEMENT ON CAPITAL ADEQUACY FOR RISK COVERAGE,  
AMOUNTS OF PROVISIONS ON DOUBTFUL DEBTS AND OTHER ASSETS.  
(published form)  
at 1 January 2017

Credit institution: "Banca Intesa" (Joint-Stock Company) / "Banca Intesa" JSC  
Postal address: 2, Petroverigsky per., 101000, Moscow, Russian Federation

Form Code by OKUD 0409808  
Quarterly (Annual)  
thousand rubles

Section 1. Information on Capital Adequacy

No.	Item	Comment No.	As at the reporting date		As at the beginning of the year	
			included in the calculation of the capital	not included in the calculation of the capital in the period before 1 January 2018	included in the calculation of the capital	not included in the calculation of the capital in the period before 1 January 2018
1	2	3	4	5	6	7
Sources of base capital:						
1	Authorized capital and share premium total including that formed by:	6	10 820 181	X	10 820 181	X
1.1	ordinary shares (interest)		10 820 181	X	10 820 181	X
1.2	preferential shares		-	X	-	X
2	Retained earnings:		343 851	X	298 201	X
2.1	of previous years	6	43 733	X	977 285	X
2.2	Of the reporting year	6	387 584	X	1 275 486	X
3	Reserve fund	6	260 927	X	260 927	X
4	Shares of authorized capital, subject to phased elimination from the calculation of own funds (capital)		not applicable	X	not applicable	X
5	Instruments of the base capital of subsidiaries owned by third parties		not applicable	X	not applicable	X
6	Sources of base capital, total (1+/-2+3-4+5):		10 737 257	X	10 782 907	X
Indicators that decrease the amount of sources of base capital:						
7	The adjustment of the trading portfolio		not applicable	X	not applicable	X
8	Goodwill, net of deferred tax liabilities		-	-	-	-
9	Intangible assets (excluding goodwill and servicing mortgage rights amounts), net of deferred tax liabilities		317 767	211 845	25 083	37 625
10	Deferred tax assets depending on future profit		205 841	137 227	125 533	188 299
11	Cash flow hedging reserve		not applicable	-	not applicable	-
12	Underestablished provision for potential losses		-	-	-	-
13	Income from securitization transactions		not applicable	-	not applicable	-
14	Gains and losses related to changes in credit risk for liabilities, at fair value		not applicable	-	not applicable	-
15	Defined benefit-plan assets		not applicable	-	not applicable	-
16	Investments in own shares		-	-	-	-
17	Mutual cross-shareholdings		not applicable	-	not applicable	-
18	Insignificant investments in base capital of financial institutions		-	-	-	-
19	Significant investments in base capital of financial institutions		-	-	-	-
20	Rights to service mortgage loans		not applicable	-	not applicable	-
21	Deferred tax assets not depending on future profit		-	-	-	-
22	Total amount of significant investments and deferred tax assets more than 15% of base capital, including:		-	-	-	-
23	Significant investments in base capital of financial institutions		-	-	-	-
24	Rights to service mortgage loans		not applicable	-	not applicable	-
25	Deferred tax assets not depending on future profit		-	-	-	-
26	Other established by the Central Bank of the Russian Federation indicators that decrease the amount of sources of base capital including:		-	-	-	-

26.1	indicators, subject to phased elimination from the calculation of own funds (capital)		-	X	-	X
27	Negative amount of additional capital		213 045	X	39 425	X
28	Indicators that decrease the amount of sources of base capital, total (sum(7-22)+26+27)		736 653	X	190 041	X
29	base capital, total (6-28)		10 000 604	X	10 592 866	X
Sources of additional capital						
30	Instruments of the additional capital and share premium, including:		-	X	-	X
31	classified as capital		-	X	-	X
32	classified as liabilities		-	X	-	X
33	Instruments of additional capital, subject to phased elimination from the calculation of own funds (capital)		-	X	-	X
34	Instruments of additional capital of subsidiaries, owned by third parties, including:		not applicable	X	not applicable	X
35	Instruments of additional capital of subsidiaries, subject to phased elimination from the calculation of own funds (capital)		-	-	-	-
36	Sources of additional capital, total (30+33+34)		-	X	-	X
Indicators that decrease the amount of sources of additional capital						
37	Investments in own instruments of additional capital		-	-	-	-
38	Mutual cross-ownership of additional capital instruments		not applicable	-	not applicable	-
39	Insignificant investments in additional capital of financial institutions		not applicable	-	not applicable	-
40	Significant investments in additional capital of financial institutions		-	-	-	-
41	Other indicators that decrease the amount of sources of additional capital including:		213 045	X	39 425	X
41.1	indicators, subject to phased elimination from the calculation of own funds (capital), including:		213 045	X	39 425	X
41.1.1	intangible assets		211 845	X	37 625	X
41.1.2	own shares (interest) repurchased from shareholders (participants)		-	X	-	X
41.1.3	shares (interest) of subsidiaries and affiliated financial institutions and credit organizations-residents		1 200	X	1 800	X
41.1.4	sources of own funds formed by inadequate assets		-	X	-	X
41.1.5	negative amount of additional capital related to the adjustment of the amount of own funds (capital) by the amount of sources of additional capital, formed by inadequate assets		-	X	-	X
42	Negative amount of additional capital		-	X	-	X
43	Indicators that decrease sources of additional capital (sum (37-42))		213 045	X	39 425	X
44	Additional capital, total (36-43)		-	X	-	X
45	Main capital, total (29+44)		10 000 604	X	10 592 866	X
Sources of additional capital:						
46	Instruments of the additional capital and share premium, including:		2 712 747	X	2 915 308	X
47	Instruments of additional capital, subject to phased elimination from the calculation of own funds (capital)		-	X	-	X
48	Instruments of additional capital of subsidiaries, owned by third parties, including:		not applicable	-	not applicable	-
49	Instruments of additional capital of subsidiaries, subject to phased elimination from the calculation of own funds (capital)		not applicable	-	not applicable	-
50	Loss provisions		not applicable	-	not applicable	-
51	Sources of additional capital, total (46+47+48+50)		2 712 747	X	2 915 308	X
Indicators that decrease the amount of sources of additional capital						
52	Investments in own instruments of additional capital		-	-	-	-
53	Mutual cross-ownership of additional capital instruments		not applicable	-	not applicable	-
54	Insignificant investments in additional capital of financial institutions		-	-	-	-
55	Significant investments in additional capital of financial institutions		-	-	-	-
56	Other indicators that decrease the amount of sources of additional capital including:		-	X	-	X
56.1	indicators, subject to phased elimination from the calculation of own funds (capital), including:		-	X	-	X
56.1.1	sources of own funds formed by inadequate assets		-	X	-	X
56.1.2	accounts receivable overdue for more than 30 calendar days		-	X	-	X

56.1.3	subordinated loans issued to financial institutions - residents		-	X	-	X
56.1.4	excess of the total amount of loans, bank guarantees and sureties provided to own participants (shareholders) and insiders over its maximum amount		-	X	-	X
56.1.5	investments in construction, manufacture and purchase of fixed assets and inventories		-	X	-	X
56.1.6	excess of actual value of share of a participant that exited the limited liability company over the value at which such share was sold to other participant of the limited liability company		-	X	-	X
57	Indicators that decrease the sources of additional capital, total (sum(52:56))		-	X	-	X
58	Additional capital, total (51-57)		2 712 747	X	2 915 308	X
59	Own funds (capital), total (45+58)		12 713 351	X	13 508 174	X
60	Risk-weighted assets:	X		X	X	X
60.1	subject to phased elimination from the calculation of own funds (capital)		213 045	X	39 425	X
60.2	Necessary for calculation of base capital adequacy		63 054 879	X	76 462 514	X
60.3	Necessary for calculation of main capital adequacy		63 054 879	X	76 462 514	X
60.4	Necessary for calculation of own funds (capital) adequacy		63 341 350	X	76 462 514	X
Capital adequacy indicators and markup to the required amount of regulatory capital (percent):						
61	Base capital adequacy (29/60.2)		15,9	X	13,9	X
62	Main capital adequacy (45/60.3)		15,9	X	13,9	X
63	Own funds (capital) adequacy (59/60.4)		20,1	X	17,7	X
64	Markup to the required amount of regulatory capital, including:		0,6	X	0,0	X
65	Markup to maintain a statutory capital adequacy ratio		0,6	X	0,0	X
66	anticyclonic markup		0,0	X	0,0	X
67	markup for system's important banks		0,0	X	0,0	X
68	base capital available to maintain markups to the required amount of regulatory capital		11,4	X	0,0	X
Capital adequacy indicators (percent)						
69	Base capital adequacy		4,50	X	5,00	X
70	Main capital adequacy		6,00	X	6,00	X
71	Own funds (capital) adequacy		8,00	X	10,00	X
Indicators taken as a deduction of sources of capital, not exceeding stated levels of materiality						
72	Insignificant investments in capital instruments of financial institutions		0,0	X	0,0	X
73	Significant investments in capital instruments of internal models		0,0	X	0,0	X
74	Rights to service mortgage loans		not applicable	X	not applicable	X
75	Deferred tax assets not depending on future profit		0,0	X	0,0	X
Restrictions on the inclusion in the calculation of additional capital of loss provisions						
76	Loss provisions, included in calculation of additional capital related to the items used for credit risk which are subject to standardized approach		not applicable	X	not applicable	X
77	Limitations on inclusion in calculation of additional capital amounts of provisions on losses in standardized approach		not applicable	X	not applicable	X
78	Provisions on losses, included in calculation of additional capital, related to items used for credit risk which are subject to internal model method		not applicable	X	not applicable	X
79	Limitations on inclusion in calculation of additional capital amounts of provisions on losses in internal model method		not applicable	X	not applicable	X
Instruments, subject to phased elimination from calculation of own funds (capital) (applicable from 1 January 2018 to 1 January 2022)						
80	Current limitation on inclusion in base capital sources instruments, subject to phased elimination from calculation of own funds (capital)		0,0	X	0,0	X
81	Instruments not included in base capital sources due to limitations		0,0	X	0,0	X
82	Current limitation on inclusion in additional capital sources instruments, subject to phased elimination from calculation of own funds (capital)		0,0	X	0,0	X
83	Instruments not included in additional capital sources due to limitations		0,0	X	0,0	X
84	Current limitation on inclusion in supplementary capital sources instruments, subject to phased elimination from calculation of own funds (capital)		0,0	X	0,0	X
85	Instruments not included in supplementary capital sources due to limitations		0,0	X	0,0	X

\* Information on balance sheet data, which is the source for the compilation of section 1 of the Report, are given in the note 6 N to form 0409808.

## Section 2. Information on the Level of Credit, Operating and Market Risks Covered by Capital

## Subsection 2.1. Credit Risk

No.	Item	Comment No.	As at the reporting date			As at the beginning of the year		
			Value of assets (instruments)	Assets (instruments) net of the formed reserves for possible losses	Value of risk-weighted assets (instruments)	Value of assets (instruments)	Assets (instruments) net of the formed reserves for possible losses	Value of risk-weighted assets (instruments)
1	2	3	4	5	6	7	8	9
1	Credit risk on assets posted on balance sheet accounts	11.2	-	-	-	-	-	-
1.1	Assets with the risk factor* of 0 percent, total, including:		7 367 636	7 367 636	-	1 795 405	1 795 405	-
1.1.1	Funds and obligatory reserves deposited in the Bank of Russia		7 367 636	7 367 636	-	1 795 405	1 795 405	-
1.1.2	Credit and other claims secured with guarantees of the Russian Federation, the Ministry of Finance of the Russian Federation, the Bank of Russia and pledge of state debt securities of the Russian Federation, the Ministry of Finance of the Russian Federation and the Bank of Russia		-	-	-	-	-	-
1.1.3	Credit and other claims to central banks or governments of countries having country ratings "0" or "1"**, including those secured with guarantees of such countries and so forth		-	-	-	-	-	-
1.2	Assets with the risk factor of 20 percent, total, including:		3 336 068	3 336 068	667 214	12 359 274	12 359 274	2 471 855
1.2.1	Credit and other claims to the Russian Federation constituent entities, municipal entities and other organizations secured with guarantees and pledge of securities of the Russian Federation constituent entities and municipal entities		-	-	-	-	-	-
1.2.2	Credit and other claims to central banks or governments of countries having country ratings "2", including those secured with their guarantees (pledge of securities)		-	-	-	-	-	-
1.2.3	Credit and other claims to credit institutions that are residents of countries having country ratings of "0" or "1", with the long-term credit rating***, including those secured by their guarantees		79 225	79 225	15 845	3 461 933	3 461 933	692 387
1.3	Assets with the risk factor of 50 percent, total, including:		-	-	-	-	-	-
1.3.1	Credit and other claims in foreign currency secured with guarantees of the Russian Federation, the Ministry of Finance of the Russian Federation, the Bank of Russia and pledge of state debt securities of the Russian Federation, the Ministry of Finance of the Russian Federation and the Bank of Russia, denominated in foreign currency		-	-	-	-	-	-
1.3.2	Credit and other claims to central banks or governments of countries having country ratings "3", including those secured with their guarantees (pledge of securities)		-	-	-	-	-	-
1.3.3	Credit and other claims to credit institutions that are residents of countries having country ratings of "0" or "1", without the long-term credit rating, and to credit institutions that are residents of countries having country ratings "2", including those secured with their guarantees		-	-	-	-	-	-
1.4	Assets with the risk factor of 100 percent, total, including:		34 528 035	27 239 001	27 239 001	46 485 484	37 989 385	37 989 385
1.4.1	Loan debt		30 006 088	23 012 263	23 012 263	42 969 659	35 620 444	35 620 444
1.5	Assets with the risk factor of 150 percent *credit and other claims to central banks or governments of countries having country ratings "7"		-	-	-	-	-	-
2	Assets with other risk factors, total, including:	X	X	X	X	X	X	X
2.1	Assets with reduced risk factors, total, including:		2 717 390	2 651 445	1 959 439	1 227 260	1 227 260	140 963
2.1.1	Mortgage loans with risk factors of 50 %		-	-	-	-	-	-
2.1.2	Mortgage loans with risk factors of 70 %		-	-	-	-	-	-
2.1.3	Demand of clearing participants		44 991	44 991	2 250	1 227 260	1 227 260	140 963
2.2	Assets with increased risk factors, total, including:		5 374 015	4 635 888	6 638 375	8 678 348	7 920 688	10 854 678
2.2.1	with the risk factor of 110 percent		203 597	45 517	50 068	1 606 380	1 438 997	1 582 897
2.2.2	with the risk factor of 130 percent		1 963 078	1 926 245	2 504 118	2 283 235	2 251 761	2 926 887
2.2.3	with the risk factor of 150 percent		3 199 340	2 656 126	3 984 189	4 788 733	4 229 930	6 344 894
2.2.4	with the risk factor of 250 percent		-	-	-	-	-	-
2.2.5	with the risk factor of 1250 percent		8 000	8 000	100 000	-	-	-
3	Consumer loans, total, including:		88	-	-	1 417	1 360	1 904
3.1	with the risk factor of 140 percent		88	-	-	1 417	1 360	1 904
3.2	with the risk factor of 170 percent		-	-	-	-	-	-
3.3	with the risk factor of 200 percent		-	-	-	-	-	-
3.4	with the risk factor of 300 percent		-	-	-	-	-	-
3.5	with the risk factor of 600 percent		-	-	-	-	-	-

4	Credit risk on contingent credit liabilities, total, including:		14 443 459	14 379 790	11 917 586	15 595 258	15 554 314	12 119 577
4.1	on high-risk financial instruments		11 583 835	11 552 068	11 549 196	9 939 919	9 926 070	9 868 374
4.2	on medium-risk financial instruments		63 177	61 264	30 632	4 412 395	4 411 224	2 205 612
4.3	on low-risk financial instruments		1 709 522	1 688 788	337 758	228 239	227 955	45 591
4.4	on zero-risk financial instruments		1 086 925	1 077 670	-	1 014 705	989 065	-
5	Credit risk on financial derivatives		12 712		3 650	154		231

<1> Assets are classified by risk groups in accordance with Item 2.3 of Instructions of the Bank of Russia No. 139-I.

<2> Country ratings are given in accordance with classification of Export Credit Agencies participating in the Agreement of countries that are members of the Organization for Economic Cooperation and Development (OECD) On base Principles for Granting and Utilization of Export Loans having Official Support (the information on country ratings is published on the official website of the Bank of Russia in the section "Bank supervision").

<3> Long-term ratings of a credit institution shall be defined on the basis of ratings assigned by international rating agencies: Standard & Poor's, Fitch Rating's or Moody's Investors Service.

#### Subsection 2.2. Operating Risk

No.	Item	Comment No.	As at the reporting date	As at the beginning of the year
1	2	3	4	5
6	Operating risk, total, including:	11.3	1 005 219	980 542
6.1	Income for the purpose of calculation of capital for operating risk coverage, total, including:		6 701 457	6 536 949
6.1.1	Net interest income		4 632 385	5 039 459
6.1.2	Net non-interest income		2 069 072	1 497 490
6.2	Number of years preceding the date of operating risk level calculation		3	3

#### Subsection 2.3. Market risk

No.	Item	Comment No.	As at the reporting date	As at the beginning of the year
1	2	3	4	5
7	Cumulative market risk, total, including:	11.3	1 063 618	769 999
7.1	Interest risk, total, including:		32 816,2	32 338,2
7.1.1	general		30 642,2	28 013,4
7.1.2	specific		2 174,0	4 324,8
7.1.3	gamma risk and vega risk on options, included in the calculation of interest risk		0,0	0,0
7.2	Stock market risk, total, including:		-	-
7.2.1	General		-	-
7.2.2	Specific		-	-
7.2.3	gamma risk and vega risk on options, included in the calculation of stock market risk		-	-
7.3	Foreign exchange risk		52 273,2	29 261,8
7.3.1	gamma risk and vega risk on options, included in the calculation of foreign exchange risk		0,0	0,0
7.4	Commodity risk, total, including:		0,0	0,0
7.4.1	main commodity risk		0,0	0,0
7.4.2	additional commodity risk		0,0	0,0
7.4.3	gamma risk and vega risk on options, included in the calculation of commodity risk		0,0	0,0

#### Section 3. Information on the Amount of Provision for Impairment of Loans and other Assets

No.	Item	Comment No.	As at the reporting date	Growth (+) / decrease (-) over the reporting period	As at the beginning of the year
1	2	3	4	5	6
1	Provisions for possible losses actually formed, total, including:	5.1	8 186 731	-1 228 320	9 415 051
1.1	on loans, principal receivable and the equated debt		7 844 438	-940 790	8 785 228
1.2	on other balance sheet assets bearing the risk of loss and on other losses		266 866	-291 907	558 773
1.3	on contingent credit liabilities and securities, the rights to which are certified by depositories, that do not meet the criteria of the Bank of Russia, posted on off-balance sheet accounts		75 427	4 377	71 050
1.4	on operations with offshore zones residents		-	-	-

#### Section 4. Amount of financial leverage.

No.	Item	Comment No.	As at the reporting date 01.01.2017	As the 1 quarter before reporting date 01.10.2016	As the 2 quarter before reporting date 01.07.2016	As the 3 quarters before reporting date 01.04.2016
1	2	3	4	5	6	7
1	Main capital		10 000 604	9 259 888	9 274 411	10 449 339
2	The amount of assets and off-balance demands		65 538 783	67 418 246	79 734 181	79 732 105

3	Financial leverage on Basel III, %		15,3	13,7	11,6	13,1
---	------------------------------------	--	------	------	------	------

Section 5. Main features of capital instruments

No.	Name of issuer of capital instrument	ID number	Applicable law	Regulatory conditions					
				Capital level of the instrument during the transition period "Basel III"	Capital level of the instrument after the transition period "Basel III"	level of consolidation	type	cost of instrument used in calculation of capital	nominal cost of instrument
	1	2	3	4	5	6	7	8	9
1	"Banca Intesa" JSC	10302216B	643 (The Russian Federation)	not applicable	base capital	individual and group	ordinary shares	10 820 180 800	10 820 181 (thousand RUR (Rus))
2	INTESA SANPAOLO BANK LUXEMBOURG S.A.	not applicable	442 (The Grand Duke of Luxemburg)	not applicable	additional capital	individual	subordinated loan	2 426 276 000	40 000 (thousand USD)

Section 5. Continuation

No.	Regulatory conditions							Interest / dividend / coupon income				
	instrument classification for accounting purposes	release date	term of instrument	date of repayment	existence of a right of early redemption	original date of the possible implementation of the right to early redemption	subsequent date of the possible implementation of the right to early redemption	type of rate of the instrument	rate	termination of payments of common stock dividends	obligation to pay dividends	increase in payments to the instrument or other incentives for early redemption
	10	11	12	13	14	15	16	17	18	19	20	21
1	share capital	11.01.2010	unlimited	without limitation	not applicable	not applicable	not applicable	not applicable	not applicable	not applicable	at the discretion of the parent company	no
2	liability measured at amortized cost	11.12.2015	term	30.12.2022	yes	not applicable	not applicable	fixed rate	6.58	not applicable	not applicable	not applicable

Section 5. Continuation

No.	Interest / dividend / coupon income											
	nature of payments	convertibility of the instrument	conditions of convertibility	full or partial conversion	rate of conversion	obligation of conversion	level of capital	name of capital instrument	possibility to write-off the instrument to cover losses	conditions of write-off	full or partial write-off	permanent or temporary write-off
	22	23	24	25	26	27	28	29	30	31	32	33
1	non-cumulative	non-convertible	not applicable	not applicable	not applicable	not applicable	not applicable	not applicable	not applicable	not applicable	not applicable	not applicable
2	not applicable	convertible	in case of 2% decrease of N1.1 or in case of the decision of DIA on implementation of bankruptcy prevention measures	in full or partially	not applicable	mandatory	base capital	"Banca Intesa" JSC	no	not applicable	not applicable	not applicable

Section 5. Continuation

No.	recovery mechanism	subordination of the instrument	compliance with the requirements of Bank of Russia 395-II and 509-II	description of discrepancies
	34	35	36	37
1	not applicable	not applicable	yes	not applicable
2	not applicable	yes	yes	not applicable

Section "For reference".

Information on Movement of Reserve for Possible Losses on Loans, Principal Receivable and the Equated Debt.

1.	Forming (additional charging) of the reserve in the reporting period (thousand rubles), total	2 751 230
	including those as a result of:	
1.1.	issuance of loans	365 674
1.2.	change of quality of loans	1 669 107
1.3.	change of the official rate of the foreign currency to the rubles set by the Bank of Russia	0
1.4.	other reasons	716 449
2.	recovery (decrease) of the reserve in the reporting period (thousand rubles), total	3 692 020
	including those as a result of:	
2.1.	writing off of non-performing loans	33 297
2.2.	repayment of loans	667 425
2.3.	change of quality of loans	98 492
2.4.	change of official rate of the foreign currency to the ruble set by the Bank of Russia	387 613
2.5.	other reasons	2 505 193

## Banking Statutory Financial Statements

Territory Code OKATO	Credit Institution's (Branch's) Code	
	OKPO	Registration Number (/Index Number)
4528655000	17512023	2216

INFORMATION ON MANDATORY RATIOS, FINANCIAL LEVERAGE RATIO AND SHORT-TERM LIQUIDITY RATIO  
(published form)  
at 1 January 2017

Credit institution: "Banca Intesa" (Joint-Stock Company) / "Banca Intesa" JSC  
Postal address: 2, Petroverigsky per., 101000, Moscow, Russian Federation

Form Code by OKUD 0409813  
Quarterly (Annual)  
percent

## Section 1. Information on Mandatory ratios

No.	Item	Comment No.	Statutory value	Actual value			
				as of the reporting date	as of the reporting date of the previous year		
1	2	3	4	5	6		
1	Basic capital adequacy ratio (N1.1)		$\geq 4,5\%$	15,9%	13,9%		
2	Bank main capital adequacy ratio (N1.2)		$\geq 6\%$	15,9%	13,9%		
3	Ratio of adequacy of own funds (capital) of the bank (N1.0)		$\geq 8\%$	20,1%	17,7%		
4	Ratio of adequacy of own funds (capital) of the non-bank credit institution having the right to transfer funds without opening bank accounts and to perform other related banking operations (N1.3)	X	X	X	X		
5	Bank instant liquidity ratio (N2)		$\geq 15\%$	73,9%	68,3%		
6	Bank current liquidity ratio (N3)		$\geq 50\%$	88,9%	111,3%		
7	Bank long-term liquidity ratio (N4)		$\leq 120\%$	41,9%	44,1%		
8	Ratio of maximum amount of risk per one borrower or a group of related borrowers (N6)		$\leq 25\%$	Maximum	19,1%	Maximum	20,3%
				Minimum	0,5%	Minimum	1,6%
9	Ratio of maximum amount of major credit risks (N7), banking group (N22)		$\leq 800\%$	111,8%	128,4%		
10	Ratio of maximum amount of loans, bank guarantees and sureties provided by the bank to its participants (shareholders) (N9.1)		$\leq 50\%$	3,8%	1,6%		
11	Ratio of total amount of risk on bank insiders (N10.1)		$\leq 3\%$	0,3%	0,6%		
12	Ratio of utilization of own funds (capital) of the bank for purchase of shares (interest) of other legal entities (N12), ratio of utilization of own funds (capital) of the banking group for purchase by parent credit institution of the banking group of shares (interest) of other legal entities (N23)		$\leq 25\%$	0,0%	0,0%		
13	Ratio of proportion of the amount of liquid assets with maturity within the nearest 30 calendar days to the amount of obligations of RNKO (N15)			X	X		
14	Ratio of liquidity of a non-bank credit institution having the right to transfer funds without opening bank accounts and to perform other related banking operations (N15.1)			X	X		
15	Ratio of maximum cumulative amount of loans issued to customers that are participants of settlements for their completion (N16)			X	X		
16	Ratio of granting loans to borrowers, except for customers that are settlement participants, by RNKO in its name and at its account (N16.1)			X	X		
17	Ratio of minimum proportion of the amount of mortgage collateral and the amount of issuance of bonds with mortgage collateral (N18)			X	X		
18	Ratio of maximum proportion of the amount of risk for a borrower or a group of related borrowers (N21)			X	X		



Section 2. Information on the amount of financial leverage.

Subsection 2.1 Calculation of the amount of assets and off-balance claims at risk, taking into account adjustments to calculate the ratio of financial leverage.

No.	Item	Comment No.	As at the reporting date 01.01.2017
1	Amount of the assets according to balance sheet, total:		54 120 916
2	Adjustment regarding investments in the capital of credit, financial, insurance and other organizations, which reporting data are included in the consolidated financial statements, but are not included in the calculation of own funds (capital), mandatory standards and sizes (limits) of open currency position of the banking group.		not applicable for the financial statements of credit institution as a legal entity
3	Adjustments regarding fiduciary assets recognized in accordance with accounting rules, but not included in the calculation of leverage indicators		-
4	Adjustment regarding derivative financial instruments (DFI)		127 623
5	Adjustment regarding securities lending transactions		-
6	Adjustment regarding matching to credit equivalent of credit related commitments		12 025 353
7	Other adjustments		- 1 731 427
8	The amount of assets and off-balance claims at risk, taking into account adjustments to calculate the index of financial leverage, total:		65 542 464

Subsection 2.2. Calculation of the financial leverage

No.	Item	Comment No.	As at the reporting date 01.01.2017
<b>Risk on the balance assets</b>			
1	Assets, total:	7	54 120 916
2	Reducing adjustment by the sum of indicators to be taken in a decrease of the value of the sources of main capital		- 736 653
3	The amount of adjusted assets at risk (the difference between the lines 1 and 2), total:		53 384 263
<b>Risk on the operations with derivatives</b>			
4	Current credit risk on DFI operations (net of variation margin), total:		1 545
5	Potential credit risk per counterparty on DFI operations, total:		127 623
6	Adjustment in the sum of collateral nominal value on DFI transactions, to be written off from the balance sheet in accordance with the accounting rules		not applicable in accordance with local GAAP
7	Reducing adjustment for the variation margin listed in prescribed cases		-
8	Adjustment regarding the bank's claims - clearing participant to the central counterparty for the execution of customer transactions		-
9	Adjustment to take account of credit risk according to the basic assets of issued credit DFI		-
10	Reducing adjustment according to issued credit DFI		-
11	The amount of adjusted risk on DFI (the sum of lines 4, 5, 9 less lines 7, 8, 10), total:		129 168
<b>Risk on the operations with securities</b>			
12	Claims on securities lending transactions (without netting), total:		-
13	Adjustment in the sum of monetary value's netting (claims and obligations) on securities lending transactions		-
14	The amount of credit risk per counterparty on securities lending transactions		-
15	The amount of credit risk on guarantee securities lending transactions		-
16	Claims on adjusted securities lending transactions (the sum of lines 12, 14, 15 less line 13), total:		-
<b>Credit related commitments</b>			
17	Nominal value of the risk on credit related commitments, total:		14 379 789
18	Adjustment regarding the use of credit equivalent factors		2 354 436
19	The adjusted amount of risk on credit related commitments (difference between lines 17 and 18), total:		12 025 353
<b>Risk capital</b>			
20	Base capital		10 000 604
21	The value of assets and off-balance claims at risk for the calculation of leverage indicators (the sum of lines 3, 11, 16, 19), total:		65 538 738
<b>Financial leverage</b>			
22	Financial leverage on Basel III, (line 20 / line 21),%		15,3%

## Banking Statutory Financial Statements

Territory Code OKATO	Credit Institution's (Branch's) Code	
	OKPO	Registration Number (/Index Number)
4528655000	17 512 023	2216

THE CASH FLOW STATEMENT  
(published form)  
at 1 January 2017

Credit institution: "Banca Intesa" (Joint-Stock Company) / "Banca Intesa" JSC  
Postal address: 2, Petroverigsky per., 101000, Moscow, Russian Federation

Form Code by OKUD 0409814  
Quarterly (Annual)  
thousand rubles

No.	Item	Comment No.	As for the reporting period	As for the previous reporting period
1	2	3	4	5
1	Net cash provided from (used in) operating activities			
1.1	Funds received from (used in) operating activities before changes in operating assets and liabilities, total, including:	8	1 881 272	904 273
1.1.1	Interest received		6 725 275	8 487 053
1.1.2	Interest paid		- 2 828 951	-3 977 476
1.1.3	Commissions received		861 030	958 960
1.1.4	Commissions paid		- 151 441	-163 121
1.1.5	Income net of expenses on operations with financial assets evaluated at fair value through profit or loss, available-for-sale		840 010	-1 582 117
1.1.6	Income net of expenses on operations with securities held to maturity		-	-
1.1.7	Income net of expenses on operations with foreign currency		- 90 752	680 865
1.1.8	Other operating income		245 851	179 880
1.1.9	Operating expenses		- 3 513 673	-3 486 566
1.1.10	Expenses (reimbursement) on taxes		- 206 077	-193 205
1.2	Growth (decrease) of net cash from operating assets and liabilities, total, including:		- 3 864 026	444 662
1.2.1	Net growth (decrease) on obligatory reserves on accounts in the Bank of Russia		- 74 783	91 319
1.2.2	Net growth (decrease) on investments in securities evaluated at fair value through profit or loss		-	-
1.2.3	Net growth (decrease) on principal receivable		6 331 938	5 950 245
1.2.4	Net growth (decrease) on other assets		1 217 235	-256 997
1.2.5	Net growth (decrease) on loans, deposits and other funds of the Bank of Russia		-	-
1.2.6	Net growth (decrease) on funds of other credit institutions		- 11 871 833	23 046
1.2.7	Net growth (decrease) on funds of customers that are not credit institutions		1 303 247	-4 928 318
1.2.8	Net growth (decrease) on financial liabilities evaluated at fair value through profit or loss		-	-
1.2.9	Net growth (decrease) on issued debt liabilities		- 182 849	-860 625
1.2.10	Net growth (decrease) on other liabilities		- 586 981	425 992
1.3	Total for Section 1 (Article 1.1 + Article 1.2)		- 1 982 754	1 348 935
2	Net cash received from (used in) investment activities			
2.1	Purchase of securities and other financial assets referred to the category "available-for-sale"		- 1 700 481	-2 277 308
2.2	Revenue from sale and redemption of securities and other financial assets referred to the category "available-for-sale"		772 115	1 787 512
2.3	Purchase of securities referred to the category "held to maturity"		-	-
2.4	Revenue from redemption of securities referred to the category "held to maturity"		-	-

2.5	Purchase of fixed assets, intangible assets and inventories		-	821 087	-161 374
2.6	Revenue from sale of fixed assets, intangible assets and inventories			127 840	-21 491
2.7	Dividends received			-	-
2.8	Total for Section 2 (sum of lines from 2.1 to 2.7)		-	1 621 583	-672 661
3	Net cash received from (used in) financial activities				
3.1	Contributions of shareholders (participants) in the authorized capital			-	-
3.2	Purchase of own shares (interest) repurchased from shareholders (participants)			-	-
3.3	Sale of own shares (interest) repurchased from shareholders (participants)			-	-
3.4	Dividends paid			-	-
3.5	Total for Section 3 (sum of lines from 3.1 to 3.4)			-	-
4	Impact of change of official rates of foreign currencies to the rouble set by the Bank of Russia, on Cash and cash equivalents		-	1 550 138	2 053 675
5	Growth (use) of Cash and cash equivalents		-	5 154 475	2 729 949
5.1	Cash and cash equivalents as at the start of the reporting period	4.1		9 184 922	6 454 973
5.2	Cash and cash equivalents as at the end of the reporting period	4.1		4 030 447	9 184 922

## BACKGROUND

The Notes to, and forming part of, the annual statutory (financial) statements of Joint-Stock Company “Banca Intesa” (“the Bank”) as at 1 January 2017 and for 2016 year, prepared in accordance with the requirements of Instruction No. 3054-U of the Central Bank of the Russian Federation (“the CBR”) dated 4 September 2013 “On the procedure for preparation by credit institutions of annual statutory (financial) statements” (“Bank of Russia Instruction No. 3054-U”).

These annual statutory (financial) statements are presented in the Russian rubles (RUB) and rounded to the nearest thousand.

Under Federal Law No. 208-FZ dated 26 December 1995 “On joint-stock companies”, the approval of accounting (financial) reporting lies within the competence of the General Shareholders’ Meeting of the Bank. The Bank’s General Shareholders’ Meeting has not been scheduled as at the signing date of these annual statutory (financial) statements.

### 1. General information

#### 1.1 Information about the state registration, set-apart and internal subdivisions and ratings of the Bank

Trade name of the Bank: Joint-Stock Company “Banca Intesa”.

Brief trade name of the Bank: JSC “Banca Intesa”.

Location (registered address): 101000, Moscow, Petroverigskiy alley, building 2.

Location (postal address): 101000, Moscow, Petroverigskiy alley, building 2.

Bank Identifier Code (BIC): 044525922

Taxpayer identification number (INN): 7708022300

Contact telephone number (fax, telex): (495) 411-80-70 (tel.), (459) 411-80-71 (fax).

E-mail: [info@bancaintesa.ru](mailto:info@bancaintesa.ru).

Website: [www.bancaintesa.ru](http://www.bancaintesa.ru).

Primary State Registration Number: 1027739177377

Date of entry of the record of the establishment of the Bank in the Unified State Register of Legal Entities: 11 September 2002.

The structure of the Bank’s shareholders as at 1 January 2017 and 1 January 2016 and proportion of these shares:

Shareholder	2017, %	2016, %
Intesa Sanpaolo SpA (Italy)	46.98	46.98
Intesa Sanpaolo Holding International (Luxembourg)*	53.02	53.02
<b>Total</b>	<b>100.00</b>	<b>100.00</b>

\* 100% subsidiary of Intesa Sanpaolo SpA (Italy)

As at 1 January 2017, the Bank’s regional chain consisted of 6 branches and 30 internal structural units (operating offices) located in 22 regions within the Russian Federation. As at 1 January 2016, the Bank’s regional chain consisted of 6 branches and 44 internal structural units located on the territory of 25 subjects of Russian Federation.

As at 1 January 2017 and 1 January 2016 the Bank has the following ratings assigned by Fitch rating agency:

<b>Rating agency</b>	<b>Rating type</b>	<b>1 January 2017</b>	<b>1 January 2016</b>
Fitch	Issuer default rating, short-term, foreign currency	F3	F3
Fitch	Issuer default rating, long-term, international scale, foreign currency	BBB-	BBB-
Fitch	Support rating	2	2
Fitch	Issuer default rating, long-term, international scale, national currency	BBB-	BBB
Fitch	National long-term rating, national scale	AAA(rus)	AAA(rus)
Fitch	Issuer default rating, short-term, national currency	F3	F3
Fitch	Sustainability rating	b+	b+

## 1.2 Information about the banking group

As at 1 January 2017 and 1 January 2016, the banking (consolidated) Group owned by the Bank included the following entities:

<b>Name</b>	<b>Country of incorporation</b>	<b>Principal activities</b>	<b>Ownership %</b>	
			<b>1 January 2017</b>	<b>1 January 2016</b>
JSC "Intesa Leasing"	Russia	Leasing services	100	100

The annual statutory (financial) statements do not include information on the annual accounting statements of JSC Intesa Leasing which belong to the banking (consolidated) group, the parent organization of which is the Bank. The consolidated financial statements of the Group is not prepared due to fact that the reporting data of the participant of banking group JSC Intesa Leasing are insignificant.

## 1.3 Types of operating licenses

The Bank holds the CBR General license No. 2216 dated 31 December 1992 to carry out banking operations, issued for an unlimited term, and operates in accordance with the Federal Law №395-1 dated 2 December 1990 "On banks and banking activities" ("Federal Law №391-1") and other legislative acts of the Russian Federation.

Apart from the General CBR license, the Bank operates under the following licenses and permits:

Type of license	Number of license	License issue date	Issued by	Validity term
Brokerage operations	177-10794-100000	4 December 2007	Federal Service on Financial Markets (Regional branch in the Central Federal district)	Unlimited
Dealing operations	177-10801-010000	4 December 2007	Federal Service on Financial Markets (Regional branch in the Central Federal district)	Unlimited
Custody services	177-12028-00100	10 February 2009	Federal Service on Financial Markets (Regional branch in the Central Federal district)	Unlimited

The Bank has been a member of the deposit insurance system of the Russian Federation since 2004.

## 2. Brief business outline

The principal activities of the Bank are deposit taking, customer account opening and maintenance, issuing of loans and guarantees, cash and settlement operations, securities and foreign exchange transactions. The Bank's activities are regulated by the CBR.

As at 1 January 2017, the Bank's assets decreased by RUB 14 400 466 thousand (21.02%) compared to 1 January 2016. The decrease resulted mostly from the decrease of due from credit institutions, decrease in loans to legal entities amongst other things resulted from the decrease in Ruble equivalent of loans nominated in foreign currency.

As at 1 January 2017, the Bank's liabilities decreased by RUB 14 307 889 thousand (25.06%). The decrease resulted mostly from the decrease in due to credit institutions due to planned redemption of borrowed funds from credit institutions and acquisition of own exchange interest documentary bonds from owners.

The structure of the Bank's assets and liabilities did not change significantly.

The Bank's loss for 2016 was RUB 326 306 thousand. This is mainly resulted from reduction of net interest income, growth of loan loss provision. Concurrently, the quality of the Bank's loan portfolio improved significantly compared to the previous period, which resulted in reduction of loss.

The structure of the Bank's income and expenses did not change significantly in 2016.

The Bank's operations are primarily located in the Russian Federation. The Bank is susceptible to economic and financial risks on the market of the Russian Federation, which displays features characteristic of developing markets. Through continue improving, the applicable legal and regulatory base and the tax law allow different interpretations and are subject to frequent change, which, together with other drawbacks of the country's legal and fiscal systems, create additional problems for companies doing business in the Russian Federation.

The present economic and political situation, including the developments in Ukraine, the sanctions imposed against Russia by certain countries and counter-sanctions imposed by Russia in return, create certain operational risks for the Bank. The Bank's management believe they are acting adequately to maintain the Bank's economic stability in the present conditions.

These annual statutory (financial) statements reflect the management's appraisal of potential impact of existing conditions on the Bank's business and financial activities, their results and the Bank's financial condition. Actual developments, however, may be different from the management's appraisal.

## 3. Brief overview of the basis of annual statutory (financial) statements preparation and significant accounting policies of the Bank

### **3.1. Basis of preparation of annual statutory (financial) statements**

The Bank accounting complies with the requirements of the Bank of Russia Instruction No. 385-P dated 16 July 2012 "On the rules of accounting in credit institutions located within the Russian Federation" (as amended) ("Bank of Russia Instruction No. 385-P") and other regulatory documents.

The annual statutory (financial) statements are prepared in accordance with Bank of Russia Instruction No. 3054-U and Bank of Russia Instruction No. 3081-U dated 25 October 2013 "On the disclosure by credit institutions of information about their operations" ("Bank of Russia Instruction No. 3081-U").

### **3.2. Brief information on inventory of balance sheet items**

In accordance with the plan of actions connected with the financial year-end, the Bank reconciled balance sheet items as at 1 January 2017, including the accounts of cash and valuables, fixed assets, intangible assets, inventories, investments, settlements on conversion operations and derivative financial instruments, settlements with debtors and creditors. The actual availability of cash and valuables in the vaults of the Bank as at 1 January 2017 corresponds to the accounting records.

The reconciliation of accounts balances results has not revealed differences.

### **3.3. Information about the nature of assumptions and main sources of uncertainty in estimates as at the end of the reporting period**

The preparation of annual statutory (financial) statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any subsequent periods that they affect.

Information about significant areas at estimation uncertainty and critical judgments in applying accounting policies is described in the following notes:

provisions for possible loan losses - Note 11.2;

fair value of financial instruments - Note 9;

revaluation of buildings - Note 4.6;

recognition of deferred tax asset- Note 5.3.

### **3.4. Valuation and accounting principles and methods applied to certain transactions**

#### **Assets**

Assets are recognized at historical cost. Subsequently, assets are measured (revalued) at fair value, at cost or by recognition of impairment allowance in accordance with regulatory documents of the CBR.

#### **Cash and cash equivalents**

For the purposes of annual statutory (financial) statements, cash equivalents are defined as short-term highly liquid investments freely convertible into cash and exposed to minor risk of changes in value. Cash and cash equivalents include the following items reported on form 0409806 "Balance sheet (published form)": cash, placements of credit institutions with the CBR (excluding mandatory cash balances with the CBR), placements with credit institutions (excluding assets exposed to risk of losses). Mandatory cash balances with the CBR are not considered as cash and cash equivalents due to constraints on their use.

#### **Loans, loan and equivalent debts, provision for possible losses on loans, loan and equivalent debts**

Loans are carried at cost from the date the loan is issued.

Provision for possible losses on loans, loan and equivalent debts is established in accordance with the requirements of the Bank of Russia Instruction No. 254-P dated 26 March 2004 "On the procedure for establishment of impairment allowance on loans, loan and equivalent debts by credit institutions" (as amended) ("Bank of Russia Instruction No. 254-P") and current internal Regulation of the Bank.

Provision for possible losses is recognized upon impairment of a loan (loans), i.e. loss in value of the loan(s) due to the borrower's failure in debt repayment or a real threat of such failure.

Provision for possible losses is created for up to the principal amount (book value) of the loan. The principal amount does not include interest payments on the loan, commissions, penalties and other payments due to the Bank, which arise from the loan contract, pursuant to the law, good business practices, or the contract under which the loan was issued.

#### *Loans to legal entities*

A provision is formed for a particular loan or for a portfolio of homogenous loans, i.e. a group of loans with similar credit risk characteristics, which meet the requirements established by the Bank of Russia Instruction No. 254-P and are separated for impairment allowance purposes.

Provision for possible losses on loans to legal entities is created for each loan issued separately (except for homogeneous loan portfolios) based on the credit risk assessment on each loan issued (exercising professional judgment).

Professional judgment is issued on the basis of a comprehensive and objective analysis of the borrower's activity, taking into account its financial position, debt service, as well as all of the information on the borrower available to the Bank. Loans are classified into one of five categories of quality in accordance with the Bank of Russia Instruction No. 254-P on the basis of professional judgment.

The assessment of the financial position of the borrower is conducted by the Bank based on an assessment of the impact of risk factors identified through the analysis of the borrower's financial statements and other information on the financial position and financial performance of the borrower.

Sources of information on the possible risk factors include the mass media and other sources. The lack of information on the borrower is considered by the Bank as one of the risk factors taken into consideration in the exercise of professional judgment.

The provision on loans referred to II - V quality categories is formed taking into account collateral of I and II quality categories, a list of which is defined in the Bank of Russia Instruction No. 254-P.

Determination of the amount of the provision is conducted on a regular basis simultaneously with the credit risk assessment of the loan.

A loan can be included in a portfolio of homogeneous loans once the conditions stipulated in the Bank of Russia Instruction No. 254-P and the Bank's internal regulations are met.



The following criteria can be used to create portfolios of homogeneous loans:

- type of loan;
- type of borrower;
- existence of collateral;
- loan currency;
- loan limit amount;
- whether a loan has been restructured: restructured loans are included in a separate homogenous portfolio with a defined approach to loan loss provisioning. The authorized body is to make the decision that the loan quality is not to worsen. Such loans are subject to higher provisioning rates than the minimum ones stipulated by the Bank of Russia Instruction No. 254-P.

Each loan is included in a portfolio of homogeneous loans in accordance with one of the criteria stipulated above at an issue date a date of provisioning criteria determination. The classification of a loan as homogeneous is determined by the responsible authority of the Bank when the decision on issue and on the criteria of provisioning is made.

Within each portfolio the Bank creates subportfolios of overdue impaired loans in accordance with the number of overdue days and similar approaches to provisioning.

Provisioning rates for each subportfolio are determined based on the risk assessment for each subportfolio as well as minimum provisioning rates as stipulated in the Bank of Russia Instruction No. 254-P. Provisioning rates suggested based on a professional judgment made following the risk assessment of each of the subportfolios as well as taking into account the minimum provisioning rates, are approved by the Assets Quality Committee and are used to calculate loan loss provision amounts on homogeneous loans.

#### *Loans to individuals*

Provisions for possible losses on loans provided to individuals are created for specific loan or portfolio of homogeneous loans. The Bank recognizes the following portfolios for each type of issued loans:

- a portfolio of loans without overdue payments;
- a portfolio of loans with payments overdue by 1 to 30 days;
- a portfolio of loans with payments overdue by 31 to 90 days;
- a portfolio of loans with payments overdue by 91 to 180 days;
- a portfolio of loans with payments overdue by 181 to 360 days;
- a portfolio of loans with payments overdue by more than 360 days.

Provisions for portfolios of homogeneous loans are created in accordance with the risk assessment methodology used by the Bank for respective portfolios of homogeneous loans. Credit risk assessment of the portfolio of homogeneous loans is exercised by the Bank on a regular basis. In accordance with the Bank of Russia Instruction No. 254-P the Bank distributes formed portfolios of homogeneous loans into five categories of quality.

The write-off of bad debts is carried out against the created provisions for the respective debt.

The procedure for evaluating and creating a provision for loans to individuals which are not included into portfolios of homogeneous loans is similar to the procedure for evaluating and creating provisions for loans to credit institutions and legal entities that are not credit institutions.

#### **Acquisition of claims under funds granting (placement) agreements**

Claims acquired under funds granting (placement) agreements are recorded at the acquisition price as at the date of acquisition specified in the transaction terms.

The disposal date of a claim is the date when the claim is assigned to a third party (date of sale) specified in the transaction terms or the date when the debtor (borrower) repays its obligations.

The financial result from disposal of a claim is determined as the difference between the claim acquisition price and the claim sale price or the amount repaid by the debtor (borrower) in accordance with the terms of the agreement under which the claim was acquired. In case payments for the claim sold (being repaid) are made by installments, the financial result is determined as the difference between the amount of installment payment and the amount of the claim sold (being repaid) calculated in the proportion that the installment payment bears to the nominal value of the claim.

Interest income earned under the terms of the original funds granting (placement) agreement, but not included in the scope of the acquired claims, is recognized as income and recorded on the books as "Interest income".

## **Securities**

Securities, depending on their classification, are measured (revalued) at fair value, at cost or by creating provision for possible losses starting from initial recognition and until derecognition.

The fair value of a security is the price that would be received to sell a security in a transaction on a voluntary basis between the securities market participants at the measurement date. The assessment of fair value is performed in accordance with the IFRS 13 *Fair value measurement*, which became effective on the territory of the Russian Federation (the IFRS 13).

Depending on the purpose of the acquisition the Bank classifies securities into one of the following categories:

- securities at fair value through profit or loss;
- securities available-for-sale;
- held-to-maturity securities;
- securities purchased in an amount that ensures control over the management of the issuing entity or significant influence thereon.

Investments in securities at fair value through profit or loss include debt and equity securities acquired with the purpose of selling in the short term (up to 1 year) whose fair value can be measured reliably.

Investments in held-to-maturity securities include debt securities that the Bank intends to hold to maturity (regardless of the period between the acquisition date and the maturity date).

Investments in securities available-for-sale include debt securities and shares which were not classified as "securities held at fair value through profit or loss" and "held-to-maturity securities" upon acquisition.

Upon initial recognition, the carrying value of securities changes by the amount of discount (premium), coupon (interest) income accrued and received from the initial recognition until disposal.

Investments in securities classified at initial recognition as at fair value through profit or loss are carried at fair value.

Securities available-for-sale are carried at fair value.

For securities available-for-sale allowances for possible losses are created, if their fair value could not be reliably determined and/or securities display indicators of impairment.

Allowances for possible losses are not created for securities at fair value through profit or loss. Amounts of negative revaluation of debt securities available for sale, estimating at fair value after initial recognition and displaying indicators of impairment, are accounted for in expenses. If subsequently the fair value of debt securities classified as "available for sale" increases, the amount of loss recorded in expenses is recovered.

Equity securities which fair value cannot be reliably determined are classified as "available-for-sale" upon initial recognition.

Equity securities classified as "available-for-sale" which fair value cannot be reliably determined, are estimated at cost. Revaluation estimates for equity securities classified as "available-for-sale" measured at fair value after initial recognition, which fair value cannot be subsequently reliably determined, are subject to write-offs. At the same allowances for possible losses are created on these securities in accordance with the Bank of Russia Instruction № 283-P "On making provisions by credit institutions for possible losses" (the Bank of Russia Instruction № 283-P) and internal Regulation.

Debt securities that the Bank intends to hold to maturity are not revalued. If necessary, the provision for possible losses is created in accordance with the Bank of Russia Instruction No. 283-P.

The Bank also created allowances for possible losses on outstanding debt securities in accordance with the Bank of Russia Instruction No. 283-P. For the purposes of determination of allowance size, account balances are classified in one of five quality categories based on motivated judgment. For each of five quality category the Bank applies allowance ratio according to amounts established by Bank of Russia Instruction No. 283-P.

For classification of remaining account balances the Bank assesses the financial position of the counterparty for the purpose of identification probability of non-fulfilment or improper fulfilment of obligations under the contract.

Assessment of the counterparty financial position is made by the Bank based on the assessment of impact of risk factors identified using analysis of the counterparty's financial statements and based on other information on financial position and performance results of the counterparty.

Sources of possible information about risk factors include mass media and other sources. Lack of information about counterparty considered by the Bank as one of the risk factors taken into account in making professional judgment.

Risk assessment is performed by the Bank on continuing basis.

Determination of fair value of securities is performed on a daily basis.

Methods used by the Bank for determination of fair value of securities are provided below.

If the security has a quoted market price, the fair value will be determined within a spread by demand (minimum purchase price) and offer (maximum sale price), however not obligatory be matched with the minimum (maximum) or final sale (purchase) price. Offer of a specific buyer (seller) cannot reflect opinion of most of market participants or not reflect the most beneficial price for the Bank and therefore not be fair value for sale (purchase) of the Bank's security.

Only in case of absence of quoted market prices for this security, the Bank determines fair value using the discounted cash flow technique for expected proceeds (payments).

The Bank establishes the method of evaluation of disposed (sold) securities using the FIFO principle

Acquisition (transfer) of rights on securities for forward transactions on the basis of urgency, repayment and interest payment, is not a basis for initial recognition (derecognition) of securities if it does not lead to transfer of all (or significant part) the risks and rewards of ownership on the security transferred.

Under reverse repurchase agreements in which the Bank is the original purchaser of the securities, the Bank does not recognize all risks and rewards of ownership of these securities. Securities received in the first part of a reverse repurchase agreement are not recognized by the Bank and are recorded on the off-balance sheet accounts. Cash paid on the first part of a reverse repurchase agreement is recognized within other placements.

Under repurchase agreements in which the Bank is the original seller of the securities, the Bank recognizes the risks and rewards of ownership of the securities, the transfer of securities is performed without derecognition of the Bank's assets. Cash received under the first part of the repurchase agreement is recognized within other attracted funds.

### **Derivative financial instruments and other contracts (transactions) for which settlements and delivery is performed not earlier than the next day after the deal date**

The Bank's approach to the classification of transactions accountable in compliance with the Bank of Russia Instruction No. 372-P dated 4 July 2011 "On the procedure of accounting of derivative financial instruments" ("Bank of Russia Instruction No. 372-P") is based on the criteria enshrined in the Bank of Russia Instruction dated 16 February 2015 № 3565-Y "On the approval of the regulations on the kinds of derivative financial instruments".

Derivative Financial Instruments ('DFI') are carried on accounts in Section A "Balance sheet accounts" of the Bank's balance sheet at fair value. DFIs with a positive fair value are reported as an asset within the item "Financial assets at fair value through profit or loss" of form 0409806 "Balance sheet (published form)". DFIs with a negative fair value are reported as a liability within the item "Financial liabilities at fair value through profit or loss" of form 0409806 "Balance sheet (published form)".

DFI are carried at fair value, i.e. at a price that can be obtained through the sale of a DFI representing an asset, or which is payable on the transfer (settlement) of a DFI representing a liability in an orderly transaction between market participants on the valuation date. Changes in fair value are reflected in accounting on a daily basis.

The Bank performs transactions with the following types of derivative financial instruments: currency forwards and currency swaps.

The accounts in Section G "Derivative financial instruments and other contracts (transactions) for which settlements and delivery is performed not earlier than the next day after the deal date" of the Bank's balance sheet show claims and obligations to deliver the underlying asset under DFI contracts and other transactions for the purchase and sale of financial assets represented by securities, precious metals, foreign currency for which settlements and delivery is performed not earlier than the next day after the deal date. Transactions are accounted for in Section G accounts from the date they are concluded until the earliest maturity date.

Agreements (transactions) that do not provide for delivery of underlying (basic) assets (settlement derivative financial instruments) shall also be accounted for in Section G accounts as if they provided for delivery.

Claims and liabilities in Section G accounts are revalued according to changes in the CBR official exchange rates of foreign currencies, the CBR official prices of precious metals, current fair value of securities and other variables. When showing revaluation in accordance with the Bank of Russia Instruction No. 385-P, active accounts should correspond to Account No. 99997, while passive ones – to Account No. 99996.

### **Fixed assets**

The term fixed assets denotes tangible asset with a useful life in excess of 12 months used for providing services or for administrative purposes, which the Bank does not intend to sell in future and if the following conditions simultaneously are met:

- object is capable to bring economic benefits to credit institution in the future;
- original cost of the object can be reliably determined;

Fixed assets are recorded at original cost. Original cost of fixed assets acquired for a valuable consideration is amount of actual expenses incurred to construct, produce and acquire object of fixed assets, except for reimbursable taxes. According to the accounting policy of the Bank the value added tax is included in original cost of fixed assets in accordance with the requirements of part 5 article 170 of the Tax Code of the Russian Federation.

Recording actual expenses on construction, production and acquisition of fixed assets objects in the original cost of the fixed assets object ends when object is ready for use in accordance with intentions of the Management of the Bank, so when its location and condition allow to use it according to intentions of the Management of the Bank.

The Bank recorded fixed assets at original cost, less accumulated depreciation and any accumulated impairment losses, except for buildings, which are stated at revalued amounts.

Building, which fair value cost can be reliably determined, after recognition is recorded at revalued value which represents fair value of this object of fixed assets at the revaluation date. Recognition of revaluation is performed in the following manner: value of revaluated object recorded on the balance sheet account as fixed assets at the date of revaluation is decreased by amount of accumulated depreciation with its subsequent recalculation to fair value.

According to the accounting policy of the Bank, revaluation of building is performed not more than once a year on the last working day of the reporting year.

Capital expenditures in progress are not subject to revaluation.

Fixed assets objects are assessed for impairment at the end of each reporting period and if there are events having significant impact on estimation their value. Impairment losses in respect of fixed assets are recognized at the time of their identification. In there are signs that impairment loss in respect of fixed assets recognized in previous reporting periods no longer exists or was decreased, it is reversed (fully or in part) to the cost of the fixed asset object (net of amortization) that would be recorded in case of absence of signs of impairment.

Cost of fixed assets objects is reimbursed by charging depreciation over the estimated useful lives of assets. Depreciation is charged to profit or loss on a straight-line basis. Land is not depreciated.

## **Intangible assets**

Intangible asset is an object when all of the following conditions are met:

- an object is capable to bring to the Bank economic benefits in future, in particular, object is intended for use by the Bank for performance of works, provision of services or for administrative needs;
- the Bank has the right to receive economic benefits from use of an object in future;
- there are restrictions in access of other persons to economic benefits from the use of object (the Bank has control over object);
- an object can be identified (there is a possibility to allocate and separate from other assets);
- an object is intended for use within more than 12 months;
- the sale of object is not planned by the Bank within 12 months;
- an object has no tangible form;
- the cost of object can be reliably determined.

An intangible asset is recorded at cost determined as at date of its recognition.

The cost of an intangible asset is value in terms of money that equals to amount of payment in terms of money or other form or amount of payables paid or accrued by the Bank upon acquisition, creation of intangible asset and providing conditions for use of an intangible asset in accordance with intentions of the Management of the Bank.

The Bank records intangible assets at cost less accumulated depreciation and accumulated impairment losses.

Intangible assets are assessed for impairment at the end of each reporting year. Impairment losses on intangible assets are recognized at the time of their identification. If there are signs that impairment loss in respect of intangible asset recognized in previous reporting periods no longer exists or was decreased, it is reversed (fully or in part) to the cost of the intangible asset object (net of amortization) that would be recorded in case of absence of signs of impairment.

The cost of intangible assets with defined useful life is reimbursed by charging depreciation over the estimated useful lives of intangible assets. Intangible assets with undefined useful lives are not depreciated. For intangible assets with undefined useful lives the Bank annually considers availability of factors confirming impossibility to determine reliably their useful lives. In case of the discontinuation of these factors the Bank determines a useful life for this intangible asset and a method of its depreciation.

Depreciation on intangible assets is charged on a straight-line basis.

## **Real estate temporarily out of use in operating activities**

Real estate temporarily out of use in operating activities – property (land, a building or a part of it, or both) owned by the Bank and received in the ordinary course of business to earn rentals (except financial lease contracts), appreciation income (or both) rather than to use as the means of labor in the provision of services, for administrative purposes, purposes of safety and security arrangements and environmental protection, as well as in cases stipulated by sanitation and hygiene standards, technological performance specifications and other specifications and standards, and which is not intended for sale within one year from the date of classification as a real estate temporarily out of use in operating activities..

An object is recognized as real estate temporarily out of use in operating activities when all of the following conditions are met:

- an object is capable to bring to the Bank economic benefits in the future;
- the original cost of an object can be reliably determined.

Transfer of objects in and out the real estate temporarily out of use in operating activities are performed only in case of changing method of its use based on a professional judgment.

## Long term assets held-for-sale

Fixed assets, intangible assets, real estate temporarily out of use in operating activities recorded at original cost, net of accumulated depreciation and accumulated impairment losses, assets meeting the recognition criteria, determined for fixed assets and intangible assets, and accounted for as means and objects of labour of undetermined purpose obtained under indemnity or pledge agreements, are recognized by the Bank as long term assets held-for-sale, if the compensation of their value is resulted from sale as soon as possible from the date of recognition as long term assets held-for-sale rather than from continuing use, when all of the following conditions are met :

- assets available for immediate sale in their present condition under conditions similar to market conditions in case of sale of such assets;
- the authorized authority of the Bank made the decision on sale (sale plan was approved) of long term asset;
- the Bank conducts search of the buyer of long term asset based on the price comparable to its fair value;
- according to the actions of the Bank it is unlikely that significant changes to the decision (plan) to sell will be made or that the decision (plan) will be withdrawn.

Long term assets held-for-sale are not depreciated.

Recognition of fixed assets, intangible assets, real estate temporarily out of use in operating activities recorded at original cost, net of accumulated depreciation and accumulated impairment losses, means and subjects of labour of undetermined purpose obtained under indemnity or pledge agreements, that meet the recognition criteria as long term assets held-for-sale determined for fixed assets and intangible assets, does not lead to change in value accounted for.

After recognition of the object as long term asset held-for-sale the Bank not later than the last working day of the month, in which transfer of the object in long term assets held-for-sale was performed, makes its assessment, if its fair value can be reliably determined at the lower of:

- the original cost recognized at the date of transfer of an asset in long term assets held-for-sale;
- the fair value, net of expenses which need to be incurred for sale (on long term assets which are subject to transfer to shareholders - expenses which need to be incurred for transfer).

Long term assets held-for-sale are subject to such assessment quarterly.

The Bank recognizes a loss from subsequent reduction in fair value of the long term asset held-for-sale, less sale expenses, in profit or loss. The Bank recognizes an income from subsequent increase in the fair value of the long term asset held-for-sale, less sale expenses, not exceeding the amount of accumulated impairment loss recognized earlier in respect of transferred assets including loss recognized before the transfer date, in profit or loss.

If the Bank recognizes an asset as a long term asset held-for-sale, but subsequently conditions for its recognition are not met, then the Bank derecognizes an asset as a long term held-for-sale. An object which was derecognized as a long term asset held-for-sale is measured at the lower of:

- value recorded before recognition of object as long term asset held-for-sale less depreciation, which would be recognized, if this object was not classified as long term asset held-for-sale (if before recognition as a long term asset held-for-sale the object was recorded at cost, net of depreciation and accumulated impairment loss) or less revaluation amount (if before recognition as a long term asset held-for-sale the object was recorded at revalued amounts);
- recoverable amount of object estimated at the date of making decision to cancel sale.

The recoverable amount of object is measured at the greater of:

- fair value of object less expenses which needs to be incurred for sale;
- value in use of object.

Value in use of object is determined as a discounted value of expected future cash flows which emergence is expected during the use of object and as a result of its disposal upon termination of its useful life.

Long-term assets held-for-sale which are not recorded at fair value are subject to the provision for possible losses created in accordance with the Bank of Russia Instruction No. 283-P.

## **Inventories**

Inventories are recognized at the time of transfer to the Bank of economic risks and benefits associated with use of inventories to generate income. In most cases transfer to the Bank of economic risks and benefits is performed together with receipt by the Bank of property rights to inventories or to their actual receipt.

Inventories are recorded by Bank at cost of each unit. In cases, when inventories represent a set of interchangeable (uniform) units, the Bank performs their assessment using FIFO method.

### **Means and objects of labour of undetermined purpose obtained under indemnity or pledge agreements**

The original cost of means (excluding real estate, including land) and objects of labor of undetermined purpose obtained under indemnity or pledge agreements is their fair value at the date of their recognition. If the fair value of objects obtained under indemnity or pledge agreements is not subject to a reliable assessment, then its assessment is performed according to:

- indemnity agreements in the amount of terminated obligations of a borrower (debtor) under funds granting (placement) agreements;
- pledge agreements in the amount determined by requirements of the legislation of the Russian Federation and Bank of Russia Instructions.

Means of labor are objects (excluding property and land) that meet recognition criteria for fixed assets and intangible assets. Objects of labor are objects that meet recognition criteria for inventories.

After recognition of objects as means of labour of undetermined purpose obtained under indemnity or pledge agreements, the Bank performs their assessment not later than the last working day of the month, in which objects were recognized as means of labour of undetermined purpose obtained under indemnity or pledge agreements, if their fair value can be reliably measured at the lower of:

- original cost at the date of recognition of an object as means of labor of undetermined purpose obtained under indemnity or pledge agreements;
- fair value of an object less expenses which needs to be incurred for sale.

Means of labour of undetermined purpose obtained under indemnity or pledge agreements are subject to such assessment at the end of the reporting year.

The Bank recognizes a loss from subsequent reduction in fair value of means of labour of undetermined purpose obtained under indemnity or pledge agreements less sale expenses, in profit or loss. The Bank recognizes an income from subsequent increase in the fair value of means of labour of undetermined purpose obtained under indemnity or pledge agreements, less sale expenses, but this income cannot exceed the amount of loss from reduction in the fair value of an recognized object.

After recognition of object as means of labor of undetermined purpose obtained under indemnity or pledge agreements the Bank not later than the last working day of month, in which objects were recognized, measures them at the lower of:

- original cost at the date of recognition of an object as means of labor undetermined purpose obtained under indemnity or pledge agreements;
- expected value, at which means of labor undetermined purpose obtained under indemnity or pledge agreements can be sold, less sale expenses (the "net realisable value"), at the date of their assessment, so that assessment has to reflect market conditions at the end of month.

Objects of labor of undetermined purpose obtained under indemnity or pledge agreements are also subject to assessment at the end of the reporting year.

Signs of possible excess of original cost of objects of labor of undetermined purpose obtained under indemnity or pledge agreements over their net realisable value include their damage, complete or partial obsolescence, reduction in sale cost in the active market.

If the recognized original cost of objects of labor of undetermined purpose obtained under indemnity or pledge agreements exceeds their net realisable value, then expenses are accounted for in profit or loss. Subsequently, while valuation of objects of labor of undetermined purpose obtained under indemnity or pledge agreements, it is possible to recover reduction in their cost due to increase in net realisable value to this net realisable value, recorded in profit or loss, but not exceeding earlier recognized reduction in cost of objects of labor of undetermined purpose obtained under indemnity or pledge agreements.

Transfer of means of labor of undetermined purpose obtained under indemnity or pledge agreements in fixed assets, intangible assets, long term assets, available held-for-sale and transfer of objects of labor of undetermined purpose obtained under indemnity or pledge agreements in inventories are performed based on intentions of the management of the Bank, if the transferred object meets recognition criteria for these types of objects.

Means and objects of labor of undetermined purpose obtained under indemnity or pledge agreements include are accounted for in "Other assets" of the form 0409806 of "Balance sheet (published form)".

### **Liabilities**

Liabilities are accounted for in accordance with the terms and conditions of agreements in order to control their full and timely performance. In cases set by the Bank of Russia Instructions liabilities are also revalued at their fair value.

### **Debt securities issued**

Own securities issued (bonds) are accounted at their nominal value.

Interest on issued bonds is accrued and expensed on a daily basis.

### **Authorized capital, reserve fund, dividends**

Ordinary shares of the Bank are reported on the line "Funds of shareholders (participants)" of the Balance Sheet at nominal value. Under the Charter, the Bank forms a reserve fund through mandatory annual allocations until it reaches an amount equal to 5% of the authorized capital. The Bank's Charter provides that the amount of annual allocations shall be 5% of net profit until the amount established by the Charter is reached.

Recommendations on the amount of dividends based on 2016 results have not been given by the Bank's Board of Directors as at the signing date of the auditors' report.

### **Operating leases**

The amounts of payments under operating lease agreements are charged by the lessee Bank to expenses on a straight-line basis over the lease period.

### **Income tax**

Income tax is calculated and accrued on a monthly basis. Income tax includes both current tax and deferred tax.

The Bank operates in different tax jurisdictions. In the course of its activities, management has to interpret and apply effective legal norms with regard to third party operations and own activities. At present, Russian tax law generally proceeds from how the operations are documented and recorded in accounting under Russian accounting principles. Interpretation of the tax legislation of the Russian Federation by tax authorities as well as existing judicial practices, which are continuously undergoing changes, may in the future focus on the economic substance of a transaction rather than its form. Recent events that took place in the Russian Federation show that tax authorities are taking a stricter position in interpreting and applying tax legislation. A tax year remains open for audit by tax authorities during three calendar years after the end of the year. Any changes in the interpretation of legislation or its application practice occurring during this period, even if there are no changes in the Russian tax legislation, may be applied retrospectively.

The Bank's Management believes that as at 1 January 2017 it interpreted the relevant provisions of tax legislation accurately and that the likelihood that the status the Bank has from the standpoint of tax, currency and customs legislation will be preserved in the future is high.



The Bank makes monthly advance income tax payments, with the amount of the advance payment adjusted based on the actual performance results of the reporting periods (1st quarter, 1st half year, 9 months), and a final settlement based on the results for the calendar year. Settlements with the budget on income tax are only accounted on the balance sheet of the head office. Analytical accounts are opened in accordance with the breakdown by budgets and each structural division.

### **Deferred income tax**

Deferred tax assets and deferred tax liabilities are shown in relation to temporary differences arising between the balances of active (passive) ledger accounts (with respect for analytical accounting procedure) and their taxable base, which is used for income tax calculation in line with the Russian Federation's law on taxes and dues. The taxable base is here understood as a sum attributed to an asset or liability for fiscal purposes.

Temporary differences are calculated until a complete write-off of active (passive) ledger account balances and until the moment when results of transactions or events shown (including for previous reporting periods) in the credit organization's accounts no longer affect taxable profit.

A deferred tax liability is recognized in respect of taxable temporary differences. A deferred tax asset is recognized in relation to deductible temporary differences and carried-over losses, which were not used for income tax reduction.

Deferred tax assets are reflected in the accounting in case of appearance of deductible temporary differences and the probability of the Bank's receiving taxable profit in the future reporting periods.

During the assessment of the probability for the Bank to obtain a taxable profit (which the Bank has the right to reduce for fiscal purposes by the deduction of deductible temporary differences) the Bank shall verify the following conditions:

- does the Bank have sufficient taxable temporary differences for the formation of a taxable profit, which the Bank has the right to reduce for fiscal purposes by deducting such temporary differences;
- does the Bank forecast obtaining taxable profit in reporting period, in which it has the right to reduce its taxable profit for fiscal purposes by the deduction of deductible temporary differences.

To the extent the Bank is unable to receive sufficient taxable profit to become entitled to use (fully or partially) the deferred tax asset, such part or entire amount of such deferred tax asset shall not be subject to recognition.

Deferred tax assets formed from the losses carried-forward, which were not used for income tax reduction, shall be reflected in financial accounting in case there is a probability for the Bank to obtain taxable profit in the future reporting periods.

While assessing the probability of obtaining a taxable profit, which can be diminished for fiscal purposes by deducting the carried-over losses that were not used for income tax reduction, the Bank shall analyze the following circumstances:

- does the Bank have sufficient taxable temporary differences that will lead to receiving taxable profit, which the Bank will have the right to reduce for fiscal purposes by deducting carried-over losses;
- is it likely for the situation where loss carried-forward occurred to repeat in the future.

To the extent by which it is improbable for the Bank to receive taxable profit, which it will have the right to reduce for fiscal purposes by deducting carried-forward losses, which were not used for reducing income tax accruals, the deferred tax asset shall not be subject to recognition.

### **Accounting for income and expenses**

Income and expenses are recorded using the method of accruals. The accrual principle means that financial results of operations (income and expenses) are recognized in accounting records when the corresponding service is provided and not upon receipt (or payment) of cash or its equivalents. Income and expenses are recorded in the period to which they relate.

Analytical accounting on income and expense accounts is performed in Russian rubles. Income and expense accounts reflect ruble equivalents of amounts in foreign currencies based on the official exchange rate.

Income and expenses depending on type subdivided as:

- interest income and interest expense;
- operating income and operating expense;

Interest income (interest expense) is income (expense) that charged in the form of percent, coupon, discount on transactions with an interest income (interest expense).

Interest income includes fee and commission income, which means commission received or receivable by the credit organization as a payment for performing operations, transactions or provisioning intermediary services for broker, commission, agency contracts and other contracts bearing interest income.

Interest expense includes fee and commission expense which means commission paid or payable by the credit organization as a payment for operations, transactions performed or services provided to the credit organization, fee charged to the Bank for provisioning intermediary services for broker, commission, agency contracts and other contracts bearing interest income.

The income is accounted for when the following conditions are met:

- the right to receive the income by the Bank arises from the agreement or is confirmed in other appropriate manner;
- an amount of income can be determined;
- there is no uncertainty in earning the income;
- as a result of transfer (sale) of an asset, provision of services, performance of work, the Bank transferred to the buyer all risks and rewards of ownership on an asset transferred, the Bank does not control and manage the transferable (saleable) asset, or the work was accepted by the buyer, services were provided.

The income from transfer (sale) of assets, provision of services is accounted for when all conditions specified earlier are met. The income from transfer (sale) of assets is measured as the difference between the asset carrying amount and fair value of received or receivable consideration (proceeds from sales) and accounted for at the date of transfer of all risks and rewards of ownership on transferable (saleable) asset to the buyer, control and management over it, irrespective of contract payment terms (i.e. advance payment, prepayment, delay, deferred payment).

The income from performance of work (provision of services), including received or receivable fee and commission income, is accounted for at the date of acceptance of work (provision of services) determined by contract terms, including the payment day, or confirmed by other primary accounting documents.

Income received by commission agent or agent from counterparties related to provisioning commission or agent services, except for payment for services, and amounts received and (or) recovered from counterparties and due to third parties is not recognized as income.

For recognition of the interest income from transfer (placement) of funds and precious metals, acquired debt securities, including promissory notes, securities borrowing, as well as income from assignment for temporary use (temporary possession and use) of other assets at a charge, the Bank has to meet simultaneously the following conditions:

- the right to receive the income by the Bank arises from the agreement or is confirmed in other appropriate manner;
- an amount of income can be determined;
- there is no uncertainty in earning the income.

Availability or absence of uncertainty in receipt of interest income is determined based on analysis of quality of loans and receivables, other assets, including claims, or based on the level of risk of possible losses for appropriate asset (claim).

Income from loans and other assets, including claims, ranked by the Bank as I – III quality categories, is deemed to be certain, i.e. probability to generate income is absolute and (or) high.

Income from loans and other assets, including claims, ranked by the Bank as IV and V quality categories, is deemed to be uncertain, i.e. income generation is troubled or bad high.

Quality categories of loans, other assets, including requirements are determined according to the Bank of Russia Instructions No. 254-P and No. 283-P.

Interest accrued on placed funds (except for overdrafts) which deemed to be certain are subject to the recognition in income on a daily basis. Interests on overdrafts are accrued on a monthly basis on the last working day of the month and at the date of payment of interests in accordance with the contract.

- for the period from the date following the date of previous charging (or payment) of interest to the last calendar day inclusively / the date of interest payment according to contract terms inclusively;
- for the first settling period (period of loan issuance) from the day following a date of loan issuance to the last calendar day.

Interest income classified as a problem one is recorded when actually received.

Expense is accounted for when the following conditions are met:

- the expense arises according to the contract, requirements of legal and other regulations, business customs;
- the expense can be determined;
- there is no uncertainty in respect of expense recognition.

There is no uncertainty in respect of works and services, where the Bank acts as buyer (recipient, customer, acquirer), from the date of acceptance of works, provision of services.

Asset transfer (sale) expenses are accounted for when all conditions specified earlier are met. Asset transfer (sale) expenses are measured as the difference between the asset carrying amount and fair value of received or receivable consideration (proceeds from sales) and accounted for at the date of transfer of all risks and rewards of ownership on transferable (saleable) asset to the buyer, control and management over it, irrespective of contract payment terms (i.e. advance payment, prepayment, delay, deferred payment).

Expenses from performance of works, provision of services, i.e. in the form of paid or payable fee and commission expense, are accounted for at the date of acceptance of works (provision of services), determined by contractual terms, including payment day, or confirmed by other accounting documents.

Costs and expenses which are subject to compensation are not recorded as expenses but are a subject to accounting for as receivables.

Interest expenses related to transactions made to attract funds from individuals and legal entities (except for use-of-money interest on customers' bank accounts, including on correspondent accounts) and securities lending transactions are to be charged to expenses on a daily basis. Interest expenses on issued debt securities are to be charged to expenses on a daily basis. Use-of-money interest on customers' bank accounts, including on correspondent accounts are to be charged to expenses on a payment day according to contract terms. On the last business day of the month, all interest accrued over the month ended (including for remaining non-business days if the last business day of the month does not coincide with its last day) or additionally accrued since the date under contract terms or their issue terms are to be charged to expenses.

### **Revaluation of balances in foreign currencies**

Revaluation of balances in foreign currencies is carried out based on changes in the official exchange rates established by the CBR, with the result posted to income and expense accounts on a daily basis.

Exchange differences arising from settlements in foreign currencies are included in the Bank's financial result at the exchange rate as at the transaction date. The transaction date is defined as the date of delivery or the date of receipt of funds, whichever occurs earlier.

Balances in foreign currencies are revalued at the beginning of the transaction day before posting transactions to the account (accounts) by revaluing the opening balance at the beginning of the day, except for amounts received, advances given and prepayments for goods supplied, work completed, and services provided, which are recorded on the balance sheet accounts for settlements with non-resident organizations under business transactions.

Exchange rate gains or losses arising from purchase and sale of foreign currency for Rubles on a cash and non-cash basis, for which settlements and delivery are performed on the day of transaction, and transactions for which settlements and delivery are performed not earlier than on the next day after signing the contract, except for those contracts which are subject to the Bank of Russia Instruction No.372-P, are determined as a difference between the exchange rate of transaction and the official CBR foreign exchange rate against Russian Ruble at the date of transaction.

Exchange rate gains or losses arising from foreign currency conversion transactions (i.e. from purchase and sale of foreign currency for another foreign currency), on a cash and non-cash basis, for which settlements and delivery are performed on the day of transaction, and transactions for which settlements and delivery are performed not earlier than on the next day after signing the contract, except for those contracts which are subject to the Bank of Russia Instruction No.372-P, are determined as a difference between Ruble equivalents of specified currencies using official exchange rate on the day of transaction.

The day of transaction is understood as the earlier of the following two dates:

- date of delivery of Rubles and (or) foreign currency to the counterparty;
- date of receipt of foreign currency and (or) Rubles from the counterparty.

### **Offsetting**

Financial assets and liabilities are offset only if there is a legally enforceable right to set off the recognized amounts at the maturity dates under the agreement with the counterparty.

### **3.5. Nature and size of adjustments resulting from changes in accounting policies and estimates affecting comparability of certain performance indicators of the Bank**

The accounting policy of the Bank for 2016 was approved by the Management Board of JSC “Banca Intesa” (minutes of meetings № 52\_15 dated 29 December 2015, № 24\_16 dated 24 June 2016, №37\_16 dated 16 September 2016).

The following Instructions came into force in 2016 and had influence the accounting policy of the Bank:

- According to the Bank of Russia Instruction dated 22 December 2014 No. 3503-U “On amending the Bank of Russia Instruction dated 16 July 2012 No. 385-P “On the rules of accounting in credit institutions located within the Russian Federation” and the Bank of Russia Instruction dated 22 December 2014 No. 448-P “On the accounting in credit institutions of fixed assets, intangible assets, real estate temporarily not used in operational activity, long term assets held- or sale, inventories, means and subjects of labour of undetermined purpose obtained under indemnity or pledge agreements” (including amendments), prepared based on the International Financial Reporting Standards, starting from 1 January 2016 the procedure for accounting of items listed above has been amended. Comparative information in the annual statutory (financial) statements have not been restated.
- According to the Bank of Russia Instruction dated 15 April 2015 No. 3623-U “On Amending the Bank of Russia Instruction dated 16 July 2012 No. 385-P, “On the rules of accounting in credit institutions located within the Russian Federation” and the Bank of Russia Instruction dated 15 April 2015 No. 465-P “Sectoral standard for staff compensation accounting in credit institutions”, prepared based on IAS 19 Employee Benefits enacted in the Russian Federation, the accounting procedure for employee benefits in credit institutions has been amended.
- According to the Bank of Russia Instruction dated 15 March 2015 No. 3597-U “On amending Bank of Russia Instruction dated 16 July 2012 No. 385-P “On the rules of accounting in credit institutions located within the Russian Federation”, Appendix 3 to the Instruction, determining the procedure for determining income, expenses, financial results and their accounting, is deemed invalid starting from 1 January 2016. The Bank of Russia Instruction dated 22 December 2014 No. 446-P “On the procedure to determine revenues, expenditures and other comprehensive income of credit institutions” (including amendments) (the “Bank of Russia Instruction No. 446-P), effective from 1 January 2016, prepared based on the provisions of International Financial Reporting Standards, establishes principles and procedure for determining income and expenses recognized on accounts for the financial result of the current year, and other comprehensive income,

recognized in capital surplus accounts, except for share premium, during the reporting year, for credit institutions.

- Since Bank of Russia Instruction No. 446-P entered into force, according to which payments from profit after tax are not accounted at income (expense) ledgers, starting from the 1 January 2016 the Bank of Russia Instruction dated 4 June 2015 No. 3659-U "On amending Bank of Russia Instruction dated 16 July 2012 No. 385-P "On the accounting rules in credit institutions located in the Russian Federation" eliminated balance sheet account № 70612, № 70712 "Payments from profit after " and created new balance sheet account № 11101 "Dividends (distribution of part of profit between participants)". The new balance sheet account № 10614 "Grant funding provided by shareholders, participants to the credit organization" was created, at this account specified operations with owners of the credit organization are accounted for, taking into account that proceeds from shareholders, participants are not considered as income of the credit organization. Prior to 1 January 2016 grant funding provided by shareholders, participants to the credit organization was recorded in the other income at the account № 17301 "Income from donated property".
- Since Bank of Russia Instruction No. 446-P entered into force, according to which the procedure for accounting for interest income on debt securities has been changed, starting from the 1 January 2016 the Bank of Russia Instruction dated 16 July 2012 No. 3685-U "On amending the Bank of Russia Instruction dated 16 July 2012 No. 385-P "On the accounting rules in credit institutions located in the Russian Federation" eliminated balance sheet account № 50407 "Interest income on debt securities (except for promissory notes)" and № 50408 "Interest income on discounted promissory notes" and added off-balance sheet accounts № 91605 "Unearned interest income on debt securities (except for promissory notes)" and № 91606 "Unearned interest income on promissory notes". These changes resulted in unification of the procedure of accounting for interest income for active transactions. Subsequently, balances on items "Total assets" and "Total liabilities" of the balance sheet (published form) will be decreased by amount of balances at these accounts, balances on items "Net investments in securities and other financial assets available for sale", "Other liabilities" were also decreased.
- According to the Bank of Russia Instruction No. 3875-U "On amending the Bank of Russia Instruction dated 12 November 2009 No. 2332-U "On the list, forms of and procedure for compiling and submitting by credit institutions statements to the Central Bank of the Russian Federation", starting from the 1 January 2016 amendments have been made to the reporting form 0409806 "Balance sheet (published form)", 0409807 "Statement of financial performance (published form)" and to the procedure for their preparation and presentation in accordance with changes in methods of accounting for specific transactions. Numbers in these reporting forms have been changed to ensure consistency with numbers for current reporting period. Besides, amendments have been made to reporting form № 0409808 "Statement on capital adequacy, amounts of provisions on possible losses on loans and other assets (published form)" and № 0409813 "Information on mandatory ratios, amount of financial leverage and short term liquidity ratio (published form)" and procedure for preparation and presentation, the name of form № 0409813 has been changed to "Information on mandatory ratios, amount of financial leverage and short term liquidity ratio (published form)". During 2016 other amendments have been made to the accounting policy of the Bank which did not have significant influence on the procedure for accounting for specific operations and their recognition in the annual statutory (financial) statements .

There were no cases when accounting rules were not complied with, which prevented from fairly presentation of the financial position and financial results of the Bank.

### **3.6. Changes in the Accounting Policy for the next reporting year**

Significant changes to the accounting policy related to amendments and enhancements of the current legislation were not made by the Bank for 2017.

### **3.7. Events after the reporting date ("EARD")**

The annual statutory (financial) statements have been prepared taking into account the events after the reporting date. For the purposes of correct preparation of the Bank's annual statutory (financial) statements for 2016, the following adjusting events after the reporting date were reflected:

- transfer of balances from the balance sheet accounts № 706 "Financial result of the current year" to the accounts № 707 "Financial result of the previous year";

- transfer of balances the from balance sheet accounts № 707 “Financial result of the previous year” to the balance sheet account № 70801 “Profit of the previous year” at the end date of the period of accounting for adjusting EARD.

Amongst the adjusting events after the reporting date, for the purpose of annual statutory (financial) statements for 2016 the following major transactions were accounted for:

- adjustments to interest, commission and other operating income and expenses in the amount of RUB 547 189 thousand and RUB 138 thousand correspondingly;
- recognition of deferred tax assets on tax-loss carried-forward for 2016 and deferred tax liabilities in the amount of RUB 74 853 thousand and RUB 8 610 thousand correspondingly.

The net effect of these transactions was an increase in the financial result of RUB 613 227 thousand.

No EARD evidencing that there are events occurred after the reporting date prior to the date of the statutory (financial) statements that may have a significant effect on the financial position of the Bank, on its assets and liabilities (“non-adjusting EARD”).

#### 4. Notes to the balance sheet (published form)

##### 4.1 Cash and cash equivalents

	1 January 2017 RUB'000	1 January 2016 RUB'000
<b>Cash</b>	<b>873 624</b>	<b>949 676</b>
<b>Placements of credit institutions with the Central Bank of the Russian Federation, excluding mandatory cash balances</b>	<b>1 191 062</b>	<b>651 774</b>
<b>Balances on correspondent accounts with credit institutions:</b>	<b>1 965 761</b>	<b>7 583 472</b>
Russian Federation	72 735	48 482
Other countries	1 893 026	7 534 990
	<b>4 030 447</b>	<b>9 184 922</b>

Cash and cash equivalents in the amount of RUB 268 738 thousand (1 January 2016: RUB 193 955 thousand) are excluded from this caption due to the following constraints on their use: the Bank is obligated to deposit mandatory reserves with the CBR on an ongoing basis.

Cash and cash equivalents are neither overdue nor restructured.

##### 4.2. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss represent fair value of contracts which are derivative financial instruments with underlying asset of foreign currency concluded on the over-the-counter market.

	1 January 2017 RUB'000	1 January 2016 RUB'000
Derivative financial instruments	1 545	-
	<b>1 545</b>	<b>-</b>

Analysis of derivative financial instruments per underlying assets and types of financial instruments can be provided as follows:

	1 January 2017 RUB'000	1 January 2016 RUB'000
<b>Forwards:</b>		
- in foreign currency	1 545	-
	<b>1 545</b>	<b>-</b>

#### 4.3. Net loan receivables

	1 January 2017 RUB'000	1 January 2016 RUB'000
Loans to credit institutions	12 233 802	8 587 185
Loans to legal entities other than credit institutions	35 873 717	49 005 775
Loans to individuals	2 050 886	3 062 334
<b>Total loans</b>	<b>50 158 405</b>	<b>60 655 294</b>
Provision for possible losses	(7 666 854)	(8 165 581)
<b>Total net loans</b>	<b>42 491 551</b>	<b>52 489 713</b>

As at 1 January 2017 and 2016, the provision for possible losses are not created on interbank loans, because these funds has high credit quality.

Breakdown of loans by type of loan issued is presented below:

	1 January 2017 RUB'000	1 January 2016 RUB'000
<b>Loans to credit institutions</b>	<b>12 233 802</b>	<b>8 587 185</b>
<b>Loans to legal entities other than credit institutions</b>	<b>35 873 717</b>	<b>49 005 775</b>
- Funding of current activity	34 740 099	47 643 669
- Claims acquired	1 133 618	1 362 106
<b>Loans to individuals</b>	<b>2 050 886</b>	<b>3 062 334</b>
- Consumer loans	1 289 758	2 102 443
- Mortgage loans	761 128	959 891
<b>Total loans</b>	<b>50 158 405</b>	<b>60 655 294</b>
Provision for possible losses	(7 666 854)	(8 165 581)
<b>Total net loans</b>	<b>42 491 551</b>	<b>52 489 713</b>

Breakdown of loans by types of borrowers activity before the deduction of provision for possible losses is shown below:

	1 January 2017 RUB'000	1 January 2016 RUB'000
<b>Loans to credit institutions</b>	<b>12 233 802</b>	<b>8 587 185</b>
<b>Loans to legal entities other than credit institutions</b>	<b>35 873 717</b>	<b>49 005 775</b>
Wholesale and retail trade	14 736 483	18 628 219
Manufacturing	6 333 438	13 651 887
Real estate transactions, lease and services	1 849 397	3 512 521
Transport and communication	1 110 117	2 038 795
Construction	992 976	1 479 005
Electricity, gas and water production and distribution	940 716	827 655
Agriculture	593 996	508 056
Mining	351 780	35 875
Other industries	8 964 814	8 323 762
<b>Loans to individuals</b>	<b>2 050 886</b>	<b>3 062 334</b>
<b>Total loans</b>	<b>50 158 405</b>	<b>60 655 294</b>
Provision for possible losses	(7 666 854)	(8 165 581)

**Total net loans****42 491 551****52 489 713**

As at 1 January 2017 the Bank had 10 major borrowers or groups of related borrowers (other than credit institutions) whose loan balances individually exceed RUB 380,000 thousand (1 January 2016: RUB 356,677 thousand). Total balance of loans issued to these borrowers is RUB 7 597 965 thousand or 20.03% of total net loans to borrowers, other than credit institutions (1 January 2016: RUB 11 712 983 thousand or 22.5%). Provision for possible losses as at 1 January 2017 is RUB 1 259 207 thousand (1 January 2016: RUB 1 369 641 thousand).

Total balance of loans as at 1 January 2017 includes RUB 118 342 thousand paid on guarantees to LLC DIANA in the amount of RUB 7,991 thousand, to LLC SK BAM in the amount of RUB 13,445 thousand and to JSC Sibmost in the amount of RUB 96,906 thousand. Under all of these guarantees paid 100% provision for possible losses in the amount of RUB 118 342 is created (1 January 2016: Amount paid on the guarantee provided to LLC BNT in the amount of RUB 19,208 thousand, for which 100% provision for possible losses in the amount of RUB 19,208 thousand was created).

When making professional judgment, management used the following assumptions to estimate the provision for possible losses:

- for loans classified into II to IV credit quality category in accordance with the Bank of Russia Instruction No. 254-P, the provision for possible losses is determined based on the internal model taking into account the financial position of the borrower;
- when determining the fair value of collateral, the Bank believes that it can be sold within a reasonably short term not exceeding 270 calendar days.

The Bank forms a provision on a portfolio of homogeneous loans, each of loan is insignificant in terms of amount. The possibility of creating a provision on a portfolio of homogeneous loans does not apply to loans issued to a single borrower that meet the criteria for homogeneous loans if the amount of each loan and (or) comprehensive amount of such loans as at the date of risk assessment exceeds 0.5% of the Bank's own funds (capital). The Bank defines the following characteristics as homogeneous signs:

- the type of credit product;
- the type of client;
- presence/absence of collateral for loans;
- loan currency;
- the limit of the sum of transaction;
- sign of restructuring: restructured loans are allocated by the Bank to the separate portfolio in compliance with provisioning policy. The decision about the non-worsening of the quality of service the debt on such loans could be made by the authorized body of the Bank. Such portfolios are created with increased provisions compared to minimal provisioning rates established by the Bank of Russia Instruction No. 254-P.

A provision for possible losses is formed depending on the type of portfolio of homogeneous loans and number of days of overdue. For each quality category, the Bank applies minimal provisioning rates established by Option 1 stipulated by the Bank of Russia Instruction No. 254-P.

Assumptions applied by the Bank with regard to loans to individuals that are not included into portfolios of homogeneous loans are similar to those applied by the Bank with regard to legal entities that are not credit institutions.

**4.4. Investments in debt and equity securities available-for-sale**

	<b>1 January 2017</b>	<b>1 January 2016</b>
	<b>RUB'000</b>	<b>RUB'000</b>
Debt securities	3 535 812	2 581 354
Equity securities	-	4 411
Shares of subsidiaries and affiliates	3 000	3 000
	<b>3 538 812</b>	<b>2 588 765</b>



An analysis of debt securities by type is presented below:

	1 January 2017 RUB'000	1 January 2016 RUB'000
Federal loan bonds of the Russian Federation (OFZ)	3 535 812	2 581 354
	<b>3 535 812</b>	<b>2 581 354</b>

Information on maturity date of repayment debt securities available for sale as at 1 January 2017 can be provided as follows:

Type of security	Maturity	
	Minimum	Maximum
OFZ – 24018	27.10.2017	27.12.2017
OFZ – 24019	16.08.2019	16.10.2019
OFZ – 25080	19.02.2017	19.04.2017
OFZ – 25081	31.11.2017	31.01.2018
OFZ – 26204	15.01.2018	15.03.2018
OFZ – 26206	14.04.2017	14.06.2017

Information of maturities of debt securities available-for-sale as at 1 January 2016 is presented below:

Type of security	Maturity	
	Minimum	Maximum
OFZ – 24018	27.10.2017	27.12.2017
OFZ – 25080	19.02.2017	19.04.2017
OFZ – 25082	11.03.2016	11.05.2016
OFZ – 26203	03.06.2016	03.08.2016
OFZ – 26206	14.04.2017	14.06.2017

On 15 January 2016 the Bank sold shares of JSC National Bureau of Credit Histories in the amount of 44,100 units to LLC Creditnaya iniciativa (par value of RUB 100 per a share) at the price of RUB 226,7574 per a share, for general consideration of RUB 10,000 thousand. As a result the net income on transactions with securities in the amount of RUB 5,590 thousand was recorded.

Investments in securities and other financial instruments available-for-sale, as at 1 January 2017 include outstanding overdue debt securities of MRMA (Moscow Regional Mortgage Agency) in the amount of RUB 3 112 thousand (1 January 2016: RUB 3 112 thousand). The provision for possible losses on those securities amounted to RUB 3 112 thousand (1 January 2016: RUB 3 112 thousand).

#### 4.5. Investments in subsidiaries, affiliates and other participations

Name	Country of incorporation	Principal activities	Ownership, %		Volume of investments, RUB'000	
			1 January 2017	1 January 2016	1 January 2017	1 January 2016
JSC "Intesa Leasing"	Russia	Leasing activities	100	100	3 000	3 000

Shares of subsidiaries and affiliates are represented by ordinary shares of the subsidiary JSC "Intesa Leasing", recognized at nominal value.

#### 4.6 Fixed assets, intangible assets, inventory and long term assets held-for-sale

The following table provides information on the structure of fixed assets, intangible assets, inventories and long term assets held-for-sale as at 1 January 2017 and 1 January 2016, as well as changes in the cost of the assets in 2016:

RUB'000	Land and buildings	Leased fixed assets	Vehicles, equipment, investments in construction and purchase of fixed assets	Intangible assets, investments in purchase of intangible asset	Inventories	Long term assets held-for-sale	Total
<b>Cost/</b>							
<b>Current value</b>							
Balance as at 1 January 2016	1 009 020	580 188	1 250 356	136 840	1 213	416 014	3 393 631
Additions	30	-	436 157	352 639	32 261	236 431	1 057 518
Disposals	-	-	-	182 456	-	-	182 456
Revaluation	(5 850)	(405 856)	(273 260)	-	(33 196)	(151 716)	(869 878)
<b>Balance as at 1 January 2017</b>	<b>886 480</b>	<b>174 332</b>	<b>1 413 253</b>	<b>671 935</b>	<b>278</b>	<b>204 120</b>	<b>3 350 398</b>
<b>Depreciation and impairment losses</b>							
Balance as at 1 January 2016	360 663	542 066	934 799	61 411	-	78 315	1 977 254
Depreciation charged for the year	33 645	32 817	145 663	80 912	-	-	293 037
Impairment losses	-	(23 639)	-	-	-	(75 108)	(98 747)
Disposals	(242)	(393 026)	(209 459)	-	-	-	(602 727)
Revaluation	(394 066)	-	-	-	-	-	(394 066)
<b>Balance as at 1 January 2017</b>	<b>0</b>	<b>158 217</b>	<b>871 003</b>	<b>142 323</b>	<b>-</b>	<b>3 207</b>	<b>1 174 751</b>
<b>Carrying value</b>							
<b>As at 1 January 2017</b>	<b>886 480</b>	<b>16 114</b>	<b>542 250</b>	<b>529 612</b>	<b>278</b>	<b>200 913</b>	<b>2 175 647</b>

The following table provides information on the structure of fixed assets, intangible assets, inventories and long term assets held-for-sale as at 1 January 2016 and 1 January 2015, as well as changes in the cost of the assets in 2015:

RUB'000	Land and buildings	Leased fixed assets	Vehicles, equipment, investments in construction and purchase of fixed assets	Intangible assets, investments in purchase of intangible asset	Inventories	Long term assets held-for-sale *	Total
<b>Cost/ Current (replacement) value</b>							
Balance as at 1 January 2015	435 276	952 034	1 337 296	124 119	5 102	299 974	3 153 801
Additions	-	-	106 612	12 721	45 745	468 063	633 141
Disposals	-	(371 846)	(193 552)	-	(49 634)	(352 023)	(967 055)
Revaluation	573 744	-	-	-	-	-	573 744
<b>Balance as at 1 January 2016</b>	<b>1 009 020</b>	<b>580 188</b>	<b>1 250 356</b>	<b>136 840</b>	<b>1 213</b>	<b>416 014</b>	<b>3 393 631</b>
<b>Depreciation and impairment losses</b>							
Balance as at 1 January 2015	139 974	861 932	894 092	43 572	-	27 824	1 967 394
Depreciation charged for the year	14 564	63 240	119 806	17 839	-	-	215 449
Impairment losses	-	(13 447)	-	-	-	50 491	37 044
Disposals	-	(369 659)	(79 099)	-	-	-	(448 758)
Revaluation	206 125	-	-	-	-	-	206 125
<b>Balance as at 1 January 2016</b>	<b>360 663</b>	<b>542 066</b>	<b>934 799</b>	<b>61 411</b>	<b>-</b>	<b>78 315</b>	<b>1 977 254</b>
<b>Carrying value</b>							
<b>as at 1 January 2016</b>	<b>648 357</b>	<b>38 122</b>	<b>315 557</b>	<b>75 429</b>	<b>1 213</b>	<b>337 699</b>	<b>1 416 377</b>

\*Property temporarily not used in current activities in amount of RUB 28 678 thousand is included in that caption, which is included in Balance Sheet (form 0409806) in «Other assets» caption.

As at 1 January 2017, the following buildings were revalued:

- non-residential building with a total area of 2 998.7 sq.m. with a land plot of 1 050 sq.m, where the Bank holds title to the building with a right to lease the land plot for a term of 49 years located at: 2 Petroverigskiy alley, Moscow (the "Object 1");
- premises with a total area of 742.9 sq.m. owned by the Bank in a building located at: room P11, 46, Ulyanova street, Nizhny Novgorod, Nizhny Novgorod region (the "Object 2").

Market value was determined for revaluation purposes.

The calculation of the market value of the rights of the ownership of the non-residential building was carried out using comparative and income approaches by the specialists of the Bank.

Comparative approach (the method of sales comparison) determines the value of the object or the rental rate for it based on the analysis of recent transactions with comparable property objects, which are similar to the estimated object, have similar size, location, usage and other features. This approach to the valuation of property or rents suggests the market to set the price or the rents for the assessed object in the same way as for comparable, competitive objects.

Property objects having the same market segment with the property object subject to valuation and comparable with it based on pricing factors were selected as similar property objects. The value of 1 square meter of premises was selected as a specific indicator. The Bank selects the following pricing factors: whether buildings (premises), forming part of the property object, have a land plot, location, location towards traffic area and public space, total area of buildings (premises), number of floors, condition of buildings (premises), function of buildings (premises). Value of corrections made to the value of specific indicator of similar objects is an estimated value or added in accordance with analytical data. Number of corrections which value was determined by expertise is minimal.

The income approach assumes the price of the property at the date of valuation to be the present value of net income, which the owner can obtain in the future during the operating period and for the sale of the property. Direct capitalization approach as used while carrying out the income approach. Capitalization of income is a method based on the definition of net operating income per year of ownership, which is multiplied by the appropriate capitalization rate. In the valuation process the capitalization rate of 9% for Object 1 and 11,04% for Object 2 was used.

The rental rate was determined using an analysis of comparable sales. Property objects having the same market segment with the property object subject to valuation and comparable with it based on pricing factors were selected as similar property objects. The rental rate per square meter of buildings (premises) was selected as a specific indicator. The pricing factors are similar to those factors used in determining market value using comparative approach. Rate of underutilization, operating expenses, capitalization rate are accepted in accordance with analytical materials (i.e. prepared by leading international consulting companies). Calculation of provision for replacement was performed using compound interest formula "Sinking fund factor".

Reconciliation of results of market value assessment obtained using valuation methods was performed using criteria-matching method. Valuation methods and approaches listed above comply with current legislation on valuation activities in the Russian Federation and the requirements of IFRS 13.

Information on sensitivity of market value to changes in capitalization rates and rental rates are presented below.

For object 1. In case of decrease in capitalization rate by 1% and increase in rental rate used in calculations by 10%, the value estimated using income approach will increase by 23%. In case of increase in capitalization rate by 1% and decrease in rental rate used in calculations by 10%, the value estimated using income approach will decrease by 19%.

For object 2. In case of decrease in capitalization rate by 1% and increase in rental rate used in calculations by 10%, the value estimated using income approach will increase by 5%. In case of increase in capitalization rate by 1% and decrease in rental rate used in calculations by 10%, the value estimated using income approach will decrease by 4%.

For revaluation of long term assets held-for-sale the Bank uses comparative approach, applying relevant

adjustments to analogues.

#### 4.7. Other assets

	1 January 2017 RUB'000	1 January 2016 RUB'000
Accrued interest	420 824	765 098
Leasing receivables	40 923	340 900
Settlements with currency and stock exchanges	-	1 195 458
Other accounts receivable	601 194	174 611
Impairment allowance	(268 734)	(782 397)
<b>Total other financial assets</b>	<b>794 207</b>	<b>1 693 670</b>
Advance payments	249 738	253 970
Materials and bills payable	81 071	299 814
Other	162 254	289 383
Impairment allowance	(151 154)	(259 287)
<b>Total other non-financial assets</b>	<b>341 909</b>	<b>583 880</b>
<b>Total other assets</b>	<b>1 136 116</b>	<b>2 277 550</b>

Information on changes of other assets as the result of their impairment during the 2016 is as follows:

	Other financial assets, RUB'000	Other non-financial assets, RUB'000	Total, RUB'000
Impairment allowance	782 397	259 287	1 041 684
Net charge	(507 160)	(94 964)	(602 124)
Write-offs	(6 503)	(13 169)	(19 672)
<b>Balance at the end of the year</b>	<b>268 734</b>	<b>151 154</b>	<b>419 888</b>

Other financial assets provision reversal incurred due to financial leasing claims cession, the result of that operation was the reversal of provision under assets, under which claims in amount of RUB 402 756 thousand were transferred under contracts signed in accordance with current legislation - Note 11.2.

Information on changes of other assets as the result of their impairment in 2015 as follows:

	Other financial assets, RUB'000	Other non-financial assets, RUB'000	Total, RUB'000
Impairment allowance	453 234	261 278	714 512
Net charge	353 742	7 964	361 706
Write-offs	(24 579)	(9 955)	(34 534)
<b>Balance at the end of the year</b>	<b>782 397</b>	<b>259 287</b>	<b>1 041 684</b>

Included in the amount of other assets are the following long term receivables, redemption and payment of which is expected during the period more than 12 months since the reporting date:

	<b>1 January 2017</b> <b>RUB'000</b>	<b>1 January 2016</b> <b>RUB'000</b>
Accrued interest	55 683	196 615
Deferred expenses	7 331	29
Settlements with suppliers	17 874	17 172
Settlements with other debtors	54	-
Settlements with non-residents		103
Provision for possible losses	(27 509)	(98 308)
	<u>53 433</u>	<u>115 611</u>

#### 4.8 Amounts due to credit institutions

	<b>1 January 2017</b> <b>RUB'000</b>	<b>1 January 2016</b> <b>RUB'000</b>
Loro accounts	2 088 302	87 255
Interbank loans and deposits	7 077 043	21 25 923
	<u><b>9 165 345</b></u>	<u><b>22 013 178</b></u>

#### 4.9 Customer accounts (non-credit institutions)

	<b>1 January 2017</b> <b>RUB'000</b>	<b>1 January 2016</b> <b>RUB'000</b>
<b>Current accounts and demand deposits</b>	<b>11 842 555</b>	<b>16 252 373</b>
- Individuals and individual entrepreneurs	2 480 163	2 356 724
- Legal entities	9 362 392	13 895 649
<b>Term deposits</b>	<b>15 920 595</b>	<b>12 373 229</b>
- Individuals and individual entrepreneurs	7 901 396	7 862 275
- Legal entities	8 019 199	4 510 954
	<u><b>27 763 150</b></u>	<u><b>28 625 602</b></u>

The following table provides an analysis of customers that are legal entities other than credit institutions, by economic sectors and types of business:

	<b>1 January 2017</b> <b>RUB'000</b>	<b>1 January 2016</b> <b>RUB'000</b>
Mining	5 360 898	174 913
Wholesale and retail trade	4 479 030	3 585 141
Manufacturing	1 473 388	2 110 090
Construction	781 925	4 898 768
Real estate	895 861	372 458
Transport and communication	736 181	721 573
Financial activity	619 975	1 109 910
Agriculture, forestry and timber	68 577	51 579
Electricity, gas and water production	45 539	1 506 766
Other	2 920 217	3 875 405
	<b>17 381 591</b>	<b>18 406 603</b>

As at 1 January 2017, the Bank has 10 largest creditors (depositors) or related group of creditors (depositors) other than credit institutions with balances higher than RUB 186 004 thousand (1 January 2016: higher than RUB 236 770 thousand). The total amount of the Bank's liabilities to these creditors (depositors) equals to RUB 8 435 822 thousand, or 30.38% of the total amounts due to customers, other than credit institutions (1 January 2016: RUB 10 587 231 thousand, or 36.99%).

As at 1 January 2017 term deposits include deposits of individuals in the amount of RUB 7 709 771 thousand (1 January 2016: RUB 7 715 846 thousand). According to Civil Code, the Bank must repay the sum of deposits of individuals by request. In case the deposit is repaid before the expiry date, interest is payable at interest rate for demand deposits of the Bank, unless the contract provides for a different interest rate.

#### **4.10. Financial liabilities at fair value through profit or loss**

Financial liabilities at fair value through profit or loss represent the fair value of derivative financial instruments with underlying assets in a foreign currency or the RUB, concluded on the over-the-counter market.

	<b>1 January 2017</b> <b>RUB'000</b>	<b>1 January 2016</b> <b>RUB'000</b>
Derivative financial instruments	-	599
	-	<b>599</b>

An analysis of derivative financial instruments by underlying asset and by type of financial instruments can be represented as follows:

	<b>1 January 2016</b> <b>RUB'000</b>	<b>1 January 2015</b> <b>RUB'000</b>
<b>Forwards:</b>		
- foreign currency	-	599
	-	<b>599</b>

#### 4.11. Debt securities issued

	1 January 2017 RUB'000	1 January 2016 RUB'000
<b>Bonds</b>	4 817 151	5 000 000
	<b>4 817 151</b>	<b>5 000 000</b>

Information on debt securities issued, including issue and maturity dates and interest rates, is presented below:

Security issue	Registration No.	Interest rate, %	Issue date	Maturity date	Issue amount, RUB'000	
					1 January 2017	1 January 2016
Banca Intesa-1bob	4B020302216B	10.55	10.06.2015	10.06.2018	1 817 151	5 000 000
Banca Intesa-001P-0R	4B020102216B001P	9.75	13.10.2016	10.10.2019	3 000 000	-

#### 4.12. Authorized capital of the Bank

The authorized, issued and outstanding share capital comprises 876 128 ordinary shares (1 January 2016: 876 128). All shares have a nominal value of RUB 12 350.

The holder of ordinary shares is entitled to receive dividends as declared from time to time and is entitled to one vote per share at annual and general shareholders' meetings of the Bank.



#### 4.13. Other liabilities

	1 January 2017 RUB'000	1 January 2016 RUB'000
Liabilities on interest and coupon payments	503 122	430 075
Other accounts payable	133 928	693 862
<b>Total other financial liabilities</b>	<b>637 050</b>	<b>1 123 937</b>
Settlements with other creditors	152 223	131 747
Payables for other taxes	17 952	15 534
Provisions on non-credit related commitments	18 109	31 537
<b>Total other non-financial liabilities</b>	<b>188 284</b>	<b>178 818</b>
	<b>825 334</b>	<b>1 302 755</b>

### 5. Notes to the statement of financial performance (published form)

#### 5.1. Impairment losses and recoveries

Information on impairment losses and recoveries by type of assets for 2016 is provided below:

RUB'000	Loan and equivalent debts	Securities available-for-sale	Other assets	Other provisions	Total
Provision for possible losses at the beginning of the year	8 165 581	3 112	1 143 771	102 587	9 415 051
Net provision charge (recovery)	(465 430)	-	(700 031)	(5 630)	(1 171 091)
Write-offs	(33 297)	-	(20 511)	(3 421)	(57 229)
<b>Provision for possible losses at the end of the year</b>	<b>7 666 854</b>	<b>3 112</b>	<b>423 229</b>	<b>93 536</b>	<b>8 186 731</b>

Information on impairment losses and recoveries per type of assets for 2015 is provided below:

RUB'000	Loan and equivalent debts	Securities available-for-sale	Other assets	Other provisions	Total
Provision for possible losses at the beginning of the year	6 283 487	3 117	779 556	112 277	7 178 437
Net impairment charge (recovery)	2 022 496	(5)	398 749	(6 675)	2 414 565
Write-offs	(140 402)	-	(34 534)	(3 015)	(177 951)
<b>Provision for possible losses at the end of the year</b>	<b>8 165 581</b>	<b>3 112</b>	<b>1 143 771</b>	<b>102 587</b>	<b>9 415 051</b>

## 5.2. Net income from foreign exchange operations, revaluation of assets and liabilities in foreign currencies, operations with financial assets at fair value through profit or loss

	2016 RUB'000	2015 RUB'000
Net income from financial assets at fair value through profit or loss	842 154	(1 539 552)
Net income from operations with foreign currency	(90 752)	680 865
Net income from revaluation of assets and liabilities in foreign currency	(823 378)	1 443 814
	<b>(71 976)</b>	<b>585 127</b>

## 5.3. Taxes

Information about the key components of the Bank's tax expenses is provided below:

	2016 RUB'000	2015 RUB'000
<b>Income tax</b>	<b>41 387</b>	<b>25 967</b>
<b>Other taxes, including:</b>	<b>178 785</b>	<b>176 217</b>
VAT	158 331	157 962
Property tax	12 548	8 827
Land tax	2 920	825
Transport tax	119	157
Other taxes	4 867	8 446
<b>Deferred income tax</b>	<b>(80 043)</b>	<b>(265 048)</b>
	<b>140 129</b>	<b>(62 864)</b>

Information about the key components of current income tax expenses is presented below:

	2016 RUB'000	2015 RUB'000
Current income tax calculated at the rate of 20%	-	-
Current income tax calculated at the rate of 15%	41 285	25 398
Current income tax calculated at the rate of 10%	102	569
	<b>41 387</b>	<b>25 967</b>

Information on income tax expense (profit) in terms of current and deferred tax is provided below:

	2016 RUB'000	2015 RUB'000
Expense on current income tax	41 387	25 967
Change in deferred tax	(80 043)	(265 048)
<b>Total profit for income tax</b>	<b>(38 656)</b>	<b>(239 081)</b>

During the 2016, the tax rate for current income tax was 20% (2015: 20%).

## Deffered tax assets and deffered tax liabilities

As at 1 January 2017 the Bank recognizes deffered tax asset on tax losses transferred to future periods in amount of RUB 477 518 thousand (as at 1 January 2016: RUB 397 475 thousand). Based on the business plan and future cash flow analysis, as well as taking into consideration the fact that since 1 January 2017 tax losses carried forward and not utilized in the current period can be transferred to future periods without timing restrictions, the Bank assumes, that deffered tax asset will be utilized in full. During the period from 1 January 2017 to 31 December 2020 tax base on profit tax can not be reduced by means of offestting of previous period's tax losses transferred to future by more than 50%.

As at 1 January 2017 due to fixed assets revaluation the Bank recognizes deffered tax liability in amount of RUB 128 993 thousand(1 January 2016: RUB 73 524 thousand)

## 5.4. Employee compensation

The total amount of salaries and benefits included in the item "Operating expenses" of the Income statement for 2016 and 2015 can be presented as follows.

	2016 RUB'000	2015 RUB'000
<b>Short-term benefits:</b>	<b>1 856 978</b>	<b>1 784 295</b>
Employees' salaries and wages	1 409 693	1 403 502
Taxes and deductions on salaries and wages	362 552	353 214
Other short-term benefits of employees	84 733	27 579

Long term benefits limited with fixed payments for 2016 equals to RUB 865 thousand. There are no long term benefits for 2015.

## 6. Notes to the statement on capital adequacy for risk coverage, amounts of provisions for possible loan losses and other assets (published form)

The CBR sets and controls compliance with the requirements for the Bank's equity (capital) adequacy ratio.

The Bank measures its equity (capital) in accordance with the Bank of Russia Instruction № 254-P, the Bank of Russia Instruction № 283-P, the Bank of Russia Instruction dated 3 November 2009 № 346-P "On the procedure for calculating the amount of operational risk", the Bank of Russia Instruction dated 3 December 2015 № 511-P "On the procedure for credit institutions to calculate market risk", Bank of Russia Instruction dated 2 December 2012 No. 139-I "On mandatory ratios of banks" (the "Bank of Russia Instruction No. 139-I"), due to the fact that the amount of total assets of the Bank is less than RUB 500 billion and these methods cover all credit, market and operating risk factors specific for the Bank's operations.

As at 1 January 2017 and 1 January 2016 the Bank meets the equity (capital) adequacy ratios.

Information on terms and issue dates of capital instruments included by the Bank in the calculation of equity (capital) in accordance with the Bank of Russia Instruction dated 28 December 2012 № 395-P "On the methodology for calculation of equity (capital) of credit institutions ("Base III)" ("Bank of Russia Instruction № 395-P ") as at 1 January 2017 is presented in the Section 5 of the Statement on capital adequacy, amounts of provisions on possible losses on loans and other assets (published form).

As at 1 January 2017 and 1 January 2016 for the purposes of calculation of equity (capital) amounts other than amounts included in the lines 4, 16, 17, 18 of the Statement of financial performance (published form) (refer to Note 5.1.) are not included in the expenses on provisions for possible losses and recovery of income on them recognized during 2016 and 2015.

The Bank's equity (capital) in accordance with the Bank of Russia Instruction No. 395-P is broken down as follows:

	1 January 2017 RUB'000	1 January 2016 RUB'000
<b>Main capital</b>	<b>10 000 604</b>	<b>10 592 866</b>
Base capital	10 000 604	10 592 866
Capital surplus	-	-
<b>Additional capital</b>	<b>2 712 747</b>	<b>2 915 308</b>
<b>Total capital</b>	<b>12 713 351</b>	<b>13 508 174</b>
<b>Risk-weighted assets (for equity capital adequacy ratio H1.0)</b>	<b>63 341 350</b>	<b>76 462 514</b>
<b>Risk-weighted assets (for base capital adequacy ratio H1.1 and main capital adequacy H1.2)</b>	<b>63 054 879</b>	<b>76 462 514</b>
<b>Equity capital adequacy ratio N1.0 (%)</b>	<b>20,07</b>	<b>17,67</b>
<b>Base capital adequacy ratio N1.1 (%)</b>	<b>15,86</b>	<b>13,85</b>
<b>Main capital adequacy ratio N1.2 (%)</b>	<b>15,86</b>	<b>13,85</b>

Included in the amount of additional capital of the Bank is subordinated loan in the amount of RUB 2 426 276 thousand (1 January 2016: RUB 2 915 308 thousand) with maturity on 30 December 2022 (1 January 2016: maturity on 30 December 2022), calculated in accordance with the requirements of the Bank of Russia Instruction № 395-P for subordinated loans included in the Bank's additional capital.

Notes to the Section "Information on capital adequacy" of the Statement on capital adequacy, including information from the balance sheet, which was the source for their preparation as at 1 January 2017, are provided below:

No.	Balance sheet			Statement on capital adequacy (Section 1)		
	Item	Raw number	As at the reporting date	Item	Raw number	As at the reporting date
1	Shareholders' (participants') equity, total, including:	24	10 820 181	X	X	X
1.1	Sources of base capital	X	10 820 181	Shareholders' (participants') equity and share premium	1	10 820 181
2	Customer accounts (non-credit institutions), total, including:	15, 16	36 928 495	X	X	X
2.1	Subordinated loans included in the additional capital	X	X	Sources of additional capital and share premium, total, including that formed by:	46	2 712 747
2.1.1			2 426 276	Subordinated loan	X	2 426 276
3	Fixed assets, intangible assets and inventories, total, including:	10	1 974 734	X	X	X
3.1	Intangible assets decreasing sources of base capital, total, including that formed by:	X	529 612	X	X	X
3.1.1	Other intangible assets	X	529 612	Intangible assets	9,	529 612

	(except for goodwill) net of deferred tax liability			(except for goodwill and rights to services mortgage loans) net of deferred tax liability	41.1.1	
4	Deferred tax asset, total, including:	9	477 520	X	X	X
4.1	Deferred tax asset, depending on future profits	X	477 518	Deferred tax asset, depending on future profits	10	205 841
5	Deferred tax liability	20	134 452	X	X	X
6	Net investments in securities and other financial assets available-for-sale, total, including:	6	3 538 812	X	X	X
6.1	Investments in subsidiaries and affiliates	6.1	3 000	Shares (interests) in subsidiaries and affiliated financial organizations and credit organizations-residents	41.1.3	1 200
7	Reserve fund	27	260 927	Reserve fund	3	260 927
8	Retained earnings (accumulated losses) of prior years	33	43 733	Retained earnings (losses) of prior years	2.1	43 733
9	Retained profit (loss) for the reporting period	34	-326 306	Retained earnings (losses) for the reporting period	2.2	-387 584

Except for balance sheet items listed above (published form) "Fixed and intangible assets revaluation reduced by deferred tax liability" caption is the source of additional capital in amount of RUB 286 471 thousand.

Information about the key instruments of the Bank's capital is presented below:

	<b>1 January 2017</b>	<b>1 January 2016</b>
	<b>RUB'000</b>	<b>RUB'000</b>
<b>Total equity capital, including:</b>	<b>12 713 351</b>	<b>13 508 174</b>
<i>Main capital</i>	<i>10 000 604</i>	<i>10 592 866</i>
<i>Base capital including:</i>	<i>10 000 604</i>	<i>10 592 866</i>
Authorized capital	10 820 181	10 820 181
Part of the reserve fund formed from profit of prior years	260 927	260 927
Profit of prior years (audited)	43 733	977 285
<i>Indicators reducing the aggregate of base capital sources, including:</i>	<i>1 124 237</i>	<i>1 465 527</i>
Intangible assets	529 612	62 708
Deferred tax assets	205 841	125 533
Current year loss	387 584	1 275 486
Investments in shares of subsidiaries and affiliates	1 200	1 800
<i>Capital surplus</i>	<i>-</i>	<i>-</i>
<i>Additional capital including:</i>	<i>2 712 747</i>	<i>2 915 308</i>
Assets revaluation surplus	286 471	
Subordinated loan at amortised cost	2 426 276	2 915 308
	<b>12 713 351</b>	<b>13 508 174</b>

## 7. Notes to the information on mandatory ratios and financial leverage and short-term liquidity ratios (published form)

As at 1 January 2017 and 1 January 2016 the values of the financial leverage and its components in accordance with the requirements of the Bank of Russia Instruction dated 12 November 2009 № 2332-U “On the list, forms of and procedure for compiling and submitting by credit institutions reporting forms and statements to the Central Bank of the Russian Federation” are presented as follows:

	1 January 2017 RUB'000	1 January 2016 RUB'000
Main capital	10 000 604	10 592 866
Amount of balance sheet assets and off-balance sheet claims at risk for calculating financial leverage	65 413 161	79 725 370
<b>Financial leverage according to Basel III, %</b>	<b>15,29</b>	<b>13,29</b>

The main reasons for the significant difference between the amount of assets identified for the calculation of capital adequacy and balance sheet value of assets used to calculate the index of financial leverage are as follows:

- the collateral and other instruments of decreasing credit risk level are not used to decrease carrying value of assets;
- credit related commitments are included in the calculation at nominal value, credit related commitments with provided agreement on unconditional unilateral renouncement of Bank to perform obligation without prior notification of the counterparty, included in calculation at liability value, discounted by a factor of 0.1.

## 8. Notes to the cash flow statement (published form)

Credit institutions must place an interest-free cash deposit (mandatory reserves) in the Central Bank of the Russian Federation. The amount of such a deposit depends on volume of funds attracted by a credit institution. Reserve requirements are applied in order to regulate overall liquidity of the banking system of the Russian Federation and to control monetary aggregates by means of lowering of monetary multiplier. The mandatory reserves are not to be used for the Bank's day-to-day operations thus they are not included in the amount of cash and cash equivalents for the purpose of the cash flow statement.

The Bank performs its activity on the territory of the Russian Federation and has no branches and representative offices in other countries. The bank does not disclose information about cash flow on geographical criteria because it has only one geographical area.

Almost all activities of the Bank relate to financial services rendered mostly to corporate clients (SME and large enterprises). The Bank does not disclose information on cash flow in terms of segments, as it has only one reportable segment.

## 9. Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal market, or, if no principal market exists, the most advantageous market to which the Bank has access as at that date.

To the extent possible, the Bank estimates the fair value of an instrument using active market quotations for the instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to obtain quotations on a regular basis. If current quotations are not available in an active market, the Bank employs valuation methods that use inputs observed in the market to the maximum extent and inputs not observed in the market to the minimum extent. The selected valuation methods include all factors that market participants would take into consideration in pricing.

However, given the uncertainty and use of subjective judgments, fair value should not be interpreted as being realizable in an immediate sale of assets or transfer of liabilities.

The Bank measures the following assets at fair value:

- securities available-for-sale;

- derivative financial instruments.
- fixed assets (buildings) and long term assets available for sale.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Bank determines fair values using other valuation techniques.

The Bank employs widely accepted valuation models for determining the fair value of standard and plain financial instruments, such as currency swaps, based on public market data only; no judgments or estimates by management are required. Observable prices and model initial data are usually available in the market for listed debt and equity securities, exchange-traded derivatives, and simple over-the-counter tools such as interest rate and currency swaps.

The Bank uses its own valuation models for more complex instruments. Some or all of the significant data used for such models may not be observable market inputs and are derived from market prices or rates or formed based on judgments.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market-observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premium used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity index prices and expected price volatilities and correlations.

During 2016, fair value valuation models did not change.

#### **Fair value hierarchy**

The Bank measures fair values using the following fair value hierarchy which reflects the significance of the inputs used in making the measurements.

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

The table below analyses the assets and liabilities measured at fair value at 1 January 2017, by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognized in the “Balance sheet” (published form).

<b>RUB'000</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets and liabilities</b>				
Derivative financial instruments – liabilities				
- assets	-	1 545	-	1 545
- liabilities	-	-	-	-
Financial assets available-for-sale:				
Securities	3 535 812	-	-	3 535 812
<b>Non-financial assets</b>				
Fixed assets (buildings) and long term assets available for sale	-	-	1 087 393	1 087 393
	<b>3 535 812</b>	<b>1 545</b>	<b>1 087 393</b>	<b>4 624 750</b>

The table below analyzes the assets and liabilities measured at fair value at 1 January 2016, by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognized in the “Balance sheet (published form)”.

<b>RUB'000</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets and liabilities</b>				
Derivative financial instruments	-	-	-	-
- assets	-	-	-	-
- liabilities	-	599	-	599
Financial assets available-for-sale:				
Debt securities	2 581 354	-	-	2 581 354
	<b>2 581 354</b>	<b>599</b>	<b>-</b>	<b>581 953</b>

## 10. Corporate governance and internal control system

### Corporate governance structure

The Bank is established as a joint-stock company in accordance with the Russian law. The supreme governing body of the Bank is the general meeting of shareholders that convenes for annual or extraordinary meetings. The general meeting of shareholders makes strategic decisions on the Bank’s operations.

The general meeting of shareholders elects the Board of Directors. The Board of Directors is responsible for overall governance of the Bank’s activities.

The law of the Russian Federation and the Charter of the Bank define decisions which should be made exclusively by the general meeting of shareholders and the decisions which are made by the Board of Directors.

As at 1 January 2017, the Board of Directors of the Bank is as follows:

- Fallico Antonino - Chairman of the Board of Directors;
- Catalano Salvatore - Member of the Board of Directors;
- Armando Selva - Member of the Board of Directors;
- Strano Rosario - Member of the Board of Directors;



- Ambrogi Walter - Member of the Board of Directors;
- Mascetti Andrea - Member of the Board of Directors;
- Leoncini Bartoli Luca - Member of the Board of Directors;
- Velle Christophe - Member of the Board of Directors;
- Ponti Giulio - Member of the Board of Directors.

In 2016 there were no changes in the membership of the Board of Directors:

General activities of the Bank are managed by the sole executive body of the Bank - the Chairman of the Management Board and the collective executive body – the Management Board of the Bank. The Board of Directors meeting elects the Chairman of the Management Board. The executive bodies of the Bank are responsible for implementation of decisions of the general meeting of shareholders and the Board of Directors of the Bank. Executive bodies of the Bank report to the Board of Directors of the Bank and to the general meeting of shareholders.

The current sole executive body of the credit institution is Corrias Gianluca.

As at 1 January 2017, the Management Board is as follows:

- Corrias Gianluca - Chairman of the Management Board;
- Lein Olga Vadimovna – Member of the Management Board/ Deputy Chairman of the Management Board;
- Pavlycheva Tatiana Yurievna - Member of the Management Board;
- Nazarov Mikhail Anatolievich - Member of the Management Board;
- Vasina Irina Vladimirovna - Member of the Management Board;
- Dzhus Oleg Ivanovich - Member of the Management Board;
- Grimailo Elena Eduardovna - Member of the Management Board.

In 2016, the following changes took place in the membership of the Management Board:

Grimailo Elena Eduardovna joined the Management Board.

### **Internal control policies and procedures**

The Board of Directors and the Management Board have responsibility for the development, implementation and maintaining of internal control in the Group that correspond the scale and nature of operations.

The purpose of internal control is to ensure:

- proper and comprehensive risk assessment and management;
- proper business, accounting and financial reporting functions, including proper authorization, processing and recording of transactions;
- completeness, accuracy and timeliness of accounting records, managerial information, regulatory reports, etc.;
- reliability of IT systems, data and systems integrity and protection;
- prevention of fraudulent or illegal activities, including misappropriation of assets;
- compliance with laws and regulations.

Management is responsible for identifying and assessing risks, designing controls and monitoring their effectiveness. Management constantly monitors effectiveness of its internal controls and introduces additional controls or amendments/changes to existing controls if necessary.

The Bank developed a system of standards, policies and procedures to ensure effective operations and compliance with relevant legal and regulatory requirements, including the following areas:

- requirements for appropriate segregation of duties, including the independent authorization of transactions;
- requirements for the recording, reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documenting of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;

- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation, including insurance where this is effective.

There is a hierarchy of requirements for authorization of transactions depending on their size and complexity. A significant portion of operations are automated and the Bank put in place a system of automated controls.

Compliance with standards is supported by periodic reviews undertaken by the Internal Audit function which functions performs Internal Audit Department. The Internal Audit Department is independent from business operations and reports directly to the Board of Directors. Results of the Internal Audit Department reviews are discussed with relevant business process managers, with summaries submitted to the Management Board, the Audit Committee and the Board of Directors.

Internal control is carried out in accordance with the law of the Russian Federation, authority as defined by the Charter and internal documents of the Bank:

- management bodies of the Bank according to the Charter (General Shareholders' Meeting, Board of Directors, Management Board, Chairman of the Management Board);
- the Revision commission (Controller);
- the Chief Accountant (deputies) of the Bank;
- the Head (deputies) and Chief Accountant (deputies) of the Bank's branches;
- departments and employees that are responsible for internal control in accordance with the terms of reference defined in the internal documents of the Bank, including, but not limited to:
  - the Audit Committee of the Bank;
  - the Internal Audit Division;
  - the Internal Control function;
  - the compliance officer and the relevant compliance function responsible for anti-money laundering procedures and financing of terrorism prevention;
  - the Risk Management department;
  - departments responsible for the methodology and control of management and financial statements;
  - professional securities market participant controller;
  - other divisions and (or) responsible officers of the Bank as defined by internal documents of the Bank, according to the requirements of the laws of the Russian Federation and the Bank of Russia.

The main functions of Internal Audit Department are mentioned below:

- audit and assessment of efficiency (monitoring) of the internal control system as a whole, the implementation of decisions made by the Bank's management bodies, including the General shareholders' meeting, Board of Directors and executive bodies of the Bank;
- audit of efficiency of methodology of assessment of banking risks and risk management procedures, regulated by internal documents in credit organization (methods, programs, rules and procedures for banking operations and transactions, and for the management of banking risks);
- checking the reliability of the system of internal control over the use of automated information systems, including control of the integrity of databases and their protection against unauthorized access and use, considering the contingency measures taken in accordance with the action plan designed to ensure continuity and/or recovery of the Bank's business in case of emergency;
- checking and testing the accounting processes and statements for accuracy, completeness, objectivity and timeliness, as well as the reliability (including accuracy, completeness and objectivity) of collection and submission of information and reports;
- checking the ways (methods) used to ensure the safety of the Bank's property;
- assessing economic feasibility and efficiency of transactions performed by the Bank;
- checking internal control processes and procedures;
- audit of the activities of the Internal Control function and Risk Management department;
- other functions according to the aims and purposes of the Internal Audit Department's activities.

The main functions of the Internal Control function are mentioned below:

- identification of compliance risks and regulatory risks;
- keeping record of events related to regulatory risk, assessment of their probability and quantitative estimation of their possible consequences;
- monitoring of regulatory risk;
- preparation of recommendations on regulatory risk management;
- coordination and participation of design of measures to decrease regulatory risk;
- monitoring of efficiency of regulatory risk management;
- participation in preparation of internal documents on regulatory risk management, anti-corruption, compliance with corporate behavior rules, code of professional ethics and minimization of conflicts of interest;
- identification of conflicts of interest in the activities of the Bank and its employees, participation in the development of internal documents aimed at its minimization;
- analysis of dynamics of clients' complaints;
- analysis of economic reasonableness of agreements with suppliers;
- participation in interaction with authorities, self-organized organizations, associations and financial market participants;
- other issues as provided for by internal documents of the Bank.

Russian legislation, including the Federal Law No 395-”, the Bank of Russia Instruction dated 1 April 2014 No 3223-U “On requirement to head of risk management service, head of internal control service, head of internal audit service of the credit organization” establish the professional qualifications, business reputation and other requirements for members of the Board of Directors, the Management Board, heads of Internal Audit Department, Internal Control function and the Risk Management department and other key management personnel”. All members of the Bank’s governing and management bodies meet with these requirements.

Management believes that the Bank complies with the CBR requirements in respect of internal control and risk management systems, including requirements related to the Internal Audit Division, Internal Control function and Risk Management department, and that the internal control system, is appropriate for the scale, nature and complexity of operations.

Bank’s internal documents, which establish the methodology of the identification and management of significant for the Bank credit, operational, market risks, liquidity risk, of the stress tests conduction are approved by the authorized management bodies of the bank in accordance with the requirements and recommendations of the CBR.

The Bank has a reporting system for significant for the Bank credit, operational, market, liquidity risk, as well as for the Bank’s capital (equity).

The frequency and sequence of the reports, prepared by the Risk Management department and Internal Audit department during the 2016 year on the issues of credit, operational, market, interest, legal risks and liquidity risk, were in compliance with the internal documents of the Bank. The reports mentioned above included the results of Risk Management Department’s and Internal Audit Division’s monitoring of the efficiency of the appropriate methodologies in the Bank and the recommendations on their improvement.

The control over the Bank’s compliance with the established by the internal documents of the Bank risk limits and capital adequacy is included into the authority of the Board of Directors and the Management Board. In order to control the effectiveness of risk management procedures used in the Bank and the consistency of their application during 2016 year the Board of Directors and the executive authorities periodically discussed reports prepared by the Risk Management department and the Internal Audit department and considered the proposed measures of the elimination of the deficiencies.

## **11. Information about risks taken by the Bank**

### **11.1. Information about risks taken by the Bank, methods of their identification, measurement, monitoring and control**

During 2016 the Bank changed risk and capital management procedures in order to comply with the Bank of Russia Instruction dated 15 February 2015 No 3624-U "On the requirements to the risk and capital management system of credit organization and banking group" (the "Bank of Russia Instruction No 3624-U").

The Bank established the Internal Capital Adequacy Assessment Process (the "ICAAP"). The ICAAP corresponds to the scale and nature of Bank's operations and risk profile (principle of proportionality).

Major (significant) risks faced by the Bank are those related to credit, market, liquidity risk and operational risks.

The risk management policies aim to identify, analyze and manage the risks faced and to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

Risk management function is aimed at developing and ensuring proper functioning of internal processes and procedures that minimize the Bank's exposure to internal and external risk factors.

The risk and capital management function established by the Bank and internal control systems correspond to the scale and nature of Bank's operations and risk profile.

Risk management is the process of identification, measurement and monitoring of risks faced by the Bank, conducted in accordance with its particular organizational and functional structure and established for the appropriate management of the risk appetite expressed by the shareholders.

The independent risk control process does not cover business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

The Bank has the risk management process to preserve and enhance value for the shareholders by optimizing the overall risk-adjusted return subject to growth constraint and to reduce earnings volatility within the main business areas.

Risk management process is based on the following general principles:

- independence from the business lines;
- entity-wide approach;
- coherence at all aggregation levels through the use of consistent measuring models;
- timing in providing the data to support the decision-making and control processes;
- transparency in assessment methodologies and criteria used for a better understanding of applied risk measures;

These are considered fundamental principles of governance rules with reference to the characteristics of internal management and control systems.

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

#### *Board of Directors*

The Board of Directors is responsible for the overall risk management process and for approving risk strategies and principles, including setting the overall risk framework for limits.

#### *Executive Committee*

The Executive Committee sets general limits on credit risk exposures of the Bank for a single borrower and related group of borrowers and related parties, exceeding the Credit Committee's limits, taking into consideration ISP Group risk framework.

#### *Management Board*

The Management Board members bear responsibility for all risk management establishing and monitoring

processes in every division of the Bank.

#### *Committee on Financial Risk Management*

The Financial Risk Committee is responsible for the protection and allocation of the Bank's equity and assets and liabilities taking into consideration pricing structure and maturity profile as well as the legislation, relevant internal regulations and ISP Group guidelines. It regularly monitors and evaluates the structure of assets and liabilities, compares expected yields with the actual ones, evaluates general market conditions and assesses the Bank versus its competitors. It ensures that individual transactions comply with policies, established risk limits and other requirements set out for each of the business lines in line with the ISP Group policy.

#### *Credit Committee and Asset Quality Committee*

The Credit Committee is the superior credit approval authority in the Bank. It takes credit decisions on proposals made by the Risk Management Department and considers their terms of issuance. For credit exposures above certain limit the final approval has to be provided by the Executive Committee taking into consideration an opinion provided by the Credit Department of ISP Group.

The Asset Quality Committee assesses the quality of the credit portfolio and its trends, approves assets' classification, level of impairment allowance, performs an analysis of settlement strategies for impaired loans, and monitors collection process and its results.

#### *Risk Management Department*

The Risk Management Department is responsible for establishing and maintaining procedures related to risk management, in order to ensure independent monitoring process.

#### *Treasury Department*

The Treasury Department manages the Bank's assets and liabilities, as well as their structure. This division is responsible for the funding and liquidity risk management of the Bank.

#### *Internal Audit Department*

The Internal Audit Department on the regular basis analyzes the risk management processes of the Bank. The frequency and contents of reports prepared by the Internal Audit department, which cover the Bank's credit, operational, market, interest rate, legal, liquidity and reputational risk management, are in compliance with the Bank's internal documentation. The reports include observations as to their assessment by the Internal Audit department of the effectiveness of the methodologies of the Bank as well as recommendations for their improvement developed for the management of the Bank, the Audit Committee and the Board of Directors. The Board of Directors and the Management Board on a regular basis discuss the reports prepared by the Internal Audit department and review the suggested measures to remove deficiencies identified by the Internal Audit department.

The Risk Management department, the Credit Committee, the Asset Quality Committee, the Committee on Financial Risk Management do not report the departments taking the respective risks.

These departments perform analysis of risk management processes on a regular basis. The frequency and consistency of reports prepared by those departments, which cover the Bank's credit, operational, market, interest rate, legal, liquidity and reputational risk management, are in compliance with the Bank's internal documentation. The reports include observations as to their assessment of the effectiveness of the methodologies of the Bank as well as recommendations for their improvement for the management of the Bank, the Audit Committee and the Board of Directors. The Board of Directors and the Management Board on a regular basis discuss the reports prepared by these departments and review the suggested measures to remove deficiencies.

#### *Risk assessment system and reporting*

Monitoring and control of risk is primarily based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk it is willing to accept, with additional emphasis on selected industries. The Bank also monitors and evaluates the readiness to accept the total amount of risk that affects all areas at the Bank.

The Bank maintains a system for reporting on the Bank's significant credit, operational, market, interest rate, legal, liquidity and reputational risks, and on the Bank's capital. The Bank performs analysis and processing of information received from all divisions of the Bank for the purposes of analyzing, controlling and identifying risks. The resulting information is communicated to the members of the Management Board, the Committee on Financial Risk Management and Credit Committee. A report is prepared on a quarterly basis and provides information on the total size of credit risk, predictive parameters of credit risk, exceeding limits, the amount of market risk, liquidity ratios and risk profile changes. The Management Board analyzes reports on risk levels and implements, where appropriate, the redistribution of risk limits to ensure the focused strategic risk profile.

#### *Risk mitigation*

As part of risk management, the Bank uses derivative financial instruments and other tools to manage risks arising from changes in interest rates, exchange rate fluctuations, as well as risks associated with the forecasted transactions.

In order to reduce credit risk, the Bank widely uses collateral for loans.

#### *Risk concentration*

Risk concentration arises when a group of contractors operates in one sphere of activity, one region or such counterparties have similar economic characteristics, whereby the change in the economic or political situation will have the same effect on their ability to fulfil contractual obligations. Risk concentration indicates the relative sensitivity of the Bank's performance to changes affecting a particular industry or geographical location.

In order to avoid high risk concentration, the Bank's policy provides specific techniques and principles of maintaining a diversified portfolio. In case of detection of concentrations of credit risk the Bank carries out appropriate control and management of such concentrations.

### **11.2. Credit risk**

Credit risk is the risk of financial losses arising from the borrower's or counterparty's failure to perform or incomplete performance of its obligations to the Bank.

The Bank has policies and procedures in place to manage assessment of the customer creditworthiness, procedures for making decision on loan issuance and control over timeliness of loan repayment.

The Bank sets internal limits on risk exposure ratio per borrower or group of related borrowers, maximum credit risk exposure, total risk exposure for the Bank's insiders, maximum amount of loans, guarantees and sureties provided by the Bank to its participants (shareholders). These limits are set at the level lower than values of mandatory ratios set by the CBR. Actual compliance with risk exposure limits is managed by the Risk Management Department on a daily basis.

During 2016 and 2015 the mandatory ratios aimed at limitation credit risk exposure were in compliance with limits set by the CBR.

The Bank sets limits on risk concentration per specific customers, counterparties, issuers of securities and group of related borrowers. The credit risk management is performed through regular assessment of the creditworthiness of customers and changing/correction of credit risk limits, if needed.

Information about geographic distribution of credit risk as at 1 January 2017 is provided below. Information for the RF, CIS, GDC and OC is provided separately.

<b>RUB'000</b>	<b>RF</b>	<b>CIS</b>	<b>GDC</b>	<b>OC</b>	<b>Total</b>
Cash	873 624	-	-	-	873 624

Placements of credit institutions with the Central Bank of the Russian Federation including	1 459 800	-	-	-	1 459 800
<i>Obligatory reserves</i>	268 738	-	-	-	268 738
Amounts due to credit institutions	72 735	-	1 886 846	6 180	1 965 761
Financial assets at fair value through profit or loss	1 545	-	-	-	1 545
Net loan receivables	39 107 089	957 637	2 426 465	360	42 491 551
Net investments in securities and other financial assets available-for-sale, including	3 538 812	-	-	-	3 538 812
Investments in subsidiaries and affiliates	3 000	-	-	-	3 000
Other financial assets	1 066 997	1 293	62 537	5 289	1 136 116
	<b>46 120 602</b>	<b>958 930</b>	<b>4 375 848</b>	<b>11 829</b>	<b>51 467 209</b>

Information about geographic distribution of credit risk as at 1 January 2016 is provided below. Information for the RF, CIS, GDC and OC is provided separately.

<b>RUB'000</b>	<b>RF</b>	<b>CIS</b>	<b>GDC</b>	<b>OC</b>	<b>Total</b>
Cash	949 676	-	-	-	949 676
Placements of credit institutions with the Central Bank of the Russian Federation, including	845 729	-	-	-	845 729
<i>Obligatory reserves</i>	193 955	-	-	-	193 955
Amounts due to credit institutions	48 482	-	7 528 260	6 730	7 583 472
Net loan receivables	49 739 473	1 594 165	1 094 769	61 306	52 489 713
Net investments in securities and other financial assets available-for-sale, including	2 588 765	-	-	-	2 588 765
Investments in subsidiaries and affiliates	3 000	-	-	-	3 000
Other financial assets	2 019 332	7 816	179 955	70 447	2 277 550
	<b>56 191 457</b>	<b>1 601 981</b>	<b>8 802 984</b>	<b>138 483</b>	<b>66 734 905</b>

Information on the distribution of credit risk by types of customers as at 1 January 2017 is presented below:

<b>RUB'000</b>	<b>Credit institutions</b>	<b>Legal entities other than credit institutions</b>	<b>Individuals</b>	<b>Other</b>	<b>Total</b>
Cash	-	-	-	873 624	873 624
Placements of credit institutions with the Central Bank of the Russian Federation, including	1 459 800	-	-	-	1 459 800
<i>Mandatory reserves</i>	268 738	-	-	-	268 738
Amounts due to credit institutions	1 965 761	-	-	-	1 965 761
Net loan receivables	12 233 802	28 621 524	1 636 225	-	42 491 551
Net investments in securities and other financial assets available-for-sale, including	-	3 538 812	-	-	3 538 812
<i>Investments in subsidiaries and affiliates</i>	-	3 000	-	-	3 000
Other assets	19 735	1 087 394	24 733	4 254	1 136 116
	<b>15 679 098</b>	<b>33 247 730</b>	<b>1 660 958</b>	<b>877 878</b>	<b>51 465 664</b>

Information on the distribution of credit risk by types of customers as at 1 January 2016 is presented below:

<b>RUB'000</b>	<b>Credit institutions</b>	<b>Legal entities other than credit institutions</b>	<b>Individuals</b>	<b>Other</b>	<b>Total</b>
Cash	-	-	-	949 676	949 676
Placements of credit institutions with the Central Bank of the Russian Federation, including	845 729	-	-	-	845 729
<i>Mandatory reserves</i>	193 955	-	-	-	193 955
Amounts due to credit institutions	7 583 472	-	-	-	7 583 472
Net loan receivables	8 587 185	41 541 778	2 360 750	-	52 489 713
Net investments in securities and other financial assets available-for-sale, including	-	2 588 765	-	-	2 588 765
<i>Investments in subsidiaries and affiliates</i>	-	3 000	-	-	3 000
Other assets	21 396	2 209 061	14 198	32 895	2 277 550
	<b>17 037 782</b>	<b>46 339 604</b>	<b>2 374 948</b>	<b>32 895</b>	<b>66 734 905</b>

Information about classification of assets by risk group (pursuant to paragraph 2.3 of the Bank of Russia Instruction dated 3 December 2012 No. 139-I "On mandatory ratios of banks") as at 1 January 2017 and as at 1 January 2016 is provided in the Section 2 of the reporting form 0409808 "Statement on capital adequacy, amounts of provisions on possible losses on loans and other assets (published form)".

### Overdue and restructured debt

Loan restructuring is the process as part of which amendments are made (based on the written agreement with the borrower) to the substantial terms and conditions of the initial loan agreement as a result of which the borrower is entitled to fulfill obligations under the loan under more favorable conditions, including:

- increase of the maturity of the debt;
- decrease in interest rates;
- increase in the principal amount;



- changes in the schedule of loan repayment.

As at 1 January 2017 restructured outstanding loans to legal entities (non-credit institutions) are RUB 3 832 381 thousand (loan provision is RUB 2 291 914 thousand), which equals to 10.68% of total outstanding loans to legal entities (non-credit institutions) and 7.08% of total assets of the Bank. As at 1 January 2017 restructured outstanding loans to individuals are RUB 109 234 thousand (loan provision is RUB 101 085 thousand), which equals to 5.33% of total outstanding loans to customers and 0.20% of total assets of the Bank.

As at 1 January 2016, the restructured loans to legal entities other than credit institutions equals to RUB 2 417 617 thousand (the provision for these loans equals to RUB 1 440 347 thousand), which represents 4.93% of the total loans to legal entities other than credit institutions and 3.53% of the Bank's total assets. As at 1 January 2016, the amount of restructured loans to individuals is RUB 166 884 thousand (the provision for these loans amounts to RUB 121 847 thousand), which represents 5.45% of the total loans to individuals and 0.24% of the Bank's total assets.

In 2016, overdue debts in the amount of RUB 16 486 thousand on loans to legal entities and RUB 16 811 thousand on loans to individuals were written off against the provision for possible losses on loans.

In 2015, overdue debts in the amount of RUB 120 244 thousand on loans to legal entities and RUB 20 158 thousand on loans to individuals were written off against the provision for possible losses on loans.

As at 1 January 2017 and 1 January 2016, the Bank doesn't not have restructured debt on other balance sheet captions.

Information on the amount and terms of overdue loans as at 1 January 2017 is presented below:

RUB'000	Loans to legal			Total
	Loans to credit institutions	entities non-credit institutions	Loans to individuals	
<b>Non-overdue receivables</b>	<b>12 233 802</b>	<b>29 888 365</b>	<b>1 746 709</b>	<b>43 868 876</b>
Overdue receivables				
- less than 30 days	-	27 835	1 177	29 012
- between 31 and 90 days	-	185 286	2 145	187 431
- between 91 and 180 days	-	116 366	4 260	120 626
- between 181 and 360 days	-	1 444 987	25 108	1 470 095
- more than 360 days	-	4 210 878	271 487	4 482 365
<b>Total overdue receivables</b>	<b>-</b>	<b>5 985 352</b>	<b>304 177</b>	<b>6 289 529</b>
	<b>12 233 802</b>	<b>35 873 717</b>	<b>2 050 886</b>	<b>50 158 405</b>

As at 1 January 2017 overdue loan debt amounted to 12.54% of the total amount of loan debt and 11.62% of the total amount of assets of the Bank.

Information on the amount and terms of overdue loans as at 1 January 2016 is presented below:

RUB'000	Loans to legal			Total
	Loans to credit institutions	entities non-credit institutions	Loans to individuals	
<b>Non-overdue receivables</b>	<b>8 587 185</b>	<b>42 513 077</b>	<b>2 487 800</b>	<b>53 588 062</b>
Overdue receivables				
- less than 30 days	-	389 945	2 438	392 383
- between 31 and 90 days	-	134 606	4 327	138 933
- between 91 and 180 days	-	714 870	32 685	747 555
- between 181 and 360 days	-	2 311 015	98 269	2 409 284
- more than 360 days	-	2 942 262	436 815	3 379 077
<b>Total overdue receivables</b>	<b>-</b>	<b>6 492 698</b>	<b>574 534</b>	<b>7 067 232</b>
	<b>8 587 185</b>	<b>49 005 775</b>	<b>3 062 334</b>	<b>60 655 294</b>

As at 1 January 2016 overdue loan debt amounted to 11.65% of the total amount of loan debt and 10.35% of the total amount of assets of the Bank.

Information on the size and terms of overdue payment in other assets as at 1 January 2017 is presented below:

<b>RUB'000</b>	<b>Accrued interest income</b>	<b>Other accounts receivable</b>	<b>Total</b>
<b>Non-overdue receivables</b>	<b>319 468</b>	<b>893 640</b>	<b>1 213 108</b>
Overdue receivables			
- less than 30 days	2 771	28 234	31 005
- between 31 and 90 days	4 452	1 630	6 082
- between 91 and 180 days	1 553	4 148	5 701
- between 181 and 360 days	12 836	2 933	15 769
- more than 360 days	79 744	204 595	284 339
<b>Total overdue receivables</b>	<b>101 356</b>	<b>241 540</b>	<b>342 896</b>
	<b>420 824</b>	<b>1 135 180</b>	<b>1 556 004</b>

As at 1 January 2017 overdue debt within other assets amounted to 22.04% of the total amount of other assets and 0.63% of the total amount of assets of the Bank.

Information about the amount of overdue receivables in respect of other assets and overdue time periods as at 1 January 2016 is provided below:

<b>RUB'000</b>	<b>Accrued interest income</b>	<b>Other accounts receivable</b>	<b>Total</b>
<b>Non-overdue receivables</b>	<b>609 349</b>	<b>2 091 592</b>	<b>2 700 941</b>
Overdue receivables			
- less than 30 days	8 975	1 793	10 768
- between 31 and 90 days	5 140	3 551	8 691
- between 91 and 180 days	27 942	4 629	32 571
- between 181 and 360 days	63 739	22 662	86 401
- more than 360 days	49 953	401 231	451 184
<b>Total overdue receivables</b>	<b>155 749</b>	<b>433 866</b>	<b>589 615</b>
	<b>765 098</b>	<b>2 525 458</b>	<b>3 290 556</b>

As at 1 January 2016 overdue debt within other assets amounted to 17.92% of the total amount of other assets and 0.86% of the total amount of assets of the Bank.

The Bank did not have any other overdue receivables in respect of other balance sheet items.

For the purposes of disclosure information on amounts and terms of overdue loans and other assets, the Bank applies days of overdue used for calculation of allowances according to Bank of Russia Instructions No. 254-P and No. 283-P.

### **Information cession deals**

The Bank enters into cession deals in the course of its work with problem debts. Decisions regarding the assignment of claim rights on loans are made for each case individually. A decision is made by an authorized body of the Bank based on an analysis of all possible alternative debt recovery strategies. The main criteria for making a decision to enter into cession deal is minimizing the Bank's losses on the problem asset.

The carrying value of claims assigned in 2016 at the date of assignment and the amount of losses incurred by the Bank in connection with the claim assignment transaction recognized in the Statement of financial performance for 2016, are shown below:

	<b>Carrying value RUB'000</b>	<b>Loss RUB'000</b>
<b>Claim rights assigned, total, including:</b>		
Loans to legal entities	2 003 591	1 782 606
Financial lease	402 756	402 683
<b>Total claims assigned</b>	<b>2 406 347</b>	<b>2 185 289</b>

All claims assigned during the reporting period are classified into V quality category according to the Bank of Russia Instructions No.254-P and No.238-P. The allowance for possible losses at date of assignment is RUB 2 406 347 thousand.

Purchasers of loans in 2016 do not include mortgage agents, specialized companies and persons affiliated with the Bank.

The carrying value of claims assigned in 2015 at the date of assignment and the amount of losses incurred by the Bank in connection with the claim assignment transaction recognized in the Statement of financial performance for 2015, are shown below:

	<b>Carrying value RUB'000</b>	<b>Loss RUB'000</b>
<b>Claim rights assigned, total, including:</b>		
Loans to legal entities	1 454 342	1 403 854
<b>Total claims assigned</b>	<b>1 454 342</b>	<b>1 403 854</b>

All claims assigned during the reporting period were classified into V quality category according to the Bank of Russia Instructions No.254-P and No.238-P. The allowance for possible losses at date of assignment was RUB 1 454 342 thousand.

Purchasers of loans in 2015 did not include mortgage agents, specialized companies and persons affiliated with the Bank.

The following table details the amounts of the estimated and actually formed provision for possible losses as at 1 January 2017:

RUB'000	Carrying value	Quality category					Provision for possible losses							
		I	II	III	IV	V	Estimated provision	Estimated provision including collateral	Actually formed provision				Total	
									II	III	IV	V		
Cash	873 624	-	-	-	-	-	-	-	-	-	-	-	-	-
Amounts due to credit institutions (including funds placed in the CBR)	3 425 561	1 965 761	-	-	-	-	-	-	-	-	-	-	-	-
Loan receivables	50 158 405	25 102 690	14 931 360	2 560 636	946 897	6 616 822	8 170 646	7 666 854	161 616	768 649	431 807	6 304 782	7 666 854	
Net investments in securities and other financial assets available-for-sale	3 538 812	-	-	-	-	-	-	-	-	-	-	-	-	-
Net investments in securities held-to-maturity	3 112	-	-	-	-	3 112	3 112	3 112	-	-	-	3 112	3 112	
Other assets and long term assets held-for-sale	1 760 258	372 157	90 472	178 170	374	397 042	423 229	423 229	1 324	85 196	118	336 591	423 229	
	<b>59 759 772</b>	<b>27 440 608</b>	<b>15 021 832</b>	<b>2 738 806</b>	<b>947 271</b>	<b>7 016 976</b>	<b>8 596 987</b>	<b>8 093 195</b>	<b>162 940</b>	<b>853 845</b>	<b>431 925</b>	<b>6 644 485</b>	<b>8 093 195</b>	

The following table details the amounts of the estimated and actually formed provision for possible losses as at 1 January 2016:

RUB'000	Carrying value	Quality category					Provision for possible losses							
		I	II	III	IV	V	Estimated provision	Estimated provision including collateral	Actually formed provision					
									II	III	IV	V	Total	
Cash	949 676	-	-	-	-	-	-	-	-	-	-	-	-	-
Amounts due to credit institutions (including funds placed in the CBR)	8 429 201	7 583 472	-	-	-	-	-	-	-	-	-	-	-	-
Loan receivables	60 655 294	21 967 611	26 209 763	3 199 820	2 216 564	7 061 536	9 493 498	8 165 581	262 587	931 877	540 174	6 430 943	8 165 581	
Net investments in securities and other financial assets available-for-sale	2 588 765	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial assets at fair value through profit or loss	3 112	-	-	-	-	3 112	3 112	3 112	-	-	-	3 112	3 112	
Other assets and long term assets held-for-sale	3 454 538	140 220	264 794	488 206	78 914	922 290	1 143 771	1 143 771	10 046	211 167	40 648	881 910	1 143 771	
	<b>76 080 586</b>	<b>29 691 303</b>	<b>26 474 557</b>	<b>3 688 026</b>	<b>2 295 478</b>	<b>7 986 938</b>	<b>10 639 879</b>	<b>9 312 464</b>	<b>272 633</b>	<b>1 143 044</b>	<b>580 822</b>	<b>7 315 965</b>	<b>9 312 464</b>	

## Analysis of collateral

The Bank uses collateral as a mechanism for reducing credit risk. The Bank accounts for collateral of I and II quality categories for loans classified within II-V quality categories, for claims for interest income and on credit related commitments. The quality category of collateral is determined in accordance with the Bank of Russia Instruction No. 254-P.

The table below provides information on the nature and value of received collateral, which is taken into account towards reducing the estimated impairment allowance, as well as other collateral as at 1 January 2017:

	Loan receivables RUB'000	Accrued interest RUB'000	Guarantees and sureties issued RUB'000	Total collateral RUB'000
<b>Collateral of I quality category:</b>	<b>122 652</b>	<b>328</b>	<b>353 961</b>	<b>476 941</b>
Guarantees and sureties received from ISP Group companies	112 652	328	237 228	350 208
Guarantees and sureties received from other banks	10 000	-	116 733	126 733
<b>Collateral of II quality category:</b>	<b>3 082 525</b>	<b>32 831</b>	<b>241 660</b>	<b>3 357 016</b>
Real estate	2 660 572	25 692	-	2 686 264
Titles of assets	46 214	274	-	46 488
Guarantees and sureties	45 724	269	241 660	287 653
Other	330 015	6 596	-	336 611
<b>Other collateral</b>	<b>29 273 612</b>	<b>333 494</b>	<b>-</b>	<b>29 607 106</b>
<b>No collateral</b>	<b>17 679 616</b>	<b>54 171</b>	<b>11 542 893</b>	
	<b>50 158 405</b>	<b>420 824</b>	<b>12 138 514</b>	

Information about the nature and value of received collateral as at 1 January 2016 is provided below:

	Loans, RUB'000	Accrued interest, RUB'000	Guarantees and sureties issued RUB'000	Total collateral RUB'000
<b>Collateral of I quality category:</b>	<b>3 824 047</b>	<b>43 789</b>	<b>241 344</b>	<b>4 109 180</b>
Guarantees and sureties received from ISP Group companies	3 824 047	43 789	216 239	4 084 075
Guarantees and sureties from other banks	-	-	25 105	25 105
<b>Collateral of II quality category:</b>	<b>4 869 116</b>	<b>31 945</b>	<b>-</b>	<b>4 901 061</b>
Real estate	3 755 022	24 219	-	3 779 241
Titles of assets	1 770	9	-	1 779
Guarantees and sureties	386 262	1 870	-	388 132
Other	726 062	5 847	-	731 909
<b>Other collateral</b>	<b>42 084 968</b>	<b>660 162</b>	<b>-</b>	<b>42 745 130</b>
<b>No collateral</b>	<b>9 877 163</b>	<b>29 202</b>	<b>14 474 626</b>	
	<b>60 655 294</b>	<b>765 098</b>	<b>14 715 970</b>	

For loans that have several types of collateral, information is disclosed on the most significant type of collateral which issued for estimating the provision. Collateral, not taken into account for provision minimization purpose, is included in “Other collateral” lines in the tables above.

The fair value of collateral of I and II quality categories used by the Bank to determine the provision amount is estimated by the Bank on a regular basis.

The Collateral department specialists of the Bank perform an assessment of the fair value of collateral.

When determining the amount of provision formed, the Bank does not consider collateral of I and II quality categories for which it does not estimate fair value on a regular basis.

### **Loans to legal entities**

During the process collateral monitoring, the requirements important for primary property inspection before accepting as collateral are taking into account; changes in property compared to primary inspection/previous visual monitoring are controlled; photography of property is made and results of monitoring are registered in an Inspection report.

The inspection and revaluation interval depends on the type of collateral. For residential real estate, index revaluation is performed once a year, and standard revaluation every three years; for commercial real estate, equipment and vehicles, standard revaluation is performed every year.

### **Loans to individuals**

The Bank estimates loan loss provision for individuals in terms of similar credit portfolios. Value assessment of collateral on these loans is not performed.

For loans to individuals that are assessed on an individual basis, the procedure of fair value evaluation of collateral is similar to procedures of fair value evaluation for loans to legal entities.

Credit card overdrafts and consumer loans are not secured.

### **Repossessed collateral**

During 2016, the Bank acquired a number of assets through taking control over collateral on loans issued to customers. The net carrying value of the repossessed collateral as at 1 January 2017 is RUB 200 913 thousand, which is accounted for within “Long term assets held-for-sale” caption of the Balance Sheet (published form) (1 January 2016: RUB 337 699 thousand of which RUB 309 021 thousand – long term assets held-for-sale and RUB 28 678 thousand – means and objects of labour of undetermined purpose obtained under indemnity or pledge agreements and accounted for within “Other assets” caption of the Balance Sheet (published form)). As at 1 January 2017 and 2016, the amount of repossessed collateral before impairment allowance comprises:

	<b>1 January 2017</b> <b>RUB'000</b>	<b>1 January 2016</b> <b>RUB'000</b>
Real estate	196 396	384 093
Other assets	7 858	31 921
Provision for loss	(3 341)	(78 315)
<b>Total repossessed collateral</b>	<b>200 913</b>	<b>337 699</b>

The Bank's policy is to sell these assets as soon as it is practicable.

### **11.3. Market risk**

Market risk – risk of occurrence of financial loss as a result of change of fair value of financial instruments and goods to a market risk, and also the foreign exchange rates and (or) accounting prices on precious metals. The market risk includes an interest risk, a currency risk and an equity risk.

The market risk management objective is to maintain the risk taken by the Bank at an acceptable level determined by the Bank according to its business strategy. The priority to is preserve the Bank's assets and capital to the maximum extent possible by reducing (preventing) potential losses and a shortfall in the amount of profit from the Bank's transactions on financial markets and other transactions associated with acceptance of market risk.

The Bank manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions and stop-loss limits. These are monitored on a regular basis.

The Bank's market risk management system includes:

- identifying risk factors for new products;
- calculating various risk parameters (risk exposure, the portfolio's sensitivity to changes in market indicators, etc.);
- measuring the fair value of financial instruments;
- establishing limits on transactions and open positions and monitoring them daily. Acceptable market risk exposure limits are set by the Board of Directors;
- developing new risk assessment models and methodologies, as well as interaction procedures between Bank's units when operating on financial markets.

The Bank divides its market risk into trading portfolio and non-trading portfolio risks. For risk management purposes, the Bank assesses the risk factors for a portfolio of securities available for sale, in the same manner as for the trading portfolio. Market risk for the trading portfolio is managed and monitored based on the value at risk methodology (VaR), which reflects interdependencies between risk variables. Non-trading positions are managed and monitored by using sensitivity analysis.

As at 1 January 2017 the market risk calculation is performed in accordance with requirements of the Bank of Russia Instruction dated 3 December 2015 No. 511-P "On the procedure for credit institutions to calculate market risk". As at 1 January 2016 the market risk calculation is performed in accordance with requirements of the Bank of Russia Instruction dated 28 September 2012 No. 387-P "On the procedure for credit institutions to calculate market risk".

The table below displays market risk exposure split by components as at 1 January 2017 and 1 January 2016.

	<b>1 January 2017</b> <b>RUB'000</b>	<b>1 January 2016</b> <b>RUB'000</b>
<b>Total market risk, including:</b>		
Interest rate risk, including:	32 816	32 338
- Specific interest risk	2 174	4 325
- General interest risk	30 642	28 013
Currency risk	52 273	29 262
<b>Market risk</b>	<b>1 063 618</b>	<b>769 999</b>

The Bank's trading portfolio includes the following financial instruments exposed to market risk:

- securities with fair value and classified by the Bank as at fair value through profit or loss and acquired with the purpose of selling in the short term or as available-for-sale if there is an intention to sell them in the short term, reflected in the internal documents of the credit institution;
- open positions denominated in foreign currency and precious metals, and open positions denominated in RUB, the value of which depends on change of CBR foreign currency exchange rates against the RUB or precious metals prices;
- derivative financial instruments.

#### **Interest rate risk**

In accordance with the Bank of Russia Instruction No. 511-P, interest rate risk is the market risk of securities and derivatives sensitive to interest rate changes.

In a broader sense, in accordance with the Bank of Russia Instruction No.3624-U "On the requirements for risk management and capital of the bank and the group" interest rate risk is the risk of adverse changes in the financial position of the Bank resulting from reduction in capital, income, value of assets due to changes in the market interest rates.



Interest rate risk arises from the possibility that changes in interest rates will affect the future cash flows or fair values of financial instruments. The Bank manages its interest rate risk by actively lending and borrowing at floating interest rates (LIBOR, MosPrime). The established interest rate risk assessment and monitoring procedures are in full compliance with the Intesa Sanpaolo Group's methodology recommendations.

In assessing the interest rate risk the Bank uses scenario analysis (stress testing) to assess the potential impact on interest rate risk of a number of different changes in risk factors, which correspond to rare, but probable events, generally hard to predict. Under scenario analysis the Treasury department on a daily basis considers optimistic, pessimistic and most likely scenarios. The results of the scenario analysis are provided for analysis to the Management Board on a monthly basis.

Interest rate risk includes:

- Repricing Risk - the risk linked to the time differences in maturities (for fixed rate positions) and in the repricing dates (for floating rate positions);
- Yield Curve Risk - the risk linked to changes in the slope and shape of the yield curve;
- Basis Risk - the risk linked to the mismatch in the rates to be received and paid on different instruments, with similar repricing characteristics. When interest rates change, these differences can give rise to unexpected changes in the cash flows and interest margins for assets, liabilities and unrecognized positions with similar maturities or repricing frequencies.

The Bank is exposed to the impact of fluctuations of prevailing market interest rates on its financial position and cash flows. Such fluctuations may increase the interest margin level, but may also decrease it and in case of unexpected changes in interest rates, result in losses.

Interest rate risk is predominantly managed by monitoring interest rate changes.

#### *Interest rate sensitivity analysis*

The management of interest rate risk, based on an interest rate gap analysis, is supplemented by monitoring the sensitivity of financial assets and liabilities.

#### *Available-for-sale securities*

An analysis of the sensitivity of equity to changes in the fair value of RUB-denominated Federal loan bonds of the Russian Federation (OFZ) available-for-sale as a result of changes in interest rates (based on positions existing as at 1 January 2017 and 1 January 2016 and a simplified scenario of a 100 and 200 basis point (bp) parallel fall or rise in all yield curves), can be presented as follows:

	<b>1 January 2017</b>	<b>1 January 2016</b>
	<b>RUB'000</b>	<b>RUB'000</b>
100 bp parallel fall	17 534	18 582
100 bp parallel rise	(17 267)	(18 248)
200 bp parallel fall	35 344	37 507
200 bp parallel rise	(34 272)	(36 172)

### Bank portfolio interest rate risk

The amount and structure of the bank portfolio of financial instruments can be represented as follows:

	1 January 2017		1 January 2016	
	Investments, RUB'000	% from portfolio	Investments, RUB'000	% from portfolio
<b>ASSETS</b>				
Placements with credit institutions	1 965 761	4,10	7 583 472	12,10
Net loan receivables	42 491 551	88,53	52 489 713	83,77
Net investments in securities and other financial assets available-for-sale	3 538 812	7,37	2 588 765	4,13
	<b>47 996 124</b>	<b>100,00</b>	<b>62 661 950</b>	<b>100,00</b>
<b>LIABILITIES</b>				
Amounts due to credit institutions	9 165 345	21,96	22 013 178	39,56
Customer accounts (non-credit institutions), including:	27 763 150	66,51	28 625 602	51,45
<i>Deposits of individuals</i>	<i>10 381 559</i>	<i>24,87</i>	<i>10 218 999</i>	<i>18,37</i>
Debt securities issued	4 817 151	11,54	5 000 000	8,99
	<b>41 745 646</b>	<b>100,00</b>	<b>55 638 780</b>	<b>100,00</b>

### Changes in interest rate risk by currency

An analysis of sensitivity of the financial result and equity to changes in interest rates (repricing risk) for financial instruments from the bank portfolio in RUB based on a simplified scenario of a 100 and 200 basis point (bp) parallel fall or rise in all yield curves and positions of interest bearing assets and liabilities existing as at 1 January 2017 and 1 January 2016, can be represented as follows:

	1 January 2017	1 January 2016
	RUB'000	RUB'000
100 bp parallel fall	(63 006)	(51 692)
100 bp parallel rise	49 197	54 079
200 bp parallel fall	(126 013)	(83 960)
200 bp parallel rise	92 159	107 723

The reporting existing in the Bank is an effective system that can be used to support decision-making and provide adequate and timely information to different structural units. The contents, level of analysis and frequency of reports are determined based on the purposes and functions of the target audiences, for more simplicity when providing consultations and in order to ensure a full understanding when determining interest rate risks.

The following types of reports are provided:

- report for the Financial Risk Committee, Management Board and Board of Directors prepared by the Risk Management department. In this report includes a final summary of the Bank's exposure to financial risks including a limit on interest rate exposure, limit of use and any instances of exceeding the limit over the reporting period. Such a report is prepared at the end of each month and/or at the end of the quarter;
- reports submitted to operating units and reports for Heads of such operating units, on a daily or weekly basis. These reports contain more analytical data and are aimed at supporting structural units in managing interest rate risks.

## Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates.

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

The Bank controls the currency risk level by complying with the open currency position (“OCP”) limits on a daily basis.

The Bank establishes a limit at the end of each transaction day on the risk level taken with respect to each of the basic trading foreign currencies and controls compliance with the limit on a daily basis. Currency risk is minimized through a balanced OCP permitting to ensure the required liquidity by foreign currency.

In the tables below the OCP doesn’t account for off-balance sheet assets and liabilities for each foreign currency. As at 1 January 2016 and 1 January 2017 the Bank’s OCP complies with the CBR requirements.

The structure of assets and liabilities by foreign currency as at 1 January 2017 can be presented as follows:

	RUB RUB'000	EUR RUB'000	USD RUB'000	Other currencies RUB'000	Total RUB'000
<b>ASSETS</b>					
Cash	474 968	262 946	135 710	-	873 624
Placements of credit institutions with the Central Bank of the Russian Federation, including:	1 459 800	-	-	-	1 459 800
<i>Mandatory reserves</i>	268 738	-	-	-	268 738
Amounts due from credit institutions	64 148	840 304	1 050 951	10 358	1 965 761
Financial assets at fair value through profit or loss	1 545	-	-	-	1 545
Net loan receivables	36 612 156	2 468 360	3 410 675	360	42 491 551
Net investments in securities and other financial assets available-for-sale, including:	3 538 812	-	-	-	3 538 812
<i>Investments in subsidiaries and affiliates</i>	3 000	-	-	-	3 000
Current income tax asset	542	-	-	-	542
Deferred tax asset	477 518	-	-	-	477 518
Property and equipment, intangible assets and inventories	1 974 734	-	-	-	1 974 734
Long term assets held-for-sale	200 913	-	-	-	200 913
Other assets	1 016 740	26 595	90 538	2 243	1 136 116
<b>Total assets</b>	<b>45 821 876</b>	<b>3 598 205</b>	<b>4 687 874</b>	<b>12 961</b>	<b>54 120 916</b>

	RUB RUB'000	EUR RUB'000	USD RUB'000	Other currencies RUB'000	Total RUB'000
<b>LIABILITIES</b>					
Amounts due to credit institutions	5 462 847	1 276 222	2 426 276	-	
Customer accounts (non-credit institutions), including:	22 399 857	3 530 192	1 823 762	9 339	9 165 345
<i>Deposits of individuals</i>	8 143 008	1 278 153	960 398	-	27 763 150
Debt securities issued	4 817 151	-	-	-	4 817 151
Current income tax liabilities	3 721	-	-	-	3 721
Deferred tax liability	134 452	-	-	-	134 452
Other liabilities	710 534	38 974	75 621	204	825 333
Provision for possible losses on credit related commitments, other possible losses and operations with offshore residents	54 265	143	21 019	-	75 427
<b>Total liabilities</b>	<b>33 582 827</b>	<b>4 845 531</b>	<b>4 346 678</b>	<b>9 543</b>	<b>42 784 579</b>
<b>Net position</b>	<b>12 239 049</b>	<b>(1 247 326)</b>	<b>341 196</b>	<b>3 418</b>	<b>11 336 337</b>

The structure of assets and liabilities by foreign currency as at 1 January 2016 can be presented as follows:

	RUB RUB'000	EUR RUB'000	USD RUB'000	Other currencies RUB'000	Total RUB'000
<b>ASSETS</b>					
Cash	518 440	246 153	185 083	-	949 676
Placements of credit institutions with the Central Bank of the Russian Federation, including:	845 729	-	-	-	845 729
<i>Mandatory reserves</i>	193 955	-	-	-	193 955
Amounts due from credit institutions	45 032	4 793 042	2 734 994	10 404	7 583 472
Net loan receivables	42 453 289	2 458 389	7 578 035	-	52 489 713
Net investments in securities and other financial assets available-for-sale	2 588 765	-	-	-	2 588 765
Investments in subsidiaries and affiliates	3 000	-	-	-	3 000
Current income tax asset	1 303	-	-	-	1 303
Deferred tax asset	397 475	-	-	-	397 475
Property and equipment, intangible assets and inventories	1 078 678	-	-	-	1 078 678
Long term assets held-for sale	309 021	-	-	-	309 021
Other assets	838 988	1 228 502	210 060	-	2 277 550
<b>Total assets</b>	<b>49 076 720</b>	<b>8 726 086</b>	<b>10 708 172</b>	<b>10 404</b>	<b>68 521 382</b>

	RUB RUB'000	EUR RUB'000	USD RUB'000	Other currencies RUB'000	Total RUB'000
<b>LIABILITIES</b>					
Amounts due to credit institutions	13 996 081	-	8 017 097	-	22 013 178
Customer accounts (non-credit institutions), including:	16 386 482	8 489 539	3 740 183	9 398	28 625 602
<i>Deposits of individuals</i>	5 922 626	3 391 935	904 438	-	10 218 999
Financial liabilities at fair value through profit or loss	599	-	-	-	599
Debt securities issued	5 000 000	-	-	-	5 000 000
Current income tax liability	3 265	-	-	-	3 265
Deferred tax liability	76 019	-	-	-	76 019
Other liabilities	506 505	139 620	656 630	-	1 302 755
Provision for possible losses on credit related commitments, other possible losses and operations with offshore residents	65 397	954	4 699	-	71 050
<b>Total liabilities</b>	<b>36 034 348</b>	<b>8 630 113</b>	<b>12 418 609</b>	<b>9 398</b>	<b>57 092 468</b>
<b>Net position</b>	<b>13 042 372</b>	<b>95 973</b>	<b>(1 710 437)</b>	<b>1 006</b>	<b>11 428 914</b>

A weakening of the RUB, as indicated below, against the following currencies at 1 January 2017 and 2016, would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, especially interest rates, remain unchanged.

	1 January 2017 RUB'000	1 January 2016 RUB'000
10% growth of the USD/RUB exchange rate	27 296	(136 835)
10% growth of the EUR/RUB exchange rate	(99 789)	7 678

A strengthening of the RUB against the above currencies at 1 January 2017 and 2016 would have had the equal but opposite effect on the amounts shown above, on the basis that all other variables remained constant.

### Stock market risk

By entering into transactions on the securities market, the Bank is exposed to stock market risk.

Stock market risk is the size of a market risk on the securities and derivative financial instruments sensitive to change of fair value on equity securities as it determined in the Bank of Russia Instruction № 511-P.

### Operational risk

Operational risk is one of the most important risks associated with the Bank's activities.

Operational risk is the risk of losses due to inappropriateness of internal regulations and procedures for conducting banking operations and other transactions to the nature and scale of the Bank's business and/or the requirements of current legislation, their violation by employees of the Bank and/or other persons (as a result of unintentional or deliberate actions or inaction), inadequacy (insufficiency) of functional capabilities (characteristics) of information, technological and other systems used by the Bank and/or their failures (malfunctions), and also as a result of external events.

The Bank's operational risk management policy stipulates both prevention of known risks and identification of new operational risks arising in the course of the Bank's operations, and also development of procedures for evaluating, identifying and preventing such risks.

The Bank manages operational risk in accordance with the Bank of Russia Instruction 3624-U and the Bank of Russia Letter No. 76-T dated 24 May 2005 "On the organization of operational risk management at credit institutions" and recommendations of the Basel Committee for Banking Supervision.

The operational risk management system is based on the principle of distribution of power and responsibilities between all levels of the Bank's management.

Operational risk identification and monitoring include collection and analysis of data on operational risk events, and analysis of all banking processes. All operational risk events are registered in a unified database, analyzed and regularly communicated to the Bank's management. The exposure of new and modified banking operations, products, processes or techniques to operational risk is also analyzed.

Operational risk assessment involves regular analysis of events or circumstances that cause risks (risk factors) and level of their control, as well as scenario analysis of operational risk events performed in all the Bank's divisions. The Bank also makes provisions for losses due to operational risk events.

Operational risk mitigation and control measures include measures aimed at preventing operational risk events. This set of measures is aimed at reducing the effect of events or circumstances that cause operational risk (risk factors), risk transfer (outsourcing), reducing (limiting) the amount of potential operating losses (insurance), and actions aimed at mitigating risk exposure implications and potential losses in case of operational risk events.

The Bank's measures aimed at minimizing risk factors include:

- establishing the Bank's organizational structure in compliance with the requirements of the Group and regulatory bodies (Intesa Sanpaolo Group);
- ensuring recruitment of a sufficient number of qualified employees, their continuous professional development and substitutability;
- compliance with the principles of segregation of duties and accountability on operations performed, effective cooperation and communication between employees;
- clear description of responsibilities of each employee;
- compliance with the requirements of current labor laws of the Russian Federation;
- correspondence of the Bank's employee benefits to the current market level and the Group's requirements;
- protecting personal confidential information of the Bank's employees;
- ensuring appropriate working conditions for the Bank's employees;
- developing, bringing in compliance with the current laws of the Russian Federation and requirements of the Group (Intesa Sanpaolo Group), and other updating of the Bank's internal documents that stipulate rules and procedures for banking operations and other transactions in order to exclude (minimize) the impact of operational risk factors;
- regulating and approving (coordinating) any banking processes, operations and other transactions;
- control over the implementation and introduction of changes in any banking processes, operations and transactions;
- segregation of duties over operating and control activities;
- setting limits for banking operations and other transactions performed;
- compliance with accounting and reporting principles, regular reconciliation of supporting documents and accounts for banking operations and other transactions;
- using proven process solutions and implementing robust techniques, compliance of all systems (hardware and software) and their technical documents with the Group's requirements;
- testing software before its implementation;
- preventing unauthorized access to the Bank's information systems, compliance with the established procedure for gaining access to information;
- differentiating information access and authorization rights in the Bank's systems;
- identifying and preventing discrepancies in the Bank's systems;
- ensuring data safety and recoverability;
- ensuring physical and information security of the Bank's personnel, clients and assets;
- limiting access to valuable assets;
- compliance with the established procedure for gaining access to the Bank's tangible assets.

The Bank pays special attention to measures aimed to ensure in the ability of the Bank to continue business when conducting banking operations, including plans of actions to be taken in case of any emergencies (business continuity plans). According to the Bank's management, the established risk management system allows to avoid any significant risk concentration and keeps the existing exposures under permanent control.

Operational risk is measured in accordance with the requirements of the Bank of Russia Instruction dated 3 November 2009 № 346-P "On the procedure for calculating operational risk".

Information about the amount of income used for the purposes of calculating capital requirements to cover operational risk is provided below:

	<b>2016</b>	<b>2015</b>
	<b>RUB'000</b>	<b>RUB'000</b>
<b>Net interest income (negative interest margin)</b>	<b>4 632 385</b>	<b>5 039 459</b>
<b>Net non-interest income:</b>	<b>2 069 072</b>	<b>1 497 490</b>
Net income from transactions in securities at fair value through profit or loss	-	35 845
Net income from operations with foreign currency	320 711	169 980
Net income from revaluation of foreign currency	790 944	309 672
Income from participation in other legal entities' capital	-	-
Commission profits	921 404	915 146
Other operating income	175 764	198 775
Less:		
Fee and commission expenses	139 751	131 928
	<b>6 701 457</b>	<b>6 536 949</b>
<b>Operational risk</b>	<b>1 005 219</b>	<b>980 542</b>

#### **Compliance with mandatory ratios**

As at 1 January 2017 and 1 January 2016 the Bank complied with the mandatory ratios set by the CBR.

#### **11.4. Liquidity risk**

Liquidity risk is the risk that the Bank becomes unable to settle its obligations as they fall due or make current payments on customer instructions without restructuring assets and/or urgently mobilizing required funds. Liquidity risk appears when the terms of active and passive transactions are misbalanced.

The Bank has a liquidity management policy, which aims at ensuring the Bank's control over the liquidity position and timely and full repayment of current liabilities. The liquidity policy is reviewed and approved by the Management Board and the Board of Directors.

The liquidity management policy consists of:

- projecting cash flows by major currencies and taking into account the level of liquid assets necessary in relation there to;
- maintaining a diverse range of funding sources;
- managing the concentration and the structure of attracted funds;
- development of plans on attracting funds from third parties;
- maintaining a portfolio of highly liquid assets that can easily be sold as protection against any cash shortage;
- maintaining liquidity and funding contingency plans;
- monitoring liquidity ratios against regulatory requirements.

The Treasury department receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury department then forms an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, amounts due from credit institutions and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position is monitored. Risk Management Department regular performs liquidity stress-testing under a variety of scenarios covering both normal and more severe market conditions. Under normal market conditions, liquidity reports covering the liquidity position are presented to senior management on a weekly basis. Decisions on liquidity management are made by the Committee on financial risk management and implemented by the Treasury department. Results of reports prepared by the Committee on Financial Risk Management are brought to the attention of the management and Board of Directors of the Bank.

As at 1 January 2017 and 1 January 2016, the Bank complied with the mandatory liquidity ratios set by the CBR.

Liquidity ratios as at 1 January are presented below:

	Requirement	1 January 2017 %	1 January 2016 %
Instant liquidity ratio (N2)	Not less than 15%	73,9	68,3
Current liquidity ratio (N3)	Not less than 50%	88,9	111,3
Long term liquidity ratio (N4)	Not more than 120%	41,9	44,1



The table below provides an analysis (by expected maturity or settlement dates) of amounts reported in the “Balance sheet” (published form) as at 1 January 2017:

	On demand and less than 1 month RUB'000	From 1 to 3 months RUB'000	From 3 to 12 months RUB'000	From 1 to 5 years RUB'000	More than 5 years RUB'000	No maturity RUB'000	Overdue RUB'000	Total RUB'000
<b>ASSETS</b>								
Cash	873 624	-	-	-	-	-	-	873 624
Placements of credit institutions with the Central Bank of the Russian Federation, including	1 191 062	-	-	-	-	268 738	-	1 459 800
<i>Mandatory reserves</i>	-	-	-	-	-	268 738	-	268 738
Amounts due from credit institutions	1 965 761	-	-	-	-	-	-	1 965 761
Financial assets at fair value through profit or loss	1 545	-	-	-	-	-	-	1 545
Net loan receivables	14 504 628	7 052 360	12 748 870	7 455 025	323 489	-	407 179	42 491 551
Net investments in securities and other financial assets available-for-sale, including:	3 535 812	-	-	-	-	3 000	-	3 538 812
<i>Investments in subsidiaries and affiliates</i>	-	-	-	-	-	3 000	-	3 000
Current income tax asset	-	-	542	-	-	-	-	542
Deferred tax asset	-	-	-	-	477 518	-	-	477 518
Property and equipment, intangible assets and inventories	-	-	-	-	-	1 974 734	-	1 974 734
Long term assets held-for-sale	-	-	-	-	-	200 913	-	200 913
Other assets	754 805	165 615	156 241	52 932	472	14	6 037	1 136 116
<b>Total assets</b>	<b>22 827 237</b>	<b>7 217 975</b>	<b>12 905 651</b>	<b>7 507 957</b>	<b>801 481</b>	<b>2 447 399</b>	<b>413 216</b>	<b>54 120 916</b>

	On demand and less than 1 month RUB'000	From 1 to 3 months RUB'000	From 3 to 12 months RUB'000	From 1 to 5 years RUB'000	More than 5 years RUB'000	No maturity RUB'000	Overdue RUB'000	Total RUB'000
<b>LIABILITIES</b>								
Amounts due to credit institutions	2 088 302	2 776 222	86 162	1 778 183	2 436 476	2 776 222	-	9 165 345
Customer accounts (non-credit institutions), including:	26 842 502	440 780	385 881	41 987	52 000	-	-	27 763 150
<i>Deposits of individuals and individual entrepreneurs</i>	10 262 985	24 105	90 450	4 019	-	-	-	10 381 559
Debt securities issued			1 817 151	3 000 000	-	-	-	4 817 151
Current income tax liability	3 721	-	-	-	-	-	-	3 721
Deferred tax liability	-	-	-	-	-	134 452	-	134 452
Other liabilities	511 354	158 922	112 358	23 545	1 046	18 109	-	825 334
Provision for possible losses on credit related commitments, other possible losses and operations with offshore residents	75 427	-	-	-	-	-	-	75 427
<b>Total liabilities</b>	<b>29 521 306</b>	<b>3 375 924</b>	<b>2 401 552</b>	<b>4 843 715</b>	<b>2 489 522</b>	<b>152 560</b>	<b>-</b>	<b>42 784 579</b>
<b>Net position</b>	<b>(6 694 069)</b>	<b>3 842 051</b>	<b>10 504 099</b>	<b>2 664 242</b>	<b>(1 688 041)</b>	<b>2 294 839</b>	<b>413 216</b>	<b>11 336 337</b>

The table below provides an analysis (by expected maturity dates) of amounts reported in the “Balance sheet” (published form) as at 1 January 2016:

	On demand and less than 1 month RUB'000	From 1 to 3 months RUB'000	From 3 to 12 months RUB'000	From 1 to 5 years RUB'000	More than 5 years RUB'000	No maturity RUB'000	Overdue RUB'000	Total RUB'000
<b>ASSETS</b>								
Cash	949 676	-	-	-	-	-	-	949 676
Placements of credit institutions with the Central Bank of the Russian Federation, including	651 774	-	-	-	-	193 955	-	845 729
<i>Mandatory reserves</i>	-	-	-	-	-	193 955	-	193 955
Amounts due from credit institutions	7 583 472	-	-	-	-	-	-	7 583 472
Net loan receivables	12 151 041	7 975 144	22 004 913	8 940 314	395 383	2 069	1 020 849	52 489 713
Net investments in securities and other financial assets available-for-sale, including:	2 581 354	-	-	-	-	7 411	-	2 588 765
<i>Investments in subsidiaries and affiliates</i>	-	-	-	-	-	3 000	-	3 000
Current income tax asset	-	-	1 303	-	-	-	-	1 303
Deferred tax asset	-	-	-	-	397 475	-	-	397 475
Property and equipment, intangible assets and inventories	-	-	-	-	-	1 078 678	-	1 078 678
Long term assets held-for-sale	-	-	-	-	-	309 021	-	309 021
Other assets	1 765 106	130 366	213 069	112 697	2 914	-	53 398	2 277 550
<b>Total assets</b>	<b>25 682 423</b>	<b>8 105 510</b>	<b>22 219 285</b>	<b>9 053 011</b>	<b>795 772</b>	<b>1 591 134</b>	<b>1 074 247</b>	<b>68 521 382</b>

	On demand and less than 1 month RUB'000	From 1 to 3 months RUB'000	From 3 to 12 months RUB'000	From 1 to 5 years RUB'000	More than 5 years RUB'000	No maturity RUB'000	Overdue RUB'000	Total RUB'000
<b>LIABILITIES</b>								
Amounts due to credit institutions	1 687 255	4 900 000	9 101 789	3 408 826	2 915 308	-	-	22 013 178
Customer accounts (non-credit institutions), including:	27 227 483	773 235	459 810	113 074	52 000	-	-	28 625 602
<i>Deposits of individuals and individual entrepreneurs</i>	10 171 885	37 991	8 622	501	-	-	-	10 218 999
Financial liabilities at fair value through profit or loss	599	-	-	-	-	-	-	599
Debt securities issued	-	-	5 000 000	-	-	-	-	5 000 000
Current income tax liability	3 265	-	-	-	-	-	-	3 265
Deferred tax liability	-	-	-	-	-	76 019	-	76 019
Other liabilities	848 642	333 678	84 615	4 283	-	31 537	-	1 302 755
Provision for possible losses on credit related commitments, other possible losses and operations with offshore residents	71 050	-	-	-	-	-	-	71 050
<b>Total liabilities</b>	<b>29 838 294</b>	<b>6 006 913</b>	<b>14 646 214</b>	<b>3 526 183</b>	<b>2 967 308</b>	<b>107 556</b>	<b>-</b>	<b>57 092 468</b>
<b>Net position</b>	<b>(4 155 871)</b>	<b>2 098 597</b>	<b>7 573 071</b>	<b>5 526 828</b>	<b>(2 171 536)</b>	<b>1 483 578</b>	<b>1 074 247</b>	<b>11 428 914</b>

Management expects that the cash flows from certain financial assets and liabilities will be different from their contractual terms either because management has the discretionary ability to manage the cash flows or because past experience indicates that cash flows will differ from contractual terms. The following assets and liabilities are presented based on their expected cash flows.

Cash flows from trading securities, totaling RUB 3 535 812 thousand (1 January 2016: RUB 2 581 354 thousand) are included in the category "On demand and less than 1 month" due to high level of liquidity of these securities.

Contractual maturities of trading securities are as follows:

	<b>1 January 2017</b> <b>RUB'000</b>	<b>1 January 2016</b> <b>RUB'000</b>
From 3 to 12 months	2 370 399	746 180
From 1 to 5 years	1 165 413	1 835 174
No maturity	3 000	7 411
	<b>3 538 812</b>	<b>2 588 765</b>

In accordance with the Russian legislation, individuals can withdraw their term deposits at any time, forfeiting in most of the cases the accrued interest. Accordingly, these deposits, excluding accrued interest, are shown in the table above in the category of "On demand and less than 1 month". The classification of these deposits in accordance with their contractual maturity dates is presented below:

	<b>1 January 2017</b> <b>RUB'000</b>	<b>1 January 2016</b> <b>RUB'000</b>
Demand and less than 1 month	941 829	967 255
From 1 to 3 months	2 286 677	3 420 728
From 3 to 12 months	4 301 499	3 068 796
From 1 to 5 years	179 766	258 916
	<b>7 709 771</b>	<b>7 715 846</b>

## 11.5. Legal risk

The Bank's legal risk is associated with the following risks:

- risks of entering into transactions that are considered invalid under the applicable laws of the Russian Federation;
- risks of concluding contracts containing inadequate provisions concerning the Bank's responsibility or provisions that might lead to significant impairment of assets or increase of the Bank's liabilities;
- risks of unfavorable outcome of legal proceedings in which the Bank is involved;
- risks associated with changes of the foreign exchange, tax, banking legislation, court practice on issues regarding the Bank's principal activities.

The above risks are not unique for the Bank as all financial institutions are exposed to them.

In performing its statutory activities, the Bank strictly acts in accordance with the current laws and regulations. Legal risk management involves: monitoring of changes to laws and bylaws regulating the banking activities, tax and financial laws; legal expert review of compliance of internal regulations and agreements with the current legislation, other regulations; regular analysis of results of settlements of claims involving the Bank; analysis of court practice.

### Existing and potential legal actions against the Bank

In the course of business, customers and counterparties raise claims against the Bank.

As at 1 January 2017, the Bank had no uncovered risks associated with litigations that may have a significant impact on its financial and business activities in the future.

The Bank's management believes that the total amount of liabilities that may arise from any legal actions against the Bank cannot have a material adverse effect on the Bank's financial position.

As at 1 January 2017, the amount of provisions related to pending legal actions in which the Bank acts as a defendant is RUB 18 109 thousand (1 January 2016: RUB 31 537 thousand).

#### **11.6. Strategic risk**

Strategic risk is a risk of losses which a credit institution may incur as result of mistakes (deficiencies) in making decisions defining the credit institution's business and development strategy (strategic management). Strategic risk is mitigated by careful consideration of management decisions based on the preliminary analysis of the current situation in the banking sector and its development prospects, risk levels, actions of the Bank's counterparties and competitors, demand of clients, possibilities to provide necessary staff, financing and technical support in order to implement the planned changes. Based on the evaluation of mentioned parameters The Bank plans products, development of branches, quantitative and qualitative measurement of the Banks development.

#### **11.7. Reputational risk**

The Bank enjoys a stable business reputation and forms a positive image of the Bank, the quality of services provided, and nature of its business in general, based on the objective results of its activities. The Bank estimates its risk of losses as a result of reputation damage as minimal.

#### **11.8. Geographical risk**

Country risk is the risk that the Bank may suffer losses as a result of failure to perform or improper performance by foreign counterparties (legal entities and individuals) of their obligations due to economic, political and social changes, and also because the currency of a monetary obligation may be unavailable for the counterparty due to specifics of national legislation (regardless of the counterparty's financial position).

Information about geographic distribution of credit risk as at 1 January 2017 and 1 January 2016 is provided in Note 11.2.

The Bank is a resident of the Russian Federation and operates in the territory of the Russian Federation.

The main scope of the Bank's credit exposures is associated with borrowers, issuers and counterparties whose principal activities are performed on the territory of the Russian Federation. Credit risk for residents of other countries can only be accepted after a special analysis. Information on main currencies in which the Bank performs its business transactions is presented in Note 11.3.

#### ***Capital management***

The Bank traditionally follows a conservative strategy, monitors the capital adequacy on a regular basis. In 2016, the Bank had established a special unit within the Risk management department - Division of internal procedures on capital adequacy assessment in order to comply with the best practices and standards of the Basel Committee on Banking Supervision, as well as the requirements of the CBR dated 14 April 2015 № 3624-U "On the requirements for risk management and capital of the bank and the group". Capital management and the risk management system are implemented by the Bank in order to:

- identify, assess, aggregate the most significant risks, and other types of risk, which in combination with the most important risks may cause losses that affect the assessment of capital adequacy significantly, and monitor their volumes of these risks;
- assess the adequacy of the Bank's capital to cover significant risks and new types of risks, acceptance of which is connected with the implementation of activities under the Bank's development strategy;
- plan capital amount according to the results of a comprehensive assessment of significant risks, the Bank's soundness testing in relation to internal and external risk factors (stress-testing), business development targets, provided in the Bank's development strategy, capital adequacy requirements set by the Bank of Russia, and the phase of the business cycle.

In the capital management process the Bank accounts for current and potential changes to the calculation of capital adequacy ratios, including mark-ups to minimum required equity (capital) adequacy ratios, introduced this year.

The Bank, despite the difficult economic situation and the sanctions against the Russian Federation, maintains a stable structure of funding, which corresponds to the structure of the Bank's assets and is optimal as for maturity and costs.

## **12. Information on segments of activity**

An operating segment is a component of the Bank that engages in business activities from which it may gain profit and incur losses (including profit and loss relating to transactions with other components of the Bank), whose operating results are regularly reviewed by the chief operating decision maker when allocating resources to the segments and assessing its performance, and for which financial information is available.

Almost all activities of the Bank relate to financial services rendered mostly to corporate clients (SME and large enterprises). Under this circumstances, the Bank's management has concluded that the Bank has only one reportable segment.

## **13. Transactions with related parties of the Bank**

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control directly, or indirectly through one or more intermediaries, the other party or exercise significant influence over the other party in making financial or operational decisions, the party is an associate or the party is a member of the key management personnel of the entity or its parent.

Banking transactions are entered into in the normal course of business with the Bank's shareholders and key management personnel. These transactions include loans, deposits and other transactions.

During 2016 and 2015 all transactions with related parties of the Bank were performed at market prices.

As at 1 January 2017, the Bank has no overdue claims with related parties (1 January 2016: no claims).

During 2016 the Bank has no write-offs of outstanding balances with related parties (2015: no write-offs).

Information on account balances and average interest rates on operations (transactions) with related parties of the Bank as at 1 January 2017 are presented below:

	<u>Parent company and ultimate controlling party</u>		<u>Key management personnel</u>		<u>Subsidiaries</u>		<u>Other related parties</u>		<u>Total</u>
	<u>Carrying value RUB'000</u>	<u>Average interest rate</u>	<u>Carrying value RUB'000</u>	<u>Average interest rate</u>	<u>Carrying value RUB'000</u>	<u>Average interest rate</u>	<u>Carrying value RUB'000</u>	<u>Average interest rate</u>	<u>Carrying value RUB'000</u>
Placements with credit institutions before impairment allowance	1 813 321	0,0%	-	-	-	-	591	0,1%	1 813 912
Impairment allowance on placements with credit institutions	-		-		-		-		-
Loans before impairment allowance on loans	2 426 636	1,65%	-	-	1 035 296	12,76%	-	-	3 461 932
Impairment allowance	-		-		-		-		-
Investments in subsidiaries and affiliates	-		-		3 000	-	-		3 000
Other assets before impairment allowance	7 096		116	-	361	-	-		7 573
Impairment allowance on other assets	-		-		-		-		-
Due to credit institutions and customers (non-credit institutions)	3 359 799	0,0%	34 709	9,49%	106 946	6,63%	2 431 002	6,58%	5 932 456
Other liabilities	-	-	107	-	24	-	436	-	567
Irrevocable commitments of the credit institution	-	-	700	-	-	-	-	-	700



Information on account balances and average interest rates on operations (transactions) with related parties of the Bank as at 1 January 2016 are presented below:

	<u>Parent company</u>		<u>Management personnel</u>		<u>Subsidiaries</u>		<u>Other related parties</u>		<u>Total</u>
	<u>Carrying value RUB'000</u>	<u>Average interest rate</u>	<u>Carrying value RUB'000</u>	<u>Average interest rate</u>	<u>Carrying value RUB'000</u>	<u>Average interest rate</u>	<u>Carrying value RUB'000</u>	<u>Average interest rate</u>	<u>Carrying value RUB'000</u>
Placements with credit institutions before impairment allowance	4 069 798	0,0%	-	-	-	-	3 259	0,1%	4 073 057
Impairment allowance on placements with credit institutions	-		-		-		-		-
Loans before impairment allowance on loans	1 093 241	0,6%	133	20,0%	1 138 593	13,5%	-	-	2 231 967
Impairment allowance	-		-		-		-	-	-
Investments in subsidiaries and affiliates	-		-		3 000	-	-	-	3 000
Other assets before impairment allowance	1 194		2	-	1	-	-	-	1 197
Impairment allowance on other assets	-		-		-		-	-	-
Due to credit institutions and customers (non-credit institutions)	60 994	0,0%	40 778	9,4%	35 001	10,0%	14 043 358	6,1%	14 180 131
Other liabilities	-		1 728	-	142	-	48 960	-	50 830
Irrevocable commitments of the credit institution	-		567	-	-	-	-	-	567

Income and expense amounts on related party transactions for 2016 may be presented as follows:

RUB'000	<u>Parent company</u>	<u>Key Management personnel</u>	<u>Subsidiaries</u>	<u>Other related parties</u>	<u>Total</u>
Interest income	44 185	3	149 954	6	194 148
Interest expense	(11 717)	(3 047)	(7 490)	(391 301)	(413 555)
Net income from operations with foreign currency*	86 410	-	-	-	86 410
Fee and commission income	129 115	-	4 634	177	133 926
Fee and commission expense	(40 380)	-	-	-	(40 380)
Movements in the impairment allowance on loans	-	-	-	-	-
Movements in the impairment allowance on other assets	-	-	-	-	-
Other operating income	77	-	1 226	-	1 303
Operating expenses	-	(91 149)	-	(188 513)	(279 662)

\* The result from operations with foreign currency is calculated on marginal approach base with use of actual deal rates.

Income and expenses from transactions with related parties in 2015 can be represented as follows:

<b>RUB'000</b>	<b>Parent company</b>	<b>Management personnel</b>	<b>Subsidiaries</b>	<b>Other related parties</b>	<b>Total</b>
Interest income	26 994	75	148 040	1	175 110
Interest expense	(330 401)	(3 157)	(7 144)	(1 163 078)	(1 503 780)
Net income from operations with foreign currency*	553 333	20	-	-	553 353
Fee and commission income	59 536	57	25	10	59 628
Fee and commission expense	(17 151)	-	-	(6)	(17 157)
Movements in the impairment allowance on loans	58	1	-	-	59
Movements in the impairment allowance on other assets	-	(1)	-	-	(1)
Other operating income	35	1	6 230	-	6 266
Operating expenses	-	(72 245)	-	(231 730)	(304 205)

\* The result from operations with foreign currency is calculated on marginal approach base with use of actual deal rates.

#### 14. Information on remuneration system of the Bank

The remuneration system in the Bank is aimed at reasonable business management, corresponding to interests of shareholders, and compliance with the principles of competitiveness, stability and justice.

The wages system of the Bank corresponds to scale of the transactions of the Bank, to the results of its activities, to the level and combination of the accepted risks.

Board of Directors of the Bank considers questions regarding organization, monitoring and control of wages system. Board of Directors at least once in calendar year considers offers from internal control divisions and risk management divisions regarding modernization of wages system. Board of Directors also considers offers from compliance and financial monitoring department regarding revision of wages system by the Board of Directors within a year with indication of changes in a wages system in case of their availability. As a result, changes to a wages system weren't offered by the Board of Directors in 2016 and 2015.

Current policy of the Bank regarding compensation of employees stipulates dependence of remuneration on the Bank's performance results and a personal employee's contribution in achievement of these results.

The wages system in the Bank provides fixed and variable part of a total income.

Variable part of a total income is connected with employees' contribution and consists of:

- periodic variable part (short-term) according to conditions explained in Regulations on bonus payments to employees;
- one-time awards for employees who achieved results or their outstanding performance;
- long term remuneration (for particular categories of employees determined in the Regulation on bonuses to employees of the Bank and Rules on determination of employees, accepting risks, and employees of the risk management divisions and (or) other control functions (function of internal control));

Amount of variable part of comprehensive income of employees who accept risks is subject to delay for 5 years and of employees of the risk management divisions and (or) other control functions (function of internal control) is subject to delay for 3 years.

Delayed variable part of employees' comprehensive income is established in the amount of:

- 60% for employees who accept risks, and are not the employees of the risk management divisions and (or) other control functions (function of internal control);
- 40% for employees of the risk management divisions and (or) other control functions (function of internal control).

Amount of variable part of a comprehensive income of employees who accept risks and of employees of the risk management divisions and (or) other control functions (function of internal control) is determined (adjusted) taking into account quantitative and qualitative metrics.

Within wages system the Bank uses system of quantitative and qualitative metrics. Key indicators up to standards of the Bank in general are:

- Common Equity Tier (CET1) that equals at least to the limit, prescribed by the Risk Appetite Framework (RAF);
- Net Stable Funding Ratio (NSFR) that equals at least to the limit, prescribed by the Risk Appetite Framework (RAF);
- Lack of loss or existence of profit before deduction of profit tax from continuing activities less the income from the redemption of Bank's liabilities, income from revaluation of liabilities at fair value from one-time transactions (according to IFRS);
- Liquidity Coverage Ratio (LCR) that should be not less than the limit, prescribed by the Risk Appetite Framework (RAF).

The average number employees for 2016 are 1431 (for 2015 – 1592).

The average number employees who accepted risks are:

	<b>1 January 2017</b> <b>RUB'000</b>	<b>1 January 2016</b> <b>RUB'000</b>
Members of executive organ	7	6
Other employees who accept risks	10	12

Remuneration of Executive Board members (in total – 7 person) for 2016 is RUB 73 144 thousand, including:

- remuneration expenses (including bonuses and compensations) – RUB 54 074 thousand;
- other expenses for personnel – RUB 13 093 thousand;
- social insurance contributions – RUB 5 977 thousand.

Remuneration of Executive Board members (in total – 6 person) for 2015 is RUB 55 811 thousand, including:

- remuneration expenses (including bonuses and compensations) – RUB 41 405 thousand;
- other expenses for personnel – RUB 9 173 thousand;
- social insurance contributions – RUB 5 233 thousand.

Amount of payments made to Executive Board members includes: salary, bonuses, payments on vacations, an average payments for the period of business trips, social payments, remuneration on performance results for a year and other payments established by legislation and standards of the Bank.

Remuneration of other employees who accept risks (in total – 10 person) for 2016 is RUB 47 650 thousand including:

- remuneration expenses (including bonuses and compensations) – RUB 40 187 thousand;
- other expenses for personnel – RUB 16 thousand;
- social insurance contributions – RUB 7 447 thousand.

Remuneration of other employees who accept risks (in total – 12 person) for 2015 is RUB 44 540 thousand including:

- remuneration expenses (including bonuses and compensations) – RUB 37 801 thousand;
- other expenses for personnel – RUB 0 thousand;
- social insurance contributions – RUB 6 739 thousand.

Remuneration of Board of Directors members for 2016 is RUB 18 005 thousand (for 2015: RUB 16 434 thousand)

Amount of payments made to employees who accept risks includes: salary bonuses, payments on vacations, an average payments for the period of business trips, social payments, remuneration on performance results for a year and other payments established by legislation and standards of the Bank.

---

**Corrias G.**  
**Chirman of the Management Board**

---

**Pavlycheva T.U.**  
**Member of the Management Board/ Head of**  
**Accounting, Planning and Control Group/ Chief**  
**Accountant**

17 February 2017