LLC Rusfinance Bank

Financial statements
for the year ended December 31, 2016
together with independent auditor's report

March 2017

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Independent auditor's report

To the Participant and Board of Directors of
LLC Rusfinance Bank

Report on the audit of the financial statements

We have audited the financial statements of LLC Rusfinance Bank (the "Bank"), which comprise the Statement of Financial Position as at December 31, 2016 and the Statement of Profit or Loss, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year 2016, and notes to the Financial Statements, including a summary of significant accounting policies and other explanatory information.

Audited entity's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on the fairness of these financial statements based on our audit.

We conducted our audit in accordance with the federal standards on auditing effective in the Russian Federation. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The audit procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the LLC Rusfinance Bank as at December 31, 2016, and its financial performance and cash flows for the year 2016 in accordance with International Financial Reporting Standards.

Report on the findings from the work performed in accordance with the requirements of Article 42 of Federal Law of the Russian Federation No. 395-1, *Concerning Banks and Banking Activity* of December 2 1990

Management of the Bank is responsible for the compliance of the Bank with the mandatory prudential ratios (hereinafter, the "obligatory ratios") established by the Central Bank of the Russian Federation (hereinafter, the "Bank of Russia") and for the conformity of internal control and organization of the risk management systems of the Bank with the requirements set forth by the Bank of Russia in respect of such systems.

In accordance with the requirements of Article 42 of the Federal Law of the Russian Federation No. 395-1 *"Concerning Banks and Banking Activity"* of 2 December 1990 (hereinafter, the "Federal Law"), during the audit of the Bank's financial statements for the year ended 31 December 2016, we determined:

1) Whether the Bank complies as at 1 January 2017 with the obligatory ratios established by the Bank of Russia;
2) Whether internal control and organization of the risk management systems of the Bank conform to the requirements set forth by the Bank of Russia for such systems in respect of the following:
    - subordination of the risk management departments;
    - the existence of methodologies, approved by the Bank's respective authorized bodies, for detecting and managing risks that are significant to the Bank and for performing stress-testing; the existence of a reporting system at the Bank pertaining to its significant risks and capital;
    - consistency in applying and assessing the effectiveness of methodologies for managing risks that are significant to the Bank;
    - oversight performed by the Board of Directors and executive management of the Bank in respect of the Bank's compliance with risk limits and capital adequacy requirements set forth in the Bank's internal documents, and effectiveness and consistency of the application of the Bank's risk management procedures.

This work included procedures selected based on our judgment, such as inquiries, analysis, reading of documents, comparison of the requirements, procedures and methodologies approved by the Bank with the requirements set forth by the Bank of Russia, and the recalculation, comparison and reconciliation of numerical values and other information.

The findings from our work are provided below.

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Compliance by the Bank with the obligatory ratios established by the Bank of Russia

We found that the values of the obligatory ratios of the Bank as of 1 January 2017 were within the limits established by the Bank of Russia.

We have not performed any procedures in respect of accounting data of the Bank, except for those procedures we considered necessary to express our opinion on the fair presentation of the financial statements.

Conformity by the internal control and organization of the risk management systems of the Bank with the requirements set forth by the Bank of Russia in relation to such systems

- We found that, in accordance with the legal acts and recommendations issued by the Bank of Russia, as at December 31, 2016, the Bank's internal audit division was subordinated and accountable to the Board of Directors, and the Bank's risk management departments were not subordinated or accountable to the departments that take the relevant risks.

- We found that the Bank's internal documents effective as at December 31, 2016 that establish the methodologies for detecting and managing credit, operational, strategic risks, interest rate risk on banking book and liquidity risks that are significant to the Bank and stress-testing have been approved by the Bank's authorized bodies in accordance with the legal acts and recommendations issued by the Bank of Russia. We also found that, as at December 31, 2016, the Bank has a reporting system pertaining to credit, operational, strategic risks, interest rate risk on banking book and liquidity risks that were significant to the Bank and pertaining to its equity.

- We found that the frequency and consistency of reports prepared by the Bank's risk management departments and internal audit division during the year ended December 31, 2016 with regard to the management of the Bank's credit, operational, strategic risks, interest rate risk on banking book and liquidity risks complied with the Bank's internal documents and that those reports included observations made by the Bank's risk management departments and internal audit division in respect of the effectiveness of the relevant risk management methodologies.

- We found that, as at December 31, 2016, the authority of the Board of Directors and executive management bodies of the Bank included control over compliance by the Bank with internally established risk limits and capital adequacy requirements. For the purposes of control over the effectiveness and consistency of the risk management procedures applied by the Bank during the year ended December 31, 2016, the Board of Directors and executive management bodies of the Bank regularly review the reports prepared by the Bank's risk management departments and internal audit division.

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The procedures pertaining to the internal control and organization of the risk management systems were conducted by us solely for the purpose of determining the conformity of certain elements of the internal control and organization of the risk management systems of the Bank, as listed in the Federal Law and described above, with the requirements set forth by the Bank of Russia.

A.V. Sorokin
Partner
Ernst & Young LLC

March 16, 2017

Details of the audited entity

Name: LLC Rusfinance Bank
Record made in the State Register of Legal Entities on August 28, 2002; State Registration Number 1026300001991.
Address: Russia 443013, Samara, Chernorechenskaya str., 42a.

Details of the auditor

Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on December 5, 2002; State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of the Self-regulated Organization of Auditors "Russian Audit Union" (Association) ("SRO RSA"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050648.

Statement of financial position
as at 31 December 2016

(in thousands of Russian rubles)

	Notes	December 31, 2016	December 31, 2015
Assets			
Cash and cash equivalents	6, 27	5,653,870	1,738,113
Obligatory reserves with the Central Bank of Russia	7	96,961	175,399
Financial assets at fair value through profit or loss	27	3,273	3,034
Loans to customers	8, 27	90,467,449	89,028,298
Property and equipment	9	497,921	458,640
Intangible assets	10	421,701	390,511
Current income tax assets	22	1,768	33,506
Other assets	11, 27	510,209	635,716
Total assets		**97,653,152**	**92,463,217**
Liabilities and equity			
Liabilities			
Due to credit institutions	12, 27	13,665,858	8,071,947
Due to customers	13, 27	13,543,377	18,310,460
Other borrowed funds	15	1,029,732	1,537,080
Debt securities issued	14, 27	44,145,798	37,711,321
Current income tax liabilities	22	85,600	4,551
Deferred income tax liabilities	22	516,741	539,986
Other liabilities	16, 27	1,640,194	3,269,798
Total liabilities		**74,627,300**	**69,445,143**
Equity			
Participant's contributions	17	12,016,960	12,016,960
Property and equipment revaluation reserve		56,704	57,168
Cash flow hedge reserve		–	140
Retained earnings		10,952,188	10,943,806
Total equity		**23,025,852**	**23,018,074**
Total liabilities and equity		**97,653,152**	**92,463,217**

On behalf of the Management Board:

S. Ozerov
Chairman of the Management Board

March 16, 2017
Samara

S. Buydinova
Chief Accountant

March 16, 2017
Samara

The accompanying Notes 1-29 are an integral part of these financial statements.

Statement of profit or loss

For the year ended December 31, 2016

(in thousands of Russian rubles)

	Notes	*Year ended December 31, 2016*	*Year ended December 31, 2015*
Interest income			
Loans to customers			
- unimpaired loans		14,329,104	15,206,007
- impaired loans	8	746,303	1,166,317
		15,075,407	**16,372,324**
Due from credit institutions and cash equivalents		269,140	946,009
	27	**15,344,547**	**17,318,333**
Interest expense			
Due to credit institutions		(667,476)	(1,846,597)
Due to customers		(1,597,128)	(2,305,578)
Other borrowed funds		(191,304)	(173,147)
Debt securities issued		(4,753,789)	(3,967,146)
	27	**(7,209,697)**	**(8,292,468)**
Net interest income before allowance for impairment of interest bearing assets		**8,134,850**	**9,025,865**
Charge of allowance for impairment of interest-bearing assets	18	(1,835,714)	(4,095,400)
Net interest income		**6,299,136**	**4,930,465**
Net gains from financial instruments at fair value through profit or loss	27	3,294	–
Net gains from foreign exchange operations	27		
- dealing		171	1,469
- translation differences		(22,548)	9,690
Fee and commission income	19, 27	1,369,202	1,258,264
Fee and commission expense	19, 27	(159,419)	(140,157)
Allowance for other assets and other provisions	18	(13,248)	(59,202)
Other income	20, 27	370,397	335,783
Net non-interest income		**1,547,849**	**1,405,847**
Operating income		**7,846,985**	**6,336,312**
Operating expenses	21, 27	(5,762,907)	(5,326,164)
Profit before income tax		**2,084,078**	**1,010,148**
Income tax expense	22	(436,563)	(208,424)
Net profit for the year		**1,647,515**	**801,724**

On behalf of the Management Board:

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Chairman of the Management Board

March 16, 2017
Samara

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Chief Accountant

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Statement of Comprehensive Income

For the year ended December 31, 2016

(in thousands of Russian rubles)

	Year ended December 31, 2016	*Year ended December 31, 2015*
Net profit for the year	**1,647,515**	**801,724**
Other comprehensive income		
Items not to be reclassified to profit or loss in subsequent periods		
Revaluation of property and equipment, net of deferred income tax in the amount of RUB 116 thousand (2015: RUB (68) thousand)	(464)	272
Items which may be reclassified to profit or loss in subsequent periods		
Cash flow hedges for gains/(losses) on share options	(140)	12,882
Other comprehensive income after income tax	**(604)**	**13,154**
Total comprehensive income	**1,646,911**	**814,878**

On behalf of the Management Board:

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Chairman of the Management Board

March 16, 2017
Samara

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Chief Accountant

March 16, 2017
Samara

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Statement of changes in equity

For the year ended December 31, 2016

(in thousands of Russian rubles)

	Participant's contributions	*Property and equipment revaluation reserve*	*Cash flow hedge reserve*	*Retained earnings*	*Total equity*
December 31, 2014	**12,016,960**	**56,896**	**(12,742)**	**13,158,275**	**25,219,389**
Total comprehensive income for the year	–	272	12,882	801,724	**814,878**
Profit distribution (Note 17)	–	–	–	(3,016,193)	**(3,016,193)**
December 31, 2015	**12,016,960**	**57,168**	**140**	**10,943,806**	**23,018,074**
Total comprehensive income for the year	–	(464)	(140)	1,647,515	**1,646,911**
Profit distribution (Note 17)	–	–	–	(1,639,133)	**(1,639,133)**
December 31, 2016	**12,016,960**	**56,704**	**–**	**10,952,188**	**23,025,852**

On behalf of the Management Board:

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Chairman of the Management Board

March 16, 2017
Samara

S. Buydinova
Chief Accountant

March 16, 2017
Samara

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Statement of cash flows

For the year ended December 31, 2016

(in thousands of Russian rubles)

	Notes	Year ended December 31, 2016	Year ended December 31, 2015
Cash flows from operating activities			
Interest received		16,041,191	17,502,817
Interest paid		(6,939,898)	(9,181,572)
Net gains/(losses) on financial instruments at fair value through profit or loss		21	–
Net gains from dealing foreign currencies		171	1,469
Fee and commission income		1,364,296	1,275,998
Fee and commission expense		(194,287)	(209,410)
Other income received		579,148	460,008
Operating expenses		(5,737,905)	(5,436,959)
Income tax paid		(346,906)	(107,642)
Cash inflow from operating activities before changes in operating assets and liabilities		**4,765,831**	**4,304,709**
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets			
Obligatory reserves with the Central Bank of Russia		78,438	233,110
Loans to customers		(3,976,049)	9,961,211
Other assets		(105,434)	431,706
(Decrease)/Increase in operating liabilities:			
Due to credit institutions		5,648,046	(14,496,502)
Due to customers		(4,777,049)	(10,700,118)
Other liabilities		4,039	235,001
Cash inflow/(outflow) from operating activities before tax		**1,637,822**	**(10,030,883)**
Cash flows from investing activities			
Purchase of property and equipment		(166,297)	(162,866)
Proceeds from disposal of property and equipment		1,908	2,624
Purchase of intangible assets		(180,589)	(137,900)
Net cash outflow from investing activities		**(344,978)**	**(298,142)**
Cash flows from financing activities			
Amount paid as distribution of profit	17	(3,039,133)	(1,016,193)
Repayment of other borrowed funds	15	(500,000)	–
Debt securities repaid	14	(4,002,999)	(14,623,377)
Debt securities issued	14	10,170,000	14,513,615
Net cash inflow from financing activities		**2,627,868**	**(1,125,955)**
Effect of changes in foreign exchange rates against Russian ruble on cash and cash equivalents		(4,955)	(8,555)
Net increase in cash and cash equivalents		**3,915,757**	**(11,463,535)**
Cash and cash equivalents, beginning of the year		1,738,113	13,201,648
Cash and cash equivalents, end of the year	6	**5,653,870**	**1,738,113**

On behalf of the Management Board:

S. Ozerov
Chairman of the Management Board

March 16, 2017
Samara

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(in thousands of Russian rubles)

1. Organization

LLC Rusfinance Bank (the “Bank”) was established by Promek Group in May 1992 as a limited liability company under the name of Promek-Bank. Initially, Promek-Bank provided lending and settlement services to corporate customers, in particular, to the companies related to the Promek Group. In 2000 Promek-Bank was acquired by SOK Group, a car assembler and automobile components producer, which resulted in the change of Promek-Bank’s strategy from corporate banking to retail banking. Since its acquisition by SOK Group, Promek-Bank began offering consumer finance products and started development of regional network. In July 2005, Promek-Bank was acquired by Société Générale Group to extend its consumer lending activities. Following the acquisition, Promek-Bank changed its name to LLC Rusfinance Bank. By October 1, 2006, point-of-sale lending activities were transferred from LLC Rusfinance to LLC Rusfinance Bank. In February 2006, the Central Bank of Russia (“CBR”) granted LLC Rusfinance Bank banking licence No. 1792, which authorizes LLC Rusfinance Bank to perform general types of banking operations, including retail operations.

In February 2013, the Bank obtained the General license which authorizes the Bank to diversify its sources of funding by borrowing the funds from the Ministry of Finance of the Russian Federation, the Pension Fund of the Russian Federation, pension savings of the Russian citizens managed by the state management company Vnesheconombank, non-governmental pension funds, state corporations and regional budgets.

The Bank offers consumer finance products and services such as car loans, point-of-sale lending, credit cards and loans to individuals through points of sale, business units and head office. The registered office of the Bank is located at: 443013, Russian Federation, Samara, Chernorechenskaya str., 42a.

On July 1, 2011, the Bank's ultimate controlling owner Société Générale Group (the “Group”) completed restructuring of its Russian business. After restructuring the Bank became a 100% subsidiary of PJSC Rosbank (the “Participant”). PJSC Rosbank is a subsidiary of Société Générale, which provides all types of services to individual and corporate customers.

The Bank has been a member of the obligatory deposit insurance system since November 4, 2004. The system operates under the Federal laws and regulations and is governed by the State Corporation “Agency for Deposits Insurance”. Insurance covers the Bank’s liabilities to individual depositors in the amount up to RUB 1,400 thousand for each individual in case of business failure or revocation of the CBR banking license.

As at December 31, 2016, the Bank had the following credit ratings:

- The BBB- long-term issuer default rating assigned by Fitch;
- The BB+ long-term credit rating awarded by Standard & Poor’;
- The Ba1 and Ba2 long-term ratings of deposits in national and foreign currency, respectively, assigned by Moody’s Investor Service.

It should be mentioned that rating assigned by Fitch remains an investment grade rating.

As part of its strategy, the Bank develops the regional network in Russia. As at December 31, 2016, the Bank had 133 lending and cash outlets and 2 additional offices in 68 regions of the Russian Federation (December 31, 2015: 134 lending and cash outlets and 2 additional offices in 68 regions).

As at December 31, 2016, the Bank had an average of 5,057 employees (December 31, 2015: 4,762 employees).

The financial statements of the Bank for the year ended December 31, 2016 were authorized for issue by the Management Board on March 16, 2017.

2. Significant accounting policies

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (the “IASB”).

Other basis of presentation criteria

These financial statements have been prepared on the assumption that the Bank acts as a going concern and will continue its business activity in the foreseeable future.

These financial statements are presented in thousands of Russian rubles (“RUB”), unless otherwise indicated. These financial statements are prepared on a historical cost basis, except for certain financial instruments measured at fair value and buildings subject to revaluation.

(in thousands of Russian rubles)

2. Significant accounting policies (continued)

Other basis of presentation criteria (continued)

The historical cost is generally estimated based on the fair value of consideration transferred in exchange of goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, irrespective of whether this price is directly observable or is calculated using another valuation technique. In estimating the fair value of an asset or a liability, the Bank takes into account the characteristics of such asset or liability as if market participants would take these characteristics into account when pricing the asset or liability at the measurement date. The fair value in these financial statements is determined using such method for the purpose of fair value measurement and/or disclosures except for share-based payment transactions within the scope of IFRS 2, leasing transactions within the scope of IAS 17, and values similar but not identical to fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

In addition, for the purpose of financial reporting the fair value is categorized within the fair value hierarchy (Levels 1, 2 and 3). The levels correlate to the possibility of direct measurement of fair value using the market data and reflect the materiality of the inputs used for the fair value measurement:

- Level 1 inputs comprise quoted market prices in active markets for identical assets and liabilities which do not require adjustments and which are available to the Company at the valuation date.
- Level 2 inputs comprise inputs other than Level 1 quoted prices and which are either directly or indirectly observable on the market for the relevant asset or liability.
- Level 3 inputs comprise unobservable inputs for the asset or liability.

The Bank maintains its accounting records in accordance with Russian Accounting Standards ("RAS"). These financial statements have been prepared from the statutory-based accounting records and adjusted to conform to IFRS.

The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in Note 26.

Functional currency

Items included in the financial statements of the Bank's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The functional currency of the Bank is the Russian ruble ("RUB"). The Russian ruble is also the presentation currency of these financial statements. All values are rounded to the nearest thousand unless otherwise indicated.

Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position only when the Company has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Income and expense is not offset in the statement of profit or loss unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

The significant accounting policies are set out below.

Revenue recognition

Recognition of interest income and expense

Interest income on financial assets is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the amount of income can be measured reliably. Interest income and expense are recognized on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or liabilities) and of allocating the interest income or interest expense over the relevant period.

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

(in thousands of Russian rubles)

2. Significant accounting policies (continued)

Revenue recognition (continued)

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

Interest earned on assets at fair value is classified as interest income.

Recognition of fee and commission income and expense

Fee and commission income/(expense) is recognized as income/(expense) upon the completion of the relevant transaction. Fees and commission, as well as direct costs related to the origination of loans (agent fees to individual agents and partner legal entities for the issue of loans) that are considered to be integral to the overall profitability of a loan, are recorded in interest income over the estimated life of the financial instrument using the effective interest method. Other non-interest income/(expense) is recognized on an accrual basis when the corresponding service has been provided.

Recognition and measurement of financial instruments

Financial assets and financial liabilities are recognized in the Bank's statement of financial position when the Bank becomes a party to the contractual provisions of the instrument. The Bank recognizes regular purchases and disposals of financial assets and liabilities by settlement date. Regular purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulations or market practices.

Financial assets and liabilities are initially measured at fair value. Transaction costs directly attributable to the acquisition or issue of financial assets or financial liabilities (except for financial assets and liabilities recognized at fair value through profit or loss) respectively increase or decrease the fair value of financial assets or liabilities on initial recognition. Transaction costs directly attributable to the acquisition of the financial assets or financial liabilities at fair value through profit or loss are attributed directly to profit or loss.

Financial assets

Financial assets are classified into the following categories:

- Financial assets at fair value through profit or loss;
- Held-to-maturity investments;
- Available-for-sale financial assets;
- Loans and receivables.

The classification depends on the nature and purpose of the financial assets and is determined on initial recognition.

Financial assets at fair value through profit or loss

Financial assets are classified as measured at fair value through profit or loss when the financial asset is either held for trading or is initially recognized as financial asset at fair value through profit or loss.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling it in the near term;
- On initial recognition it is a part of a portfolio of identified financial assets that the Bank manages together and has a recent actual pattern of short-term purchases or resale; or
- It is a derivative that is not classified and is not used as hedging instrument.

Financial assets, other than held-for-trading, may be classified as financial asset at fair value through profit or loss if:

- Such classification eliminates or significantly reduces inconsistency in measurement or recognition inconsistency that would otherwise arise;
- The financial asset is a part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy, and therefore information on such group of financial assets is communicated internally;
- The financial liability is a part of the instrument with one or several embedded derivatives, and IAS 39 *Financial instruments: Recognition and Measurement* permits the classification of the entire instrument (asset or liability) as the financial asset at fair value through profit or loss.

(in thousands of Russian rubles)

2. Significant accounting policies (continued)

Financial assets (continued)

Financial assets at fair value through profit or loss with changes in fair value recorded in the statement of profit or loss are stated at fair value, with any arising gains or losses recorded within financial results. Net gains or losses recognized in profit or loss incorporate dividends or interest earned on the financial asset and are recorded within net gain/(loss) on financial assets and liabilities at fair value through profit or loss in the statement of profit or loss. The fair value measurement disclosures are presented in Note 24.

Loans and receivables

Trade receivables, loans issued, and other non-derivative financial assets with fixed or determinable payments not quoted in the organized market are classified as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest method, less impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset, and those events had an impact on the estimated future cash flows.

Marketable and non-marketable investments classified as available for sale are considered to be impaired if there has been a significant or prolonged decline in the fair value below their cost.

For all other financial assets, objective evidence of impairment may include:

- An issuer or a counterparty facing significant financial difficulties;
- Breach of a contract, e.g., default or delinquency in interest or principal payments;
- Default or delinquency in interest or principal payments;
- Probability of the bankruptcy or financial reorganization of the borrower;
- Unavailability of an active market for that financial asset due to financial difficulties.

For certain categories of financial asset, such as loans and receivables, assets with no evidence of individual impairment are additionally assessed for impairment on collective basis. Objective evidence of impairment of loan portfolio and receivables may include the Bank’s past experience of bad debt collecting, an increase in the number of past due payments in the portfolio, as well as observable changes in national or local economic environment which are typically accompanied by default payments.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the financial asset’s original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset’s carrying amount and the present value of the estimated future cash flows discounted at the current market interest rate for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The impairment loss directly decreases the carrying amount of all financial assets with the exception for loans and receivables, where the carrying amount is decreased through the use of an allowance account. When considered uncollectible, loans and receivables are written off against the allowance. Changes the allowance account are recognized in profit or loss.

Renegotiated loans

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

(in thousands of Russian rubles)

2. Significant accounting policies (continued)

Financial assets (continued)

The accounting treatment of such restructuring is as follows:

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

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

Write off of loans and receivables

Loans and receivables are written off against the allowance for impairment losses when deemed uncollectible. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Bank and after the Bank has sold all available collateral. Subsequent recoveries of amounts previously written off are recorded as the decrease in the charge for impairment of financial assets in the statement of profit or loss when the recovery took place.

Derecognition of financial assets

The Bank derecognizes a financial asset only upon expiration of the contractual rights to cash flows on such asset or when the financial asset and accompanying risks and rewards are transferred to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank continues to recognize its retained interest in such asset and the associated liability to pay the relevant amounts. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and recognizes the amounts received on such transfer as the secured loan.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On derecogntion of a financial asset other than in its entirety (e.g. when the Bank retains an option to repurchase part of the transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Bank retains control), the Bank allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes based on the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the amount of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it and recognized in other comprehensive income, shall be recorded in profit or loss. Gain or loss recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized based on the relative fair values of those parts.

Financial liabilities and equity instruments issued

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instrument

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Bank are carried at the amount of the proceeds received, net of direct issuance costs.

(in thousands of Russian rubles)

2. Significant accounting policies (continued)

Financial liabilities and equity instruments issued (continued)

Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

Financial liabilties at fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss when the financial liability is either held for trading or designated upon initial recognition as at fair value through profit or loss.

A financial liability is classified as held for trading if:

- It has been acquired principally for the purpose of repurchase in the near term;
- On initial recognition it is a part of a portfolio of identified financial assets that the Bank manages together and has a recent actual pattern of short-term purchases or resale; or
- It is a derivative that is not classified and is not used as hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- Such classification eliminates or significantly reduces inconsistency in measurement or recognition inconsistency that would otherwise arise;
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy, and information about the grouping is communicated internally;
- The financial liability is a part of the instrument with one or several embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the classification of the entire instrument (asset or liability) as the financial asset at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are stated at fair value, with remeasurements recognized in profit or loss. Net gains or losses recognized in profit or loss incorporate interest earned on the financial asset and are recorded within net gain/(loss) on financial instruments at fair value through profit or loss in the statement of profit or loss. The fair value measurement disclosures are presented in Note 24.

Other financial liabilities

Other financial liabilities, including depository instruments with the CBR, amounts due to banks and customers, debt securities issued, other borrowed funds and other liabilities are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost. Interest expense is measured using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the carrying amount on initial recognition.

Derecognition of financial liabilities

The Bank derecognizes financial liabilities when, and only when, the Bank's obligations are discharged, canceled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit and loss.

(in thousands of Russian rubles)

2. Significant accounting policies (continued)

Derivative financial instruments

The Bank enters into financial derivative contracts (forwards) to manage currency, interest and liquidity risks. Derivative financial instruments that are entered into by the Bank are not designated as hedges and do not qualify for hedge accounting. Derivative financial instruments are initially recognized at fair value as of the date on which a derivative contract is entered into and are subsequently remeasured at fair value at each reporting date. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Derivatives are included in financial assets and liabilities at fair value through profit or loss in the statement of financial position. Gains and losses resulting from these instruments are included in the statement of profit or loss as net gain/(loss) on financial instruments at fair value through profit or loss.

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

Leases

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

Bank as a lessee

Assets under finance leases are initially carried at the fair value of the leased property at the commencement of the lease or at the discounted value of the minimum lease payments. The corresponding liabilities to the lessor are included in the statement of financial position as finance lease liabilities.

Lease payments are allocated between the finance expenses and reduction of the lease liability so as to achieve a constant rate of interest on the remaining liability. Finance expenses are recognized within profit or loss if they are not directly attributable to qualifying assets. Lease payments arising from future events are recognized within expenses as incurred.

Operating lease payments are recognized within expenses on a straight-line basis over the lease term, except where another method for allocating expenses is more consistent with the method for allocating economic benefits form leased assets over the period of time. Payments under operating lease agreements arising from future events are recognized within expenses as incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liabilities. Such incentives evenly reduce lease expenses over the lease term, except where another method for allocating expenses is more consistent with the method for allocating economic benefits form leased assets over the period of time.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, unrestricted balances on correspondent and term accounts with the CBR and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Obligatory reserves with the CBR are not included in cash and cash equivalents balances due to restrictions on their use.

Minimum reserve deposits with the CBR

Minimum reserve deposits with the CBR represent obligatory reserves with the CBR, which are not available to finance the Bank's day-to-day operations and hence are not included in cash and cash equivalents. As a result, obligatory reserves are excluded from cash and cash equivalents.

(in thousands of Russian rubles)

2. Significant accounting policies (continued)

Property and equipment

Property and equipment are carried at historical cost less accumulated depreciation and accumulated impairment losses, if any (except for buildings that are carried at revalued amounts less accumulated deprecation and subsequent accumulated impairment losses).

Depreciation is charged on the carrying amount of property and equipment and is designed to write off assets over their useful lives. Depreciation is accrued on a straight-line basis over the estimated useful lives:

- Buildings – 50 years;
- Computers and office equipment – 5-6 years;
- Furniture – 10 years;
- Motor vehicles – 4 years.

Assets acquired under finance lease agreements are depreciated over their expected useful lives on the same basis as own property and equipment.

Leasehold improvements are depreciated over the shorter of the lease term or the useful life of the asset.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted if appropriate.

Current and capital repair expenses are recognized within other operating expenses in the period in which they are incurred, unless they meet capitalization requirements.

Buildings are recorded in the statement of financial position at their revalued amounts, constituting the fair values at the date of revaluation, determined qualified independent appraisers based on market data, less any accumulated depreciation and accumulated impairment losses. Revaluations are performed on a regular basis to ensure that the carrying amount of assets approximate their respective fair value. Any increase arising from the revaluation of buildings is recorded in the property and equipment revaluation reserve, unless such increase compensates for a revaluation decrease of the same asset previously recognized in profit or loss. In such case, the increase is recognized in the statement of profit or loss in the amount of the previously recognized decrease in the asset's value. A decrease in carrying amount arising form the revaluation is recorded in the statement of profit or loss to the extent that it exceeds the value of such asset after the date of the revaluation.

Depreciation expenses on revalued buildings are recognized in the statement of profit or loss. On subsequent sale or disposal of revalued property, the attributable revaluation surplus recorded in the property and equipment revaluation reserve is transferred to retained earnings.

Market value of buildings is assessed using either the sales comparison approach which involves analysis of market sales prices for similar real estate properties or discounted cash flow approach (income capitalization approach).

An item of property and equipment is derecognized upon sale or when no future economic benefits are expected from its continuing use. Any gain or loss arising on sale or disposal of items of property and equipment is determined as the difference between the sale price and the carrying amount of such assets and is recognized in profit or loss.

Intangible assets

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at acquisition cost less any accumulated amortization and any accumulated impairment losses. Intangible assets are amortized over the estimated useful life of 1-10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and methods for intangible assets are reviewed at least at each financial year-end.

Costs attributable to operation of software are recognized as expense when incurred.

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

(in thousands of Russian rubles)

2. Significant accounting policies (continued)

Intangible assets (continued)

Impairment of financial assets other than goodwill

On an ongoing basis, the Bank reviews its tangible and intangible assets with finite useful lives for any indicators of impairment of their carrying amounts. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs. The value of the Bank's corporate assets is also allocated to separate cash generating units or the smallest groups of cash generating units for which a reasonable and consistent method of allocation may be established.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at revalued amount, in which case the impairment loss is treated as revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at revalued amount, in which case the reversal of the impairment loss is treated as revaluation increase.

Accounting for the effects of hyperinflation

By the end of 2002, the economy of the Russian Federation was considered to be a hyperinflationary economy as defined by IAS 29. Since January 1, 2003 economy of the Russian Federation ceased to be hyperinflationary, and the costs of non-monetary assets, liabilities and equity, calculated as at December 31, 2002, was used to calculate opening balances as at January 1, 2003.

Taxation

Income tax expense represents the sum of the current and deferred taxes.

Current tax expense is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Bank's current tax expense is calculated using tax rates that have been enacted during the reporting period.

Deferred tax is the tax expected to be payable or recoverable on the differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Tax assets and liabilities are not recognized if temporary differences arise from goodwill or from the initial recognition of an asset or a liability in transactions (except for business combinations) and affect neither taxable, nor accounting profit.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer highly probable that taxable profit will be available to allow all or part of the deferred income tax asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized. Deferred tax is recognized in the statement of profit or loss, except when it relates to items charged or credited directly to other comprehensive income, in which case the deferred tax is also recognized in other comprehensive income.

(in thousands of Russian rubles)

2. Significant accounting policies (continued)

Taxation (continued)

Deferred income tax assets and deferred tax liabilities are offset and recognized in the statement of financial position as total difference, if:

- The Bank has a legally enforceable right to set off current income tax assets against current income tax liabilities; and
- Deferred income tax assets and deferred income tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

Current and deferred tax for the year

Current and deferred income taxes are recognized in the statement of profit or loss except when they relate to the items directly recognized in other comprehensive income or equity. In this case, current and deferred taxes are recognized in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for business combination.

Operating taxes

In the Russian Federation there are other requirements to accrual and settlement of taxes applicable to the Bank's activity other than income tax. These taxes are recognized in the statement profit or loss within operating expenses.

Provisions

Provisions are recognized when the Bank has liabilities (legal or constructive) resulting form the past event, and it is probable that the Bank will be required to settle such liabilities and their amount can be reliably measured.

The amount of the provision is determined as the best estimate of the consideration required to settle the present liability at the reporting date, taking into account the risks and uncertainties specific to such liability. When the provision for future expenses is measured using the cash flows estimated to settle the liability, the provision for future expenses is determined as the corresponding discounted cash flows (where the effect of change in the time value of money is material).

When some or all of the economic benefits required to settle the liabilities are expected to be recovered by a third party, the corresponding receivables are recognized as assets it is virtually certain that the receivables will be settled and the amount of such receivables can be reliably measured.

Contingent liabilities

Contingent liabilities are not recognized in the consolidated statement of financial position but are disclosed in the financial statements unless the possibility of any outflow as a result of repayment is remote. A contingent asset is not recognized in the statement of financial position but disclosed when an inflow of economic benefits is probable.

Retirement obligations

In accordance with the requirements of the Russian legislation, pension contributions are calculated as a percentage of payroll expenses and are transferred to the State Pension Fund of the Russian Federation. The State Pension Fund of the Russian Federation distributes such contributions between the funds selected by employees. The Bank does not have an obligation to transfer pension contributions directly to pension funds selected by employees. Such expenses are recognized in profit or loss in the period when the related salaries are earned. Upon retirement all retirement benefit payments are made by pension funds selected by employees. The Bank does not have any pension arrangements separate from the State Pension scheme of the Russian Federation. In addition, the Bank has no post-retirement benefits or other significant compensated benefits requiring accrual.

Share based payments

Regarding share based payments (consideration is determined based on the value of shares of Société Générale), the fair value of consideration payable is recorded in operating expenses as an expense over the vesting period against corresponding liability recognized in the statement of financial position within other liabilities. Such payables are remeasured at fair value at each reporting and settlement date and charged to profit or loss.

(in thousands of Russian rubles)

2. Significant accounting policies (continued)

Hedge accounting

The Bank designates certain hedging instruments, including derivatives, such as cash flow hedges. At the inception of the hedge relationships, The Bank documents the relationship between the hedging instrument and the hedged item in accordance with the risk management and hedging strategies. Furthermore, at the inception of the hedge relationships and on an ongoing basis, the Bank documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows related to the hedged item and attributable to the hedge risk.

Cash flow hedges

The effective portion of changes in the fair value of derivatives designated and qualified as cash flow hedges, is recognized in other comprehensive income and accumulated within cash flow hedge reserve. Ineffective portion of changes in fair values of hedging instruments is included in gains or losses for the reporting period and is recognized in line other gains or losses.

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in line where the written-off hedged item is recognized, in the periods when the hedged item is taken to profit or loss. However, where the non-financial asset or liability is recognized in the result of a prospective transaction, gains and losses previously recognized in other comprehensive income and accumulated in equity are reclassified from equity and added to the historical cost of non-financial asset or liability.

Hedge accounting is discontinued when the hedging relationships are terminated, when the hedging instrument expires or is sold, terminated, or exercised, or when no longer qualifies for hedge accounting. Gains and loses recognized in other comprehensive income and accumulated in equity continue to be recognized in equity and are taken to profit or loss with the results of the prospective transaction. When the transaction is no longer expected, gains and losses accumulated in other comprehensive income are immediately taken to profit or loss.

Foreign currency translation

The financial statements are presented in Russian rubles. The Russian ruble is the functional and presentation currency of the Bank. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the presentation currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the statement of profit or loss within gains less losses from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in foreign currency are translated using the rate of exchange ruling at the date of the initial transaction. Non-monetary items measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the CBR exchange rate on the date of the transaction are included in net gain/(loss) on foreign exchange operations.

Exchange rate

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

	December 31, 2016	***December 31, 2015***
RUB / 1 USD	60.6569	72.8827
RUB / 1 EUR	63.8111	79.6972

Collateral

The Bank obtains collateral against customers’ obligations where necessary.

Collateral is generally the pledge of the customer’s assets entitling the Bank to claim such assets with regard to the customers’ current and future obligations.

Equity reserves

Reserves recorded in equity (other comprehensive income) in the statement of financial position include:

- Property and equipment revaluation reserve, where revaluation of buildings is recorded;
- Cash flow hedges reserve, including the profit or loss portion on hedging instruments under cash flow hedges, designated as effective hedging instrument.

(in thousands of Russian rubles)

3. Critical accounting judgments and key sources of estimation uncertainty

The preparation of the Bank's financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the reporting date and the reported amount of income and expenses during the period. Estimates and judgments are continuously evaluated and are based on management's experience and other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions and conditions. The following estimates and judgments are considered essential in presenting the Bank's financial condition.

Allowance for loan impairment

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

As at December 31, 2016 and 2015, the total amount of loans and receivables was RUB 102,451,111 thousand and RUB 102,321,378 thousand, respectively. Allowance for impairment losses amounted to RUB 11,983,662 thousand and RUB 13,293,080 thousand, respectively.

Valuation of financial instruments

Financial instruments classified as at fair value through profit or loss, and all derivatives, are recognized at fair value. The fair value of such financial instruments is the estimated amount at which the instrument could be exchanged between willing parties, other than in a forced or liquidation sale.

If a quoted market price is available for the instrument, the fair value is calculated based on the market price. When valuation parameters are not observable in the market or cannot be derived from observable market prices, the fair value is determined through analysis of other observable market data appropriate for each product and pricing models using the mathematical methodology based on accepted financial theories. Pricing models take into account contractual terms on securities as well as market-based valuation parameters, such as interest rates, volatility, exchange rates and credit rating of the counterparty. In the absence of market-based valuation parameters, management will make judgment as to its best estimate of such parameter demonstrating the best reasonable price that might be set for such parameter. Such estimation involves a variety of tools, including proxy observable data, historical data, and extrapolation techniques. The best evidence of fair value of a financial instrument at initial recognition is the transaction price unless the fair value of such instrument is evidenced by comparing observable market data. Any difference between the transaction price and the value determined using the valuation technique is not recognized in the statement of profit or loss on initial recognition. Subsequent gains or losses are only recognized to the extent they relate to a change in the factor the market participants would consider in setting a price.

According to the Bank, the accounting estimate related to valuation of financial instruments where quoted market prices are not available is a key source of estimation uncertainty because: (i) it is highly susceptible to periodic changes as it requires management to make assumptions on interest rates, volatility, exchange rates, the credit rating of the counterparty, valuation adjustments and nature of transactions, and (ii) the impact that such a change in the valuations would have on the assets recognized in the statement of financial position as well as its gain/(loss) could be material.

The use of different assumptions regarding the interest rates, volatility, exchange rates, credit rating of the counterparty and valuation adjustments would result in more or less significant changes in the valuation of financial instruments with quoted market prices unavailable, and would have material impact on the Bank's reported net income.

Property and equipment

Buildings are recognized at revalued amount. The latest valuation took place on December 31, 2016. The next valuation is scheduled for December 31, 2017. As at December 31, 2016 and 2015, the revalued amount of property was RUB 72,005 thousand and RUB 74,059 thousand, respectively.

(in thousands of Russian rubles)

4. Adoption of new and revised International Financial Reporting Standards (IFRS)

Changes in accounting policies

The Bank has adopted the following amended IFRS effective for annual reporting periods beginning on or after January 1, 2016:

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1;
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated;
- That entities have flexibility as to the order in which they present the notes to financial statements;
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statements of profit or loss and OCI. These amendments are effective for annual periods beginning on or after January 1, 2016. These amendments do not have any impact on the Bank.

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10 *Consolidated Financial Statements*. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 *Investments in Associates and Joint Ventures* allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

These amendments must be applied retrospectively and are effective for annual periods beginning on or after January 1, 2016. These amendments do not have any impact on the Bank as the Bank does not apply the consolidation exception.

Annual improvements 2012-2014 cycle

These improvements are effective for annual periods beginning on or after January 1, 2016. They include, in particular:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or through distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

IFRS 7 Financial Instruments: Disclosures

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

(in thousands of Russian rubles)

4. Adoption of new and revised International Financial Reporting Standards (IFRS) (continued)

Standards issued but not yet effective

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

IFRS 9 Financial Instruments

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

From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories will be replaced by: fair value through profit or loss (FVPL), fair value through other comprehensive income (FVOCI), and amortized cost categories. IFRS 9 also allows entities to continue to irrevocably designate instruments that qualify for amortized cost or FVOCI instruments as FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement. The accounting for financial liabilities will largely be the same as the requirements of IAS 39.

IFRS 9 will also fundamentally change the approach to loan impairment. The standard will replace IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. The Bank will be required to record an allowance for expected losses for all loans and other debt financial assets not carried at FVPL, as well as for loan commitments and financial guarantee contracts. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case the allowance would be based on the probability of default over the life of the asset.

IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. Retrospective application is required, but restatement of comparative information is not required; the effect on the transition date – January 1, 2018 – would be recorded in retained earnings. The adoption of IFRS 9 is expected to have an effect on the classification and measurement of the Bank's financial assets, but no impact on the classification and measurement of the Bank's financial liabilities. The Bank expects a significant impact on its equity due to the adoption of IFRS 9 impairment requirements, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers*, effective for periods beginning on or after January 1, 2018, with early adoption permitted. IFRS 15 defines principles for recognizing revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (e.g., IFRS 9, and IFRS 16 *Leases*).

Revenue under IFRS 15 will need to be recognized as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers.

The Bank does not anticipate early adopting IFRS 15 and is currently evaluating its impact.

IFRS 16 Leases

The IASB issued the new standard for accounting for leases – IFRS 16 *Leases* – in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognize most leases on their balance sheets as lease liabilities, with the corresponding right-of-use assets. Lessees must apply a single model for all recognized leases, but will have the option not to recognize 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for all recognized leases will be similar to today's finance lease accounting, with interest and depreciation expense recognized separately in the statement of profit or loss.

IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date.

The Bank does not anticipate early adopting IFRS 16 and is currently evaluating its impact.

(in thousands of Russian rubles)

4. Adoption of new and revised International Financial Reporting Standards (IFRS) (continued)

Standards issued but not yet effective

Amendments to IAS 12 Income Taxes

In January 2016, through issuing amendments to IAS 12, the IASB clarified the accounting treatment of deferred tax assets of debt instruments measured at fair value for accounting, but measured at cost for tax purposes. The Bank does not anticipate that adopting the amendments would have a material impact on its financial statements.

Amendments to IAS 7 Statement of Cash Flows

In January 2016, the IASB issued amendments to IAS 7 *Statement of Cash Flows* with the intention to improve disclosures of financing activities and help users to better understand the reporting entities' liquidity positions. Under the new requirements, entities will need to disclose changes in their liabilities as a result of financing activities such as changes from cash flows and non-cash items (e.g., gains and losses due to foreign currency movements). The amendment is effective from January 1, 2017. The Bank is currently evaluating the impact.

Amendments to IFRS 2 Share-based Payment

The IASB issued amendments to IFRS 2 *Share-based Payment* in relation to the classification and measurement of share-based payment transactions. The amendments are intended to eliminate diversity in practice, but are narrow in scope and address specific areas of classification and measurement. The amendments address three main areas:

- The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction;
- The classification of a share-based payment transaction with net settlement features for withholding tax obligations;
- The accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.

These amendments are effective for annual periods beginning on or after January 1, 2018. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. Early application is permitted. These amendments are not expected to have any impact on the Bank.

Amendments to IFRS 4 – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing the new insurance contracts standard that the Board is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. The optional temporary exemption from IFRS 9 is available to entities whose activities are predominantly connected with insurance. The temporary exemption permits such entities to continue to apply IAS 39 *Financial Instruments: Recognition and Measurement* while they defer the application of IFRS 9 until January 1, 2021, at the latest. The overlay approach requires an entity to remove from profit or loss additional volatility that may arise if IFRS 9 is applied with IFRS 4.

The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies IFRS 9 and apply that approach retrospectively to financial assets designated on transition to IFRS 9. These amendments are not expected to have any impact on the Bank.

5. Segment information

The Bank's operations are highly integrated and constitute a single industry segment, retail banking. Assets of the Bank are primarily concentrated in the Russian Federation and its revenues and net income are primarily received from the operations within the territory of the Russian Federation. As such, no disclosure of revenues, costs, assets and liabilities has been made in thefinancial statement as required by IFRS 8 *Operating Segments* as the Bank considers itself to be a single operating segment.

(in thousands of Russian rubles)

6. Cash and cash equivalents

	December 31, 2016	*December 31, 2015*
Cash on hand	448,048	455,830
Current accounts with the CBR	2,387,035	721,063
Current accounts with other credit institutions	15,755	61,165
Time deposits with credit institutions up to 90 days	2,803,032	500,055
Total cash and cash equivalents	**5,653,870**	**1,738,113**

As at December 31, 2016, current accounts and deposits with credit institutions comprised current accounts and deposits in the amount of RUB 14,159 thousand (December 31, 2015: RUB 50,258 thousand) were placed with Russian banks which are members of Société Générale Group.

As at December 31, 2016, time deposits with credit institutions up to 90 days comprised time deposits in the amount of RUB 2,803,032 thousand (December 31, 2015: RUB 0 thousand) placed with the Russian banks members of Société Générale Group (Note 27).

7. Minimum reserve deposit with the CBR

As at December 31, 2016, the Bank maintained obligatory reserves of RUB 96,961 thousand with the CBR (December 31, 2015: RUB 175,399 thousand). The Bank is not able to use its obligatory reserves with the CBR for payments and other purposes. According to the Russian legislation, obligatory reserves are interest-free.

8. Loans to customers

Loans to customers comprise:

	December 31, 2016	*December 31, 2015*
Loans to individuals	98,261,777	99,361,981
Loans to legal entities (trade)	983,655	1,213,864
Account receivable from RF Government debtors on financed car loans	3,205,679	1,745,533
Total loans	**102,451,111**	**102,321,378**
Less – allowance for impairment of loans to customers	(11,983,662)	(13,293,080)
Total loans to customers after allowance impairment losses	**90,467,449**	**89,028,298**

The Bank participates in the State program of the Russian Federation according to which the Ministry of Industry and Trade of the Russian Federation provides compensation to the Bank for shortfall in income on car loans to customers in the amount of 2/3 of the key rate set by the CBR. The government grant is accounted for in accordance with IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*.

Movements in allowances for impairment for the years ended December 31, 2016 and 2015 are disclosed in Note 18.

The carrying amount of loans to customers by type of collateral received by the Bank is presented below:

	December 31, 2016	*December 31, 2015*
Loans to individuals secured by vehicles	72,914,543	76,211,194
Account receivable from RF Government debtors on financed car loans secured by vehicles	3,205,679	1,745,533
Loans to legal entities secured by vehicles	983,655	1,213,864
Unsecured loans	25,347,234	23,150,787
	102,451,111	**102,321,378**
Less – allowance for impairment of loans to customers	(11,983,662)	(13,293,080)
Total loans to customers	**90,467,449**	**89,028,298**

The amounts shown in the table above represent the carrying amount of the loan portfolio, and do not necessarily represent the fair value of the collateral.

(in thousands of Russian rubles)

8. Loans to customers (continued)

The structure of the Bank's loan portfolio is shown in the table below:

	December 31, 2016	*December 31, 2015*
Loans to individuals		
Car loans	72,914,543	76,211,194
Consumer loans	16,332,860	13,713,514
Direct sales	8,731,385	9,085,459
Credit cards	282,989	351,814
Total loans to individuals	**98,261,777**	**99,361,981**
Account receivable from RF Government debtors on financed car loans	3,205,679	1,745,533
Loans to legal entities (trade)	983,655	1,213,864
Gross loans to customers	**102,451,111**	**102,321,378**
Less – allowance for impairment of loans to customers	(11,983,662)	(13,293,080)
Total loans to customers	**90,467,449**	**89,028,298**

Allowance for impairment of loans to customers

The table below summarizes an analysis of loans to customers by impairment:

	December 31, 2016			*December 31, 2015*		
	Carrying amount before allowance for impairment	*Allowance for impairment*	*Carrying amount*	*Carrying amount before allowance for impairment*	*Allowance for impairment*	*Carrying amount*
Loans to legal entities determined to be individually impaired	32,058	(32,058)	–	32,058	(32,058)	–
Loans to individuals determined to be collectively impaired	13,117,715	(10,807,443)	2,310,272	15,334,898	(12,116,860)	3,218,038
Unimpaired loans	89,301,338	(1,144,161)	88,157,177	86,954,422	(1,144,162)	85,810,260
Total	**102,451,111**	**(11,983,662)**	**90,467,449**	**102,321,378**	**(13,293,080)**	**89,028,298**

In accordance with Russian legislation, loans may be written off only with the approval of the Management Board and, in certain cases, by court decision.

In 2016 and 2015, interest income on loans overdue for more than 90 days (impaired loans) amounted to RUB 746,303 thousand and RUB 1,166,317 thousand, respectively.

In order to assess the quality of the loan portfolio, loans to individuals are broken down into the following groups:

- Loans included in one of the homogeneous portfolios. Such loans meet one of the characteristic features:
  - At the moment of issue, the amount of each loan and/or the total amount of loans issued to one borrower shall not exceed 0.5% of the Bank's equity if the borrower is regarded as having good financial standing according to Regulation of the Bank of Russia No. 254-p;
  - At the moment of issue, the amount of each loan and/or the total amount of loans issued to one borrower shall not exceed RUB 1 million if the borrower is regarded as having average financial standing according to Regulation of the Bank of Russia No. 254-p.

  The financial standing of individual borrower is assessed when the decision on possibility of the loan issue is made.
- Non-homogeneous loans – loans not included in the homogeneous loans portfolio.

The Bank classifies all loans issued to legal entities and credit institutions as non-homogeneous loans.

Other attributes of homogeneous loans:

- Existence of overdue payments;
- Designated purpose;
- Methodology for assessment of the borrower's creditworthiness;
- Type of borrower.

(in thousands of Russian rubles)

8. Loans to customers (continued)

Allowance for impairment of loans to customers (continued)

Depending on the existence of overdue payments, the Bank's credit portfolio is classified into following categories:

- Sound loans (loans without overdue payments or 1 to 90 calendar days overdue);
- Doubtful loans (91 to 360 calendar days overdue);
- Non-performing loans (more than 361 days overdue).

The credit quality of loans to customers can be defined based on the internal credit quality assessment system, which reflects the probability of default of the borrower, i.e. the likelihood that the borrower fails to pay interest or principal or meet other financial obligations to the Bank.

As at December 31, 2016, the Bank's loan portfolio less allowance for impairment of loans to customers is broken down into the following categories:

	Sound loans	*Doubtful loans*	*Non-performing loans*	*Total 2016*
Loans to customers				
Car loans	63,684,386	1,350,531	7,879,626	**72,914,543**
Consumer loans	14,622,676	452,418	1,257,766	**16,332,860**
Direct sales	6,660,898	344,543	1,725,944	**8,731,385**
Credit cards	176,102	15,703	91,184	**282,989**
Loans to legal entities	951,597	–	32,058	**983,655**
Account receivable from RF Government debtors on financed car loans	3,205,679	–	–	**3,205,679**
Gross loans to customers	**89,301,338**	**2,163,195**	**10,986,578**	**102,451,111**
Less – allowance for impairment of loans to customers	(1,144,161)	(1,341,247)	(9,498,254)	**(11,983,662)**
Total loans to customers	**88,157,177**	**821,948**	**1,488,324**	**90,467,449**

As at December 31, 2015:

	Sound loans	*Doubtful loans*	*Non-performing loans*	*Total 2015*
Loans to customers				
Car loans	65,564,791	2,518,902	8,127,501	**76,211,194**
Consumer loans	11,677,179	637,818	1,398,517	**13,713,514**
Direct sales	6,561,102	683,247	1,841,110	**9,085,459**
Credit cards	224,011	32,146	95,657	**351,814**
Loans to legal entities	1,181,806	–	32,058	**1,213,864**
Account receivable from RF Government debtors on financed car loans	1,745,533	–	–	**1,745,533**
Gross loans to customers	**86,954,422**	**3,872,113**	**11,494,843**	**102,321,378**
Less – allowance for impairment of loans to customers	(1,144,162)	(2,421,459)	(9,727,459)	**(13,293,080)**
Total loans to customers	**85,810,260**	**1,450,654**	**1,767,384**	**89,028,298**

As at December 31, 2016 and 2015, 100% of loans are issued to customers operating in the Russian Federation which is a significant concentration in one geographic region.

(in thousands of Russian rubles)

9. Property and equipment

	Buildings and land	*Computers and office equipment*	*Furniture and fixtures*	*Motor vehicles*	*Leasehold impro-vements*	*Assets not yet commis-sioned*	*Total*
Cost or revalued amount							
December 31, 2014	**75,215**	**916,386**	**32,748**	**21,806**	**52,412**	**52,020**	**1,150,587**
Additions	–	88,370	279	–	–	70,744	**159,393**
Revaluation	(1,156)	–	–	–	–	–	**(1,156)**
Transfers	–	51,634	386	–	–	(52,020)	**–**
Disposals	–	(36,072)	(142)	(3,499)	–	–	**(39,713)**
December 31, 2015	**74,059**	**1,020,318**	**33,271**	**18,307**	**52,412**	**70,744**	**1,269,111**
Additions	–	–	–	3,176	–	164,527	**167,703**
Revaluation	(2,054)	–	–	–	–	–	**(2,054)**
Transfers	–	177,156	847	–	–	(178,003)	**–**
Disposals	–	(88,001)	(2,263)	(1,769)	–	–	**(92,033)**
December 31, 2016	**72,005**	**1,109,473**	**31,855**	**19,714**	**52,412**	**57,268**	**1,342,727**
Accumulated depreciation and impairment							
December 31, 2014	**–**	**(665,834)**	**(18,147)**	**(14,167)**	**(41,181)**	**–**	**(739,329)**
Charge for the year	(1,496)	(93,371)	(3,131)	(3,677)	(7,487)	–	**(109,162)**
Written off on revaluation	1,496	–	–	–	–	–	**1,496**
Written off in disposal	–	33,885	109	2,530	–	–	**36,524**
December 31, 2015	**–**	**(725,320)**	**(21,169)**	**(15,314)**	**(48,668)**	**–**	**(810,471)**
Charge for the year	(1,474)	(113,008)	(2,958)	(1,795)	(3,744)	–	**(122,979)**
Written off on revaluation	1,474	–	–	–	–	–	**1,474**
Transfers	–	739	(739)	–	–	–	**–**
Written off in disposal	–	84,086	1,886	1,198	–	–	**81,170**
December 31, 2016	**–**	**(753,503)**	**(22,988)**	**(15,911)**	**(52,412)**	**–**	**(844,806)**
Net book value							
As at December 31, 2015	**74,059**	**294,998**	**12,102**	**2,993**	**3,744**	**70,744**	**458,640**
As at December 31, 2016	**72,005**	**355,970**	**8,875**	**3,803**	**–**	**57,268**	**497,921**

As at December 31, 2016 and 2015, included in property and equipment is fully depreciated equipment in the amount of RUB 544,476 and RUB 478,003, respectively.

Buildings owned by the Bank were revalued by independent appraiser as at December 31, 2016. Fair value is determined based on the market data (Level 2 of fair value hierarchy). Sales comparison approach was used (comparative approach). As a result of the 2016 revaluation, the Bank recognized negative revaluation after taxes in other comprehensive income in the amount of RUB (464) thousand (2015: positive revaluation in the amount of RUB 272 thousand).

Had the revalued buildings and land been accounted for at their historical cost less accumulated depreciation, their carrying amounts would have been as follows:

	December 31, 2016	*December 31, 2015*
Cost	21,556	21,556
Accumulated depreciation	(9,495)	(9,064)
Net carrying amount	**12,061**	**12,492**

(in thousands of Russian rubles)

10. Intangible assets

The movements in intangible assets during 2016 and 2015 were as follows:

	Purchased software	*Internally developed software*	*Total*
Cost			
December 31, 2015	**1,204,785**	**116,710**	**1,321,495**
Additions	152,985	27,604	**180,589**
Disposals	(97,958)	–	**(97,958)**
December 31, 2016	**1,259,812**	**144,314**	**1,404,126**
Accumulated depreciation			
December 31, 2015	**(867,808)**	**(63,176)**	**(930,984)**
Accruals	(130,188)	(16,808)	**(146,996)**
Written off on disposal	95,555	–	**95,555**
December 31, 2016	**(902,441)**	**(79,984)**	**(982,425)**
Net book value			
December 31, 2016	**357,371**	**64,330**	**421,701**

	Purchased software	*Internally developed software*	*Total*
Cost			
December 31, 2014	**1,134,090**	**83,803**	**1,217,893**
Additions	104,993	32,907	**137,900**
Disposals	(34,298)	–	**(34,298)**
December 31, 2015	**1,204,785**	**116,710**	**1,321,495**
Accumulated depreciation			
December 31, 2014	**(788,387)**	**(30,199)**	**(818,586)**
Accruals	(108,007)	(32,977)	**(140,984)**
Written off on disposal	28,586	–	**28,586**
December 31, 2015	**(867,808)**	**(63,176)**	**(930,984)**
Net book value			
December 31, 2015	**336,977**	**53,534**	**390,511**

11. Other assets

Other assets comprise:

	December 31, 2016	*December 31, 2015*
Other financial assets recognized as loans and receivables		
Accounts receivable related to services provided in connection with concluding insurance contracts	105,274	64,821
Other accounts receivable	39,284	235,960
Total other financial assets, gross	**144,558**	**300,781**
Provisions for other financial assets	(19,102)	(19,897)
Other financial assets recognized as loans and receivables, net of provision	**125,456**	**280,884**
Other non-financial assets		
Compensation for state duties	191,428	235,149
Advances issued	243,111	201,361
Other	9,557	18,249
Total other non-financial assets, gross	**444,096**	**454,759**
Provisions for other non-financial assets	(59,343)	(99,927)
Total other non-financial assets, gross	**384,753**	**354,832**
Total other assets	**510,209**	**635,716**

Movements in provision for other assets are presented in Note 18.

(in thousands of Russian rubles)

12. Due to credit institutions

Amounts due to credit institutions comprise:

	December 31, 2016	*December 31, 2015*
Loans and time deposits of credit institutions	13,648,236	7,550,625
Loan from the CBR	–	501,746
LORO accounts of credit institutions	17,622	19,576
Total due to credit institutions	**13,665,858**	**8,071,947**

As at December 31, 2016, loans and time deposits due to credit institutions comprise loans issued by PJSC Rosbank in the amount of RUB 13,648,236 thousand (Note 27).

As at December 31, 2015, loans and time deposits due to credit institutions comprise loans issued by PJSC Rosbank in the amount of RUB 6,745,644 thousand and credit facilities issued by other related parties in the amount of RUB 804,981 thousand (Note 27).

13. Due to customers

Custiomer accounts comprise:

	December 31, 2016	*December 31, 2015*
Legal entities		
Current accounts	12,433	28,610
Time deposits	11,553,387	16,747,750
Total legal entities	**11,565,820**	**16,776,360**
Individuals		
Current accounts	1,976,080	1,533,560
Time deposits	1,477	540
Total individuals	**1,977,557**	**1,534,100**
Total due to customers	**13,543,377**	**18,310,460**

In accordance with the Russian Civil Code, the Bank is obliged to repay time deposits of individuals upon demand of a depositor. In case a time deposit is repaid upon demand of the depositor prior to maturity, interest on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

As at December 31, 2016 and 2015 customer deposits of RUB 502,440 thousand and RUB 4,820,890 thousand (3.71% and 26.33% of total due to customers), respectively, were due to two customers (2014: three) being companies under common control (Note 27).

The Participant and the Management do not expect that the funds will be withdrawn in the foreseeable future. The Participant controls both of these companies and manages liquidity on behalf of all the Group companies. Amounts due to customers are allocated by industry sectors as follows:

	December 31, 2016	*December 31, 2015*
Analysis by sectors		
Insurance	5,449,692	4,805,656
Financial services	4,337,787	9,353,598
Individuals	1,977,557	1,534,100
Trade	1,030,225	8,866
Non-financial services	743,828	–
Non-banking retail lending	1,630	2,604,284
Other	2,658	3,956
Total due to customers	**13,543,377**	**18,310,460**

Amounts due to customers include accounts of related parties as set out in Note 27.

(in thousands of Russian rubles)

14. Debt securities issued

Debt securities issued comprise:

	Annual coupon rate, %	*Initial effective interest rate, %*	*December 31, 2016*	*Annual coupon rate, %*	*Initial effective interest rate, %*	*December 31, 2015*
Domestic bonds issued, maturing in 2018-2019	9.95%-11.90%	10.35%-12.55%	11,513,217	8.30%-11.90%	8.61%-12.55%	15,120,684
Exchange-traded bonds, maturing in 2018-2026	10.00%-13.90%	10.26%-14.46%	32,632,581	10.75%-13.90%	10.61%-14.46%	22,590,637
Total debt securities issued			**44,145,798**			**37,711,321**

In accordance with the terms of the bonds issue, the Bank is required to comply with certain requirements of the CBR. As at December 31, 2016 and 2015, the Bank complied with these requirements.

15. Other borrowed funds

Other borrowed funds comprise:

	December 31, 2016	*December 31, 2015*
International Finance Corporation	1,029,732	1,537,080
Total borrowed funds	**1,029,732**	**1,537,080**

The loan was granted by the International Finance Corporation (hereinafter, “IFC”) as per agreement signed on June 22, 2012 in two tranches with maturity of over 36 months from the dates of receipts in order to finance the sales of eco-friendly cars (so called “green loans”).

In October 2016, the tranche for the amount of RUB 500 million was fully repaid.

In accordance with the terms of the loan agreement, the loan is denominated in rubles. Under the loan agreement with IFC, the loan is secured with a guarantee from Société Générale, and the Bank is obliged to meet cretain covenants. As at December 31, 2016 and 2015, the Bank met these covenants.

16. Other liabilities

Other liabilities comprise:

	December 31, 2016	*December 31, 2015*
Other financial liabilities		
Dividends to be paid (Note 17)	600,000	2,000,000
Accrued personnel expenses	789,939	956,617
Provision for guarantees and other commitments	79,606	90,567
Settlements on other operations	44,703	64,800
Accrued commissions	13,638	64,337
Collection services	11,043	687
Expenses on re-invoicing of general expenses	4,856	6,093
Total other financial liabilities	**1,543,785**	**3,183,101**
Other non-financial liabilities		
Taxes payable, other than income tax	84,004	78,571
Other	12,405	8,126
Total other non-financial liabilities	**96,409**	**86,697**
Total other liabilities	**1,640,194**	**3,269,798**

(in thousands of Russian rubles)

17. Equity

The Bank has the legal form of a limited liability company with a sole participant, PJSC Rosbank (Note 1).

In accordance with the Russian legislation, the sole participant in limited liability companies may not unilaterally withdraw from the company. In accordance with the Bank's Charter, its participants can sell or transfer their shares (or parts thereof) to third parties without consent of other participants. According to the Charter the sole participant is not allowed to withdraw its share from the capital of the Bank.

In accordance with the Russian legislation on banks and banking activities, the Bank must allocate its profits to reserves on the basis of statutory financial statements. As at December 31, 2016, the Bank's reserves under the Russian accounting standards amounted to RUB 5,780,721 thousand (2015: RUB 6,380,721 thousand) and included a reserve fund, a material incentive fund and an accumulation fund.

In 2016, the Bank declared the distribution of part of profit to its sole participant PJSC Rosbank in the amount of RUB 1,639,133 thousand for 2015 and RUB 600,000 thousand of retained earnings of previous years (2015: RUB 1,016,193 thousand for 2014 and RUB 2,000,000 thousand of retained earnings of previous years).

18. Allowance for impairment losses and other provisions

The movements in allowance for impairment losses on interest-bearing assets were as follows:

	Car loans	*Consumer loans*	*Direct sales*	*Plastic cards*	*Loans to legal entities*	*Total*
December 31, 2014	**8,308,216**	**1,717,082**	**1,822,524**	**192,960**	**32,058**	**12,072,840**
Charge of allowance for impairment of loans to customers during the year	2,229,921	925,943	910,245	29,291	–	**4,095,400**
Loans to customers written off during the year as uncollectible	(1,501,787)	(714,926)	(541,706)	(116,741)	–	**(2,875,160)**
December 31, 2015	**9,036,350**	**1,928,099**	**2,191,063**	**105,510**	**32,058**	**13,293,080**
Charge of allowance for impairment of loans to customers during the year	699,201	673,781	450,500	12,232	–	**1,835,714**
Loans to customers written off during the year as uncollectible	(1,461,215)	(873,794)	(785,791)	(24,332)	–	**(3,145,132)**
December 31, 2016	**8,274,336**	**1,728,086**	**1,855,772**	**93,410**	**32,058**	**11,983,662**

The movements in allowance for impairment of other assets and other provisions were as follows:

	Allowance for other financial assets	*Allowance for other non-financial assets*	*Allowance for other liabilities*	*Total*
December 31, 2014	**13,671**	**104,572**	**90,255**	**208,498**
Charge of allowance	7,957	39,143	12,102	**59,202**
Write-off	(1,731)	(43,788)	(11,790)	**(57,309)**
December 31, 2015	**19,897**	**99,927**	**90,567**	**210,391**
Charge/(recovery) of allowance	201	17,601	(4,554)	**13,248**
Write-off	(996)	(58,185)	(6,407)	**(65,588)**
December 31, 2016	**19,102**	**59,343**	**79,606**	**158,051**

(in thousands of Russian rubles)

19. Fee and commission income and expense

Fee and commission income and expense comprise:

	Year ended December 31, 2016	*Year ended December 31, 2015*
Fee and commission income		
Agents' fees	761,213	813,354
SMS-informing	553,050	401,221
Plastic cards	47,301	34,452
Other	7,638	9,237
Total fee and commission income	**1,369,202**	**1,258,264**
Fee and commission expense		
Settlements	116,149	81,989
Encashment operations	33,044	43,090
Plastic cards	8,766	10,419
Other	1,460	4,659
Total fee and commission expense	**159,419**	**140,157**

Agents' fees represent fees and commissions received by the Bank from insurance companies for directing the Bank's borrowers to insure their collaterals.

20. Other income

Other income comprises:

	Year ended December 31, 2016	*Year ended December 31, 2015*
Income from contracts for services related to supporting car loan portfolio	254,832	199,070
Sub-renting income – office spaces	33,841	36,745
Income from repayment of loans written off in the current year	13,464	11,916
Write-off of unclaimed balances	12,769	6,676
Fines, penalties, forfeits for contractual breaches	12,581	39,809
Other	54,657	30,561
Total other income	**370,397**	**335,783**

Income from contracts for services related to supporting car loan portfolio represents income from collection services, equipment state monitoring services and other services provided mainly to related parties (Note 27).

21. Operating expenses

Operating expenses comprise:

	Year ended December 31, 2016	*Year ended December 31, 2015*
Salaries and bonuses	3,089,331	2,832,131
Social taxes	731,767	715,546
Rental	456,395	461,626
IT services	303,228	274,096
Depreciation and amortization	269,975	250,146
Telecommunications	147,910	143,784
Building maintenance and occupancy	139,372	125,282
Professional services	101,959	96,883
Cash collection	90,564	70,827
Office supplies	66,821	49,506
Other personnel expenses	61,264	66,280
Travel expenses	51,707	38,296
Advertising and marketing	47,084	35,613
Expenses on group re-invoicing of general expenses (except for structure expenses and staff expenses)	43,799	–
Postal services	27,410	28,670
Other	134,321	137,478
Total operating expenses	**5,762,907**	**5,326,164**

(in thousands of Russian rubles)

21. Operating expenses (continued)

During 2016, the Bank incurred expenses in the amount of RUB 43,799 thousand for intra-group corporate services rendered by Société Générale Group (Note 27). Corporate services include support for the Bank in all areas of business, support of sales and implementation of development projects, development and maintenance of information systems solutions, etc.

22. Income tax

The Bank calculates income tax based on the tax accounts maintained in accordance with the tax regulations of the Russian Federation.

The Bank is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at December 31, 2016 and 2015 relate mostly to different methods of income and expense recognition, as well as to carrying amounts of certain assets and liabilities.

The statutory tax rate is 20%.

Temporary differences as at December 31, 2016 and 2015 comprise:

	December 31, 2016	*December 31, 2015*
Deductible temporary differences		
Other liabilities	547,785	810,079
Other assets	168,287	208,602
Due to customers and credit institutions	8,028	23,447
Other borrowed funds	2,393	1,249
Total deductible temporary differences	**726,493**	**1,043,377**
Taxable temporary differences		
Loans to customers	(2,820,958)	(3,106,654)
Intangible assets	(270,231)	(389,497)
Property and equipment	(166,773)	(205,157)
Debt securities issued	(48,962)	(39,106)
Financial assets at fair value through profit or loss	(3,273)	(2,894)
Total taxable temporary differences	**(3,310,197)**	**(3,743,308)**
Net deferred taxable differences	**(2,583,704)**	**(2,699,931)**
Net deferred tax liabilities at the statutory tax rate (20%)	(516,741)	(539,986)
Net deferred tax liabilities	**(516,741)**	**(539,986)**

Reconciliation of tax expense and accounting profit for the years ended December 31, 2016 and 2015 is presented below:

	Year ended December 31, 2016	*Year ended December 31, 2015*
Profit before income tax	**2,084,078**	**1,010,148**
Tax at the statutory tax rate (20%)	**416,816**	**202,030**
Tax effect of permanent differences		
Administrative costs	12,511	15,521
Allowance for impairment of loans to customers	8,650	78
Insurance of borrowers' lives	1,769	4,280
Interest expenses exceeding maximum rate	203	(1,410)
Other	(3,386)	(12,075)
Income tax expense	**436,563**	**208,424**
Current income tax expense	459,692	165,185
Change in deferred tax liabilities	(23,129)	43,239
Income tax expense	**436,563**	**208,424**

(in thousands of Russian rubles)

22. Income tax (continued)

	December 31, 2016	*December 31, 2015*
Deferred income tax assets and liabilities		
As at January 1 – deferred tax (liabilities)/assets	**(539,986)**	**(496,679)**
Change in deferred income tax recognized in other comprehensive income	116	(68)
Change in deferred income tax recognized in profit or loss	23,129	(43,239)
As at December 31 – deferred tax liabilities	**(516,741)**	**(539,986)**

23. Commitments and contingencies

Credit related commitments

The Bank's credit policy with respect to contingencies is the same as that applied to financial instruments recognized in the balance sheet.

As at December 31, 2016 and 2015, contingent financial liabilities comprise:

	December 31, 2016	*December 31, 2015*
Commitments on loans and unused credit lines	2,133,364	2,503,756
Total credit related commitments	**2,133,364**	**2,503,756**

Commitments on loans and unused credit lines represent the unused portion of loans approved for issue. With respect to loan commitments, the Bank is potentially exposed to the risk of incurring losses in the amount equal to total unused loan commitments. However, the probable amount of loss is less than the total unused loan commitments since the majority of loan commitments is contingent upon customers meeting specific creditworthiness standards. The Bank monitors the remaining maturity of credit related commitments since longer-term commitments usually have a greater degree of credit risk than short-term commitments.

The total outstanding amount under undrawn loan commitments does not necessarily represent future cash requirements since these commitments may expire or be canceled without being funded.

Operating lease commitments

Where the Bank is the lessee, the future minimum lease payments under non-cancellable operating leases of real estate are as follows:

	December 31, 2016	*December 31, 2015*
Less than 1 year	250,243	316,515
Later than 1 year but not later than 5 years	654,624	428,105
Later than 5 years	200,028	–
Total operating lease commitments	**1,104,895**	**744,620**

Legal proceedings

From time to time and in the normal course of business, claims against the Bank are received from customers and counterparties. Management created a provision for such legal claims as described below.

The Bank charged fees for issuance and maintenance of certain loans up until 2010. Some of the borrowers filed court claims against the Bank for charging those fees in addition to the interest charges. The Bank has lost most of such cases in court. In addition, individuals file claims concerning unjustified provision included in the loan agreement and stipulating insurance of property pledged as collateral for the loan or insurance of the borrower's life and health. Such claims made by the borrowers against the Bank are covered as at the reporting date by a provision equal to the amount of such claims (December 31, 2016: RUB 75,885 thousand; December 31, 2015: RUB 88,797 thousand).

Other claims are covered by a provision of RUB 2,696 thousand and RUB 242 thousand as at December 31, 2016 and December 31, 2015, respectively.

(in thousands of Russian rubles)

23. Commitments and contingencies (continued)

Taxation

Provisions of the Russian tax legislation, which may have more than one interpretation allow the tax authorities to take decisions based on their own arbitrary judgments. The tax authorities often do not interpret the tax legislation in favor of the taxpayers, who have to resort to court proceedings to defend their position. It should be noted that for the purposes of interpreting the Bank's actions, the tax authorities can, in particular, use the clarifications issued by the judicial bodies that have introduced the concepts of "unjustified tax benefit" and "actual economic substance of transaction" and the criteria of "business purpose" of a transaction.

Russian tax, currency and customs legislation are vaguely drafted and are often subject to varying interpretations (which, in particular, may apply to legal relations retrospectively), selective and inconsistent application and changes which can occur frequently and, in some cases, at short notice. Management's interpretation of legislation as applied to the transactions and activities of the Bank may be challenged by the relevant regional and federal authorities.

The Russian transfer pricing legislation allows the tax authorities to apply transfer pricing adjustments and impose additional liabilities for income tax and value-added tax in respect of "controlled" transactions, where the transaction price differs from the range of market prices. The list of "controlled" transactions includes transactions concluded between related parties (Russian and foreign), as well as certain types of transactions between unrelated parties that are considered to be the same as controlled transactions.

Starting from January 1, 2015, the taxation rules for controlled foreign companies and the concepts of beneficial owner of income and tax residency of a foreign legal entities were introduced. Overall, the adoption of this law should increase the administrative and, in some cases, tax burden on Russian taxpayers that have foreign subsidiaries and/or conduct transactions with foreign companies.

Introduction of the regulations above and interpretation of certain provisions of the Russian tax legislation together with the latest trends in judicial practice indicate a potential increase in both taxes payable and penalties assessed, including due to the fact that the tax authorities and courts may take a more assertive position in applying the legislation and reviewing tax calculations. However, it is not possible to determine their amounts or evaluate the probability of a negative outcome in the event of claims brought by the tax authorities. Fiscal periods remain open to review for a period of three calendar years immediately preceding the year of review. Under certain circumstances, reviews may cover longer periods.

As at December 31, 2016, management of the Bank believes that its interpretation of the relevant legislation is appropriate.

24. Fair value of financial instruments

The estimated fair value of financial instruments has been determined by the Bank using available market information, where it exists, and appropriate valuation methodologies. However, subjective assumptions are required to interpret market data to estimate the fair value of financial instruments.

For disclosure purposes, financial and non-financial instruments recognized at fair value are broken down by the three levels of the fair value hierarchy based on the input data available:

- Quoted prices in an active market (Level 1) – valuation based on quoted prices in active markets for identical assets or liabilities available to the Bank. These financial instruments are not subject to valuation adjustments and package discounts. As the valuation is based on the quoted prices readily and regularly available in active markets, such valuation does not require the exercise of significant judgments.
- Valuation techniques based on observable inputs (Level 2) – valuation techniques based on inputs for which all inputs are observable, either directly or indirectly; and valuation techniques based on one or more observable quotations resulting from regular transactions in the markets that are not considered to be active.
- Valuation techniques based on inputs different from observable market inputs (Level 3) – valuation techniques are based on unobservable inputs that are not significant to the fair value measurement as a whole.

(in thousands of Russian rubles)

24. Fair value of financial instruments (continued)

Fair value of the Bank's financial assets and financial liabilities measured at fair value on a recurring basis

Some of the Bank's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table presents information about how the fair values of these financial assets and financial liabilities are determined.

	Fair value as at			*Valuation*
	December 31, 2016	*December 31, 2015*	*Fair value hierarchy*	*technique(s) and key inputs*
Financial assets / financial liabilities				
Financial assets at fair value through profit or loss	3,273	3,034	Level 1	Quoted bid prices in an active market

There were no transfers between Levels 1 and 2 during the year. The Bank recognizes transfers between fair value hierarchy levels as at the date of the event or changes that caused the transfer.

Fair value of financial assets and financial liabilities that may be measured or not measured at fair value on a recurring basis (but fair value disclosures are required)

The following methods and significant assumptions were applied to estimate the fair value of the following financial instruments:

Cash and balances with the CBR and obligatory reserves with the CBR due to their short-term nature and restrictions on the use of these types of assets. The carrying amount is assumed to be a reasonable estimate of their fair value.

The carrying amount of loans maturing in less than 3 months (car loans, consumer loans and credit cars) is assumed as the fair value of such loans. The fair value of other loans is calculated based on the current market interest rates for similar loans less allowances for impairment.

Other financial assets and liabilities are mainly represented by short-term receivables and payables, therefore the carrying amount is assumed to be a reasonable estimate of their fair value.

- The carrying amount of time deposits (included in amounts due to customers and due to credit institutions) placed during the period of less than 3 months before the reporting date is assumed to be their fair value. The fair value of other time deposits is estimated based on market interest rates for similar deposits.
- The carrying value of amounts due to customers is assumed to be a reasonable estimate of their fair value due to their short-term nature and requirements for the use of liabilities of these type.
- The fair value of bonds issued is based on quoted prices. Where information on quoted market prices is not available, fair value is based on expected cash flows discounted using current market interest rates for similar financial instruments.

Set out below is a comparison of carrying amounts of financial assets and financial liabilities and their estimated fair value:

	December 31, 2016		*December 31, 2015*	
	Net carrying amount	*Fair value*	*Net carrying amount*	*Fair value*
Financial assets				
Loans to customers	90,467,449	91,633,528	89,028,298	90,460,587
Financial liabilities				
Due to credit institutions	(13,665,858)	(13,241,961)	(8,071,947)	(8,082,921)
Due to customers	(13,543,377)	(13,553,573)	(18,310,460)	(18,427,454)
Other borrowed funds	(1,029,732)	(1,029,732)	(1,537,080)	(1,537,356)
Debt securities issued	(44,145,798)	(44,334,329)	(37,711,321)	(37,876,353)

(in thousands of Russian rubles)

24. Fair value of financial instruments (continued)

Fair value of financial assets and financial liabilities that may be measured or not measured at fair value on a recurring basis (but fair value disclosures are required) (continued)

December 31, 2016	*Quoted bid prices in active market (Level 1)*	*Valuation techniques using observable inputs (Level 2)*	*Valuation techniques based on inputs other than observable market inputs (Level 3)*	*Total*
Financial assets				
Loans to customers	–	91,633,528	–	**91,633,528**
Financial liabilities				
Due to credit institutions	–	(13,241,961)	–	**(13,241,961)**
Due to customers	–	(13,553,573)	–	**(13,553,573)**
Other borrowed funds	–	–	(1,029,732)	**(1,029,732)**
Debt securities issued	(39,220,870)	(5,113,459)	–	**(44,334,329)**

December 31, 2015	*Quoted bid prices in active market (Level 1)*	*Valuation techniques using observable inputs (Level 2)*	*Valuation techniques based on inputs other than observable market inputs (Level 3)*	*Total*
Financial assets				
Loans to customers	–	90,460,587	–	**90,460,587**
Financial liabilities				
Due to credit institutions	–	(8,082,921)	–	**(8,082,921)**
Due to customers	–	(18,427,454)	–	**(18,427,454)**
Other borrowed funds	–	–	(1,537,356)	**(1,537,356)**
Debt securities issued	(32,763,068)	(5,113,285)	–	**(37,876,353)**

25. Capital management

The overall policy of the Bank's capital is in compliance with the ratios established by the CBR and is aimed at the dynamic optimization of capital required for the Bank's expansion and maintenance of sufficient capital adequacy ratio to protect the Bank from unfavorable changes in market conditions and minimize liquidity risk. The capital management policy reflects the participant's vision and strategy of long-term Bank's development.

As at December 31, 2016 and 2015, the Bank complied in full with all its externally imposed capital requirements.

CBR capital adequacy ratio

The CBR requires banks to maintain a capital adequacy ratio of 10% of risk-weighted assets calculated in accordance with Russian Accounting Standards. As at December 31, 2016 and 2015, the Bank's capital adequacy ratio calculated based on the above rules was as follows:

	December 31, 2016	*December 31, 2015*
Equity	**19,509,978**	**19,170,686**
Risk-weighted assets	**121,481,855**	**122,162,660**
Capital adequacy ratio	16.1%	15.7%

Regulatory capital consists of core capital, which comprises participant's contributions and retained earnings including current-year profit. Certain adjustments are made to IFRS-based results and reserves, as prescribed by the CBR. The other component of regulatory capital is additional capital, which includes subordinated long-term debt and revaluation reserves.

(in thousands of Russian rubles)

26. Risk management policies

Introduction

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other internal controls. The process of risk management is critical to the Bank's continuing profitability. The Bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

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

Risk measurement and reporting systems

The Bank's risks are measured using a method, which reflects both expected losses likely to arise in normal circumstances, and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks are primarily performed 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 that the Bank is willing to accept for each type of activity. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Risk mitigation

As part of risk management, the Bank uses derivatives and other instruments for managing the interest rate, foreign currencies and the credit risk exposures.

The main risks inherent to the Bank's operations are those related to:

- Credit risk (significant);
- Liquidity risk (significant);
- Interest rate risk (significant);
- Structural foreign currency risk;
- Operational risk (significant);
- Strategic risk (significant).

The Bank recognizes that it is essential to have efficient and effective risk management processes in place. For this purpose, the Bank has established a risk management framework, which main purpose is to protect the Bank from risks and to allow it to achieve its performance objectives. Through the risk management framework, the Bank manages the following risks:

Credit risk

The Bank is exposed to credit risk, which is a risk that one party to the financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Group manages the credit risk through:

- Implementation of a decision making procedure based on centralized assessments of credit risk by the Credit Risk Department (independent from commercial and sales units) in coordination with other departments (business protection department, commercial departments and regional network) and providing standard, fast and traceable credit decisions;
- Implementation of a system of limits that requires establishing critical risk ratios by types of borrowers and portfolios;
- Implementation of credit risk indicators and monitoring procedures for early identification of potential bad debts and mitigation of negative trends.

A number of Committees described below are integral in the credit risk management process.

(in thousands of Russian rubles)

26. Risk management policies (continued)

Credit risk (continued)

The Bank has established the Credit Committee which is responsible for the oversight over the credit risk.

Credit risk for retail loans is managed by establishing standard lending conditions and setting profitability targets for each portfolio of homogeneous loans.

The Credit Committee approves each new major loan as well as changesand amendments to the existing loan agreements. The Asset and Liability Committee makes decisions on setting limits for transactions with financial assets, which are associated with credit risks. The Board of Directors or the Management Board approves new significant loans. Credit Risk Department assesses the level of credit risk with respect to each instrument and submits the results of such assessment to the above mentioned committees for their consideration. It is also responsible for current monitoring and control of credit risks.

Credit risk for off-balance sheet financial instruments is defined as the probability of losses due to failure of the counterparty to comply with the contractual terms and conditions. The Bank applies the same credit policy to the credit related commitments as it does to financial instruments recognized in the statement of financial position, using the approved loan limits and risk level limits in accordance with the established control procedures.

The Credit Risk Management Department is responsible for establishing and controlling the compliance with critical credit risk ratios. Partner Committees (partners are the Bank's agents, through which certain loans are issued) perform the function of operational committees responsible for applying credit risk mitigating measures to partners.

The Internal Control Department is responsible for control over the compliance with the credit risk management requirements and procedures and reporting information on credit risk positions to the Board of Directors.

Credit quality per class of financial assets

Loans issued by the Bank are classified as follows:

- Loans issued to other credit institutions;
- Loans issued to legal entities;
- Loans issued to individuals, including:
  - Car loans;
  - Consumer loans;
  - Direct sales;
  - Credit cards.

Financial assets (except for loans to customers) are graded according to the current credit ratings of the counterparties assigned by the internationally acknowledged agencies such as Fitch, Standard & Poor's and Moody's. The highest possible rating is AAA. Investment grade ratings range from AAA to BBB-. Financial assets which have ratings lower than BBB- are classified as speculative grade.

As at December 31, 2016 and 2015, balances with the CBR amounted to RUB 2,483,996 thousand and RUB 896,462 thousand, respectively.

Loans issued to legal entities, individuals and other assets are not rated and are not included in the table below.

The following table details the credit ratings of other financial assets as at December 31, 2016 (note: the rating of credit institutions are updated after the downgrading of sovereign rating of Russian Federation in January 2015):

	BBB-	*Not rated*	*Total as at December 31, 2016*
Cash and cash equivalents			
Current accounts with the CBR	2,387,035	–	**2,387,035**
Obligatory reserves with the CBR	96,961	–	**96,961**
Current accounts with other credit institutions	15,755	–	**15,755**
Time deposits with credit institutions up to 90 days	2,803,032	–	**2,803,032**
Total financial assets	**5,302,783**	**–**	**5,302,783**

(in thousands of Russian rubles)

26. Risk management policies (continued)

Credit risk (continued)

As at December 31, 2015:

	BBB-	*Not rated*	*Total as at December 31, 2015*
Cash and cash equivalents			
Current accounts with the CBR	721,063	–	**721,063**
Obligatory reserves with the CBR	175,399	–	**175,399**
Current accounts with other credit institutions	60,454	711	**61,165**
Time deposits with credit institutions up to 90 days	500,055	–	**500,055**
Total financial assets	**1,456,971**	**711**	**1,457,682**

Geographical concentration

Concentrations of risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the respective sensitivity level of the Bank's performance to developments affecting a particular industries or geographical regions.

In order to avoid excessive concentrations of risks, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

The geographical concentration of assets and liabilities as at December 31, 2016 is set out below:

		2016		*December 31,*
	Russian Federation	*OECD countries*	*Non-OECD countries*	*2016 Total*
Financial assets				
Cash and cash equivalents	5,652,293	1,577	–	**5,653,870**
Obligatory reserves with the CBR	96,961	–	–	**96,961**
Financial assets at fair value through profit or loss	–	3,273	–	**3,273**
Loans to customers	90,467,449	–	–	**90,467,449**
Other financial assets	125,456	–	–	**125,456**
Total financial assets	**96,342,159**	**4,850**	**–**	**96,347,009**
Financial liabilities				
Due to credit institutions	13,665,858	–	–	**13,665,858**
Due to customers	13,543,377	–	–	**13,543,377**
Other borrowed funds	–	1,029,732	–	**1,029,732**
Debt securities issued	44,145,798	–	–	**44,145,798**
Other financial liabilities	1,535,873	7,912	–	**1,543,785**
Total financial liabilities	**72,890,906**	**1,037,644**	**–**	**73,928,550**
Net balance sheet position	**23,451,253**	**(1,032,794)**	**–**	**22,418,459**
Net off-balance sheet position	**2,133,364**	**–**	**–**	**2,133,364**

(in thousands of Russian rubles)

26. Risk management policies (continued)

Geographical concentration (continued)

The geographical concentration of assets and liabilities as at December 31, 2015 is set out below:

	Russian Federation	2015 OECD countries	2015 Non-OECD countries	December 31, 2015 Total
Financial assets				
Cash and cash equivalents	1,736,228	1,885	–	**1,738,113**
Obligatory reserves with the CBR	175,399	–	–	**175,399**
Financial assets at fair value through profit or loss	–	3,034	–	**3,034**
Loans to customers	89,028,298	–	–	**89,028,298**
Other financial assets	85,713	195,171	–	**280,884**
Total financial assets	**91,025,638**	**200,090**	**–**	**91,225,728**
Financial liabilities				
Due to credit institutions	8,071,947	–	–	**8,071,947**
Due to customers	18,310,460	–	–	**18,310,460**
Other borrowed funds	–	1,537,080	–	**1,537,080**
Debt securities issued	37,711,321	–	–	**37,711,321**
Other financial liabilities	2,900,757	282,344	–	**3,183,101**
Total financial liabilities	**66,994,485**	**1,819,424**	**–**	**68,813,909**
Net balance sheet position	**24,031,153**	**(1,619,334)**	**–**	**22,411,819**
Net off-balance sheet position	**2,503,756**	**–**	**–**	**2,503,756**

As at December 31, 2015, the negative net position with OECD countries is caused by the loans received from Société Générale.

Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet commitments associated with financial instruments when they actually fall due.

Liquidity risk arises as a result of mismatch between financial assets and financial liabilities of the Bank and/or an unforeseen need of immediate and simultaneous discharge of its financial obligations.

The key objective of liquidity risk management and control is to build and improve the mechanism of managing banking liquidity which would enable addressing the fundamental tasks:

- Achieve minimal level of excessive liquidity;
- Prevent liquidity deficit;
- Maintain the optimal balance between liquidity and profitability.

The liquidity is managed based on the principles provided by the Bank’s internal regulations set by the Liquidity Management Policy and Risk and Capital Management Strategy.

The Bank’s liquidity management bodies include the following:

- Board of Directors;
- Chairman of the Bank’s Management Board;
- Director of the Risk Department (Risk Management Leader);
- Assets and Liabilities Management Committee;
- Treasury;
- Assets and Liabilities Management Department;
- Liquidity Management and Financing Department.

(in thousands of Russian rubles)

26. Risk management policies (continued)

Liquidity risk (continued)

Powers in respect of the liquidity risk management are distributed among the Bank's departments as follows:

The **Board of Directors** reviews and approves the Liquidity Management Policy and sets up procedures to control its implementation.

Chairman of the Bank's Management Board (or Deputy Chairman of the Bank's Management Board) controls implementation of the Liquidity Management Policy and performs other functions in respect of liquidity risk management and ICAAP in accordance with the Bank's internal regulations.

Director of the Risk Department (Risk Management Leader) reviews the Liquidity Management Policy and methods applied, controls implementation of the Liquidity Management Policy and performs other functions in respect of liquidity risk management and ICAAP.

Assets and Liabilities Management Committee (the "Committee") is an authorized collective body of the Bank engaged in developing and implementing a consistent policy for structural risk management, including determining the liquidity risk management structure and developing the Bank's funding policy. The Committee reviews approaches applied to models and procedures for liquidity risk management, monitors compliance with the liquidity risk limits set up by the CBR and Société Générale Group, establishes liquidity risk limits, risk appetite and indicators, approves methodology to assess and calculate these values.

In addition, the Committee's is responsible for decision-making procedure relating to liquidity recovery when it reaches its limits and approval of crisis action plans as applied to the financial markets, as well as business continuity plans in the event of liquidity shortage.

The Treasury as represented by the Head of the Treasury is responsible for day-to-day maintenance of liquidity on an optimum level, development and implementation of the funding plan, cooperates with the related departments to ensure compliance with the Bank's internal regulations set by the Liquidity Management Policy and Risk and Capital Management Strategy and reports on the liquidity risk as reqired by ICAAP.

Assets and Liabilities Management Department performs the following functions as part of the liquidity risk management process:

- Planning of short- and long-term liquidity;
- Development of liquidity risk valuation models and management procedures and forecast of balance sheet items in the normal course of business and in stress events;
- Development of an early warning indicators system for identifying critical liquidity level and the thresholds of each indicator for further approval by the Assets and Liabilities Management Committee;
- Development of proposals regarding establishment of liquidity risk metrics and their thresholds;
- Control over compliance with the thresholds of mandatory liquidity ratios approved by the Assets and Liabilities Management Committee, as well as liquidity gaps and funding available within the approved limits for liquidity recovery;
- Stress testing: analysis of liquidity using scenarios of the negative impact of events due to changes in market conditions, currency exchange rates, financial position of debtors and creditors, and other possible events;
- Preparation of recommendations concerning management of the Bank's liquidity, as well as preparation of analytical information for the purpose of making management decisions.

(in thousands of Russian rubles)

26. Risk management policies (continued)

Liquidity risk (continued)

Liquidity Management and Financing Department performs the following functions as part of liquidity risk management process:

- Analysis, support and operational management of instant and current liquidity considering the Bank's risk appetite;
- Preparation of a payment schedule and liquidity ratio forecast;
- Coordination of the Bank's departments with respect to liquidity management;
- Daily monitoring of financial flows on the Bank's correspondent accounts denominated in rubles and foreign currencies;
- Maintaining cash reserves denominated in rubles and foreign currencies;
- Preparation of preliminary information on the Bank's compliance with liquidity ratios;
- Determining options to cover instant liquidity deficit considering an alternative value and the investment of surplus funds;
- Securing sufficient liquidity for the Bank for the purposes of compliance with the mandatory liquidity ratio thresholds and risk appetite thresholds approved by the Assets and Liabilities Management Committee;
- Securing compliance with the liquidity ratio limits established by the CBR.

In addition, the liquidity risk management system includes departments whose operations affect the Bank's liquidity. The heads of the departments engaged in operations with assets and liabilities have to promptly notify the Liquidity Management and Financing Department and the Assets and Liabilities Management Department of any instances of failure to meet deadlines both for claims and liabilities.

The Bank differentiates between the management of instant, current and long-term liquidity. The Bank's liquidity assessment for the next month and by the end of the year is made using the concept of cash flows which provides the basis for liquidity gaps determination by matching cash inflows from income-generating assets with cash outflows from liabilities causing expenses.

Matching inflows and outflows is made on a daily (for instant liquidity) and monthly (for current and long-term liquidity) basis. It allows the Bank to identify cash excess or deficiency (a "liquidity gap") in advance, take appropriate measures to raise additional cash or place excess cash to maintain sufficient liquidity.

The Bank prepares the following documents to efficiently manage liquidity:

- Two times a day: payment schedule to assess instant and current liquidity;
- Monthly: cash flow statement and funding plan;
- Annually: stress-testing to assess liquidity risk level.

The Bank has the liquidity recovery plan, which will help restore the liquidity to the level safe for the Bank within a relatively short period of time.

Early liquidity crisis identification is achieved by regular monitoring of both digital ratios and quality factors. Regular monitoring of early warning indicators allows the Bank to identify crisis at its earlier stage. If a threshold of even one indicator has been exceeded, it is considered a sufficient reason to implement the plan. Nevertheless, this process is not automated and subject to additional expert analysis.

The list of digital ratios and their thresholds are established by the Assets and Liabilities Management Committee.

The Treasury monitors early warning indicators at least once a month and reports the results of the monitoring to the Assets and Liabilities Management Committee on a quarterly basis. If necessary, the Assets and Liabilities Management Committee makes a decision to initiate the liquidity recovery plan. Measures for liquidity recovery in case of crisis include increase of deposit rates, issue of bonds, raising funding from PJSC ROSBANK, restricting business operations, etc.

The methods of liquidity risk stress-testing are based on analysis of negative scenarios of liquidity deficit and make it possible to assess a response strategy related to this risk.

The Bank promptly performs stress-testing to decide on a most appropriate respond to the change of market conditions. The summarized results of liquidity risk stress-testing are reported to Board of Directors at least once a year.

(in thousands of Russian rubles)

26. Risk management policies (continued)

Liquidity risk (continued)

Currently, the Bank is in good compliance with mandatory liquidity ratios as compared to the limits established by the CBR.

	2016, %	*2015, %*
N2 "Instant Liquidity Ratio" (assets receivable or realizable within one day / liabilities repayable on demand)	91.37%	43.00%
N3 "Current Liquidity Ratio" (assets receivable or realizable within 30 days / liabilities repayable within 30 days)	65.12%	105.14%
N4 "Long-Term Liquidity Ratio" (assets receivable in more than one year / sum of capital and liabilities repayable in more than one year)	66.49%	71.81%

Analysis of the liquidity risk based on the carrying amount of assets and liabilities is provided in the table below.

	Up to 1 month	*1 month to 3 months*	*3 months to 1 year*	*1 year to 5 years*	*Over 5 years*	*No stated maturity*	*December 31, 2016 Total*
Financial assets							
Cash and cash equivalents	5,653,870	–	–	–	–	–	**5,653,870**
Obligatory reserves with the CBR	–	–	–	–	–	96,961	**96,961**
Financial assets at fair value through profit or loss	–	–	–	3,273	–	–	**3,273**
Loans to customers	8,951,135	12,639,137	37,761,142	31,116,035	–		**90,467,449**
Other financial assets	93,982	33	1,287	30,154	–	–	**125,456**
Total financial assets	**14,698,987**	**12,639,170**	**37,762,429**	**31,149,462**	**–**	**96,961**	**96,347,009**
Financial liabilities							
Due to credit institutions	17,622	46,703	8,048,179	5,553,354	–	–	**13,665,858**
Due to customers	3,024,351	964,196	7,417,818	2,137,012	–	–	**13,543,377**
Other borrowed funds	1,029,732	–	–	–	–	–	**1,029,732**
Debt securities issued	6,814,543	9,530,869	11,373,481	16,426,905	–	–	**44,145,798**
Other financial liabilities	618,338	919,955	4,069	1,423			**1,543,785**
Total financial liabilities	**11,504,586**	**11,461,723**	**26,843,547**	**24,118,694**	**–**	**–**	**73,928,550**
Liquidity gap	**3,194,401**	**1,177,447**	**10,918,882**	**7,030,768**	**–**	**96,961**	**22,418,459**
Cumulative liquidity gap	**3,194,401**	**4,371,848**	**15,290,730**	**22,321,498**	**22,321,498**	**22,418,459**	
Cumulative gap as a percentage of total financial assets	3.32%	4.54%	15.87%	23.17%	23.17%	23.27%	

In order to manage the liquidity risk, the Bank performs daily monitoring of future expected cash inflows from transactions with customers and banking operations as part of the liquidity management process. The liquidity gaps by contractual maturity as at December 31, 2016 and December 31, 2015 were calculated based on contractual maturity of balance sheet liabilities/repayment obligations. The only exception is loans receivable (loans issued to individuals), maturities and payment flows of which were assessed considering the effect of early repayment of loans to customers. Repayments to be made at short notice are treated as if notice was given at the earliest possible date and recognized within up to 1 month.

(in thousands of Russian rubles)

26. Risk management policies (continued)

Liquidity risk (continued)

The Bank manages liquidity gaps through arranging new bonds placement or receiving corporate deposits and interbank loans, including funds from related parties.

	Up to 1 month	*1 month to 3 months*	*3 months to 1 year*	*1 year to 5 years*	*Over 5 years*	*No stated maturity*	*December 31, 2015 Total*
Financial assets							
Cash and cash equivalents	1,738,113	–	–	–	–	–	**1,738,113**
Obligatory reserves with the CBR	–	–	–	–	–	175,399	**175,399**
Financial assets at fair value through profit or loss	–	3,034	–	–	–	–	**3,034**
Loans to customers	11,293,951	12,206,950	35,789,015	29,738,351	31	–	**89,028,298**
Other financial assets	57,646	192,946	24	30,092	176	–	**280,884**
Total financial assets	**13,089,710**	**12,402,930**	**35,789,039**	**29,768,443**	**207**	**175,399**	**91,225,728**
Financial liabilities							
Due to credit institutions	21,323	3,224,877	4,325,747	500,000	–	–	**8,071,947**
Due to customers	1,655,703	3,705,845	9,903,983	3,044,929	–	–	**18,310,460**
Other borrowed funds	1,037,078	–	500,002	–	–	–	**1,537,080**
Debt securities issued	141,488	236,010	18,424,967	18,908,856	–	–	**37,711,321**
Other financial liabilities	591,672	2,576,138	9,717	5,574	–	–	**3,183,101**
Total financial liabilities	**3,447,264**	**9,742,870**	**33,164,416**	**22,459,359**	**–**	**–**	**68,813,909**
Liquidity gap	**9,642,446**	**2,660,060**	**2,624,623**	**7,309,084**	**207**	**175,399**	**22,411,819**
Cumulative liquidity gap	**9,642,446**	**12,302,506**	**14,927,129**	**22,236,213**	**22,236,420**	**22,411,819**	
Cumulative gap as a percentage of total financial assets	10.57%	13.49%	16.36%	24.37%	24.38%	24.57%	

The maturity analysis does not reflect the historical stability of current accounts. Their withdrawal has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than one month in the tables above.

Time deposits of individuals are included in amounts due to customers. In accordance with the Russian legislation, the Bank is obliged to repay such deposits upon demand of a depositor. However, the amount of these deposits is insignificant and does not affect the liquidity risk (Note 13).

Further is analysis of liquidity and interest rate risks:

a) Term to maturity of financial liabilities, other than derivatives, is calculated for undiscounted cash flows on financial liabilities (principal debt and interest) on the earliest date when the Bank is liable to redeem the liability;

b) Term to maturity of financial liabilities, that are derivatives, is calculated for undiscounted cash flows on financial liabilities on the earliest date when the Bank is liable to redeem the liability; and

c) Estimated maturity term of financial assets, other than derivatives, is calculated for undiscounted cash flows on financial assets, based on contractual terms of maturity, except when the Bank expects that cash flows will be recorded at a different time.

The following tables show the undiscounted cash flows (total outflow) on the Bank's financial liabilities by their earliest possible contractual maturities. The expected cash flows of the Bank on these financial liabilities may differ significantly from this analysis.

	Up to 1 month	*1 month to 3 months*	*3 months* to 1 year	1 year to 5 years	*December 31, 2016 Total*
Financial liabilities					
Due to credit institutions	17,622	60,272	8,609,584	6,344,220	**15,031,698**
Due to customers	3,132,856	978,876	7,941,198	2,448,804	**14,501,734**
Other borrowed funds	1,033,094	–	–	–	**1,033,094**
Debt securities issued	6,847,944	9,822,655	13,176,183	17,751,795	**47,598,577**
Other financial liabilities	618,338	919,955	4,069	1,423	**1,543,785**
Total financial liabilities	**11,649,854**	**11,781,758**	**29,731,034**	**26,546,242**	**79,708,888**

(in thousands of Russian rubles)

26. Risk management policies (continued)

Liquidity risk (continued)

	Up to 1 month	*1 month to 3 months*	*3 months to 1 year*	**1 year to 5 years**	***December 31, 2015 Total***
Financial liabilities					
Due to credit institutions	24,806	3,280,502	4,716,188	563,987	**8,585,483**
Due to customers	1,899,557	3,796,141	10,731,260	3,438,354	**19,865,312**
Other borrowed funds	1,042,263	–	549,737	–	**1,592,000**
Debt securities issued	158,953	404,070	21,211,049	19,855,669	**41,629,741**
Other financial liabilities	591,672	2,576,138	9,717	5,574	**3,183,101**
Total financial liabilities	**3,717,251**	**10,056,851**	**37,217,951**	**23,863,584**	**74,855,637**

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect income or values of the Bank's assets.

The interest risk level is measured quantitatively using a sensitivity index. The methodology is validated by the Group. The sensitivity index represents a change of the Bank's net present value against the shift of an interest rate curve by 100 basic points at current time profiles of assets and liabilities of the BankIn addition, the Bank performs annual stress-testing to assess the impact on the net present value calculated in case of movement of market interest rates by 400 basis points.

The sensitivity index is calculated quarterly based on the analysis of gaps in the Bank's prospective payment position for each currency used.

The sensitivity index in rubles as at December 31, 2016 and 2015 reflecting the impact on the Bank's net present value against the shift of an interest rate curve by 100 basic points is presented below:

	December 31, 2016				***December 31, 2015***			
	Short-term	*Medium-term*	*Long-term*	*Total*	*Short-term*	*Medium-term*	*Long-term*	*Total*
Sensitivity index	(44,695)	55,129	550,992	**561,426**	27,913	(52,432)	543,818	**519,299**

Analysis of the sensitivity level for 2016 and 2015 demonstrates that if market interest rates were 100 basis points higher and all other variables were held constant, the Bank's net present value for the year ended December 31, 2016 would increase by RUB 561,426 thousand (December 31, 2015: RUB 519,299 thousand).

The interest rate risk is well managed by the Bank taking into account such factors as amortization of loans issued to customers or estimated outflows of demand deposits through the application of relevant models. Bank shall take measures to optimize the level of interest rate risk in case it reaches its threshold value.

Structural foreign currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank's financial position and cash flows are exposed to the effects of fluctuations in foreign exchange rates.
It should be noted that the amount of the Bank's assets and liabilities denominated in foreign currencies is insignificant (as at December 31, 2016 and December 31, 2015, RUB-denominated loans made up 99.91% and 99.83% of the Bank's loan portfolio, respectively), which makes it possible to minimize losses from significant fluctuations in foreign and national currency exchange rates.

The Bank monitors its open currency positions on a daily basis to mitigate the foreign currency risk exposure. The limits are determined both for each currency and for aggregate positions in all currencies. The Bank operates within the currency limits set by the CBR and PJSC ROSBANK within Société Générale Group.

The objective of currency risk management is early detection of potential loss and taking measures to provide protection against arising currency risks. Currency risk management may be defined as a strategic process intended to prevent exposure to unforeseen fluctuations of foreign exchange rates. The Bank does not support a speculative currency position and uses the limits of open currency position to mitigate the risk exposure. In addition, the Bank enters into term transactions in order to mitigate the currency risk. The Bank performs daily monitoring of its open foreign exchange position both in total and broken down by individual currencies in order to ensure compliance with the CBR requirements and limits established.

(in thousands of Russian rubles)

26. Risk management policies (continued)

Structural foreign currency risk (continued)

In case of a drastic increase of the long or short position, the Bank takes measures to reduce its open position through:

- Sale (purchase) of cash (non-cash) currency;
- Change in the currency structure of raised deposits and interbank loans;
- Concluding deliverable forward contracts with highly reliable counterparties.

Key methods of currency risk management:

The Bank also manages currency risk by either attracting loans in required foreign currency to match assets with liabilities or entering into foreign currency forwards. This measure will help to minimize losses that may arise due to significant fluctuations of national and foreign currency exchange rates. Since a significant portion of the Bank's balance sheet and cash flows is denominated in Russian rubles, the currency risk is assessed as remote.

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

	RUB	*US dollar USD 1 = RUB 60.6569*	*Euro EUR 1 = RUB 63.8111*	*December 31, 2016 Total*
Financial assets				
Cash and cash equivalents	5,634,258	14,983	4,629	**5,653,870**
Obligatory reserves with the CBR	96,961	–	–	**96,961**
Financial assets at fair value through profit or loss	–	–	3,273	**3,273**
Loans to customers	90,462,584	4,865	–	**90,467,449**
Other financial assets	122,299	2,223	934	**125,456**
Total financial assets	**96,316,102**	**22,071**	**8,836**	**96,347,009**
Financial liabilities				
Due to credit institutions	13,665,858	–	–	**13,665,858**
Due to customers	13,526,964	8,067	8,346	**13,543,377**
Other borrowed funds	1,029,732	–	–	**1,029,732**
Debt securities issued	44,145,798	–	–	**44,145,798**
Other financial liabilities	1,532,321	–	11,464	**1,543,785**
Total financial liabilities	**73,900,673**	**8,067**	**19,810**	**73,928,550**
Open balance sheet position	**22,415,429**	**14,004**	**(10,974)**	**22,418,459**
Payables on foreign currency forwards	–	–	–	**–**
Receivables on foreign currency forwards	–	–	–	**–**
Net spot and derivative position	**–**	**–**	**–**	**–**
Total net position	**22,415,429**	**14,004**	**(10,974)**	**22,418,459**

(in thousands of Russian rubles)

26. Risk management policies (continued)

Structural foreign currency risk (continued)

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

	RUB	*US dollar USD 1 = RUB 72.8827*	*Euro EUR 1 = RUB 79.6972*	*December 31, 2015 Total*
Financial assets				
Cash and cash equivalents	1,671,451	13,275	53,387	**1,738,113**
Obligatory reserves with the CBR	175,399	–	–	**175,399**
Financial assets at fair value through profit or loss	–	–	3,034	**3,034**
Loans to customers	89,011,696	16,602	–	**89,028,298**
Other financial assets	85,790	1,663	193,431	**280,884**
Total financial assets	**90,944,336**	**31,540**	**249,852**	**91,225,728**
Financial liabilities				
Due to credit institutions	8,071,947	–	–	**8,071,947**
Due to customers	18,291,596	8,728	10,136	**18,310,460**
Other borrowed funds	1,537,080	–	–	**1,537,080**
Debt securities issued	37,711,321	–	–	**37,711,321**
Other financial liabilities	2,898,473	469	284,159	**3,183,101**
Total financial liabilities	**68,510,417**	**9,197**	**294,295**	**68,813,909**
Open balance sheet position	**22,433,919**	**22,343**	**(44,443)**	**22,411,819**
Payables on foreign currency forwards	–	–	–	**–**
Receivables on foreign currency forwards	–	–	–	**–**
Net spot and derivative position	**–**	**–**	**–**	**–**
Total net position	**22,433,919**	**22,343**	**(44,443)**	**22,411,819**

Currency risk sensitivity

The following table details the Bank's sensitivity to a 30% increase or decrease of the RUB exchange rate against the US dollar and euro. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for a 30% change in foreign currency rates. The sensitivity analysis includes both loans issued to the Bank's customers and loans to companies engaged in foreign operations where the loans are denominated in currency other than the functional currency of the lender or the borrower. A positive amount below indicates an increase in profit and other equity where the RUB strengthens by 30% against the relevant currency. A 30% weakening of the RUB against the relevant currency would have a comparable impact on profit, and other equity and the amounts below would be negative.

Impact on profit before tax and equity based on the nominal value of the asset as at December 31, 2016 and 2015 is as follows:

Currency	*Change in currency rate in % 2016*	*Effect on profit before tax 2016*	*Effect on equity 2016*	*Change in currency rate in % 2015*	*Effect on profit before tax 2015*	*Effect on equity 2015*
USD	30%	4,201	3,361	30%	6,703	5,362
	-30%	(4,201)	(3,361)	-30%	(6,703)	(5,362)
EUR	30%	(3,292)	(2,634)	30%	(13,333)	(10,666)
	-30%	3,292	2,634	-30%	13,333	10,666
Total	**30%**	**909**	**727**	**30%**	**(6,630)**	**(5,304)**
	-30%	**(909)**	**(727)**	**-30%**	**6,630**	**5,304**

Management believes the sensitivity analysis does not reflect the inherent currency risk because the year-end exposure does not reflect the exposure present during the year.

(in thousands of Russian rubles)

26. Risk management policies (continued)

Structural foreign currency risk (continued)

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors.

It should also be noted that the sensitivity is non-linear, thus the results should not be interpolated or extrapolated.

The sensitivity analysis does not take into consideration that the Bank's assets and liabilities are actively managed. Additionally, the Bank's financial position may vary at the time that any actual market movement occurs. Consequently, changes in assumptions may have no effect on liabilities, while significantly influencing assets recorded at market value in the statement of financial position. In these circumstances, the different measurement basis for liabilities and assets may lead to volatility in shareholder equity.

Other limitations of the above sensitivity analysis include the use of hypothetical market movements to demonstrate potential risk that only represent the Bank's view of future market changes which cannot be predicted with any certainty. Another assumption is that all interest rates change in a similar way.

Operational risk

Operational risk arises from:

- Inconsistency of internal practices and procedures of banking and other transactions with the nature and scope of the Bank's business and/or non-compliance with applicable legislation;
- Breach of internal practices and procedures by the employees or other parties through incompetence, inadvertent or deliberate actions or omission to act;
- Inappropriate (insufficient) functionalities (specifications) of IT and other systems and/or their failures (malfunctions);
- External events.

The Bank considers the following types of operational risk:

- Personnel risk is the risk of incurring losses due to potential errors, fraud, insufficient qualification of the employees;
- Process risk is the risk of incurring losses due to errors in the processes of conducting operations, settlement of transactions, their accounting and recognition in the financial statements, etc.;
- Technology risk is the risk of incurring losses due to deficiencies in technologies used, insufficient system capacity, use of systems which do not match operations conducted, low data processing quality or inadequacy of data used, etc.;
- Environment risk is the risk of incurring losses due to non-financial changes in the environment where the Bank operates, including changes in legislation, political changes, etc.

Operational risk is measured and managed by:

- Performing special and general reviews in order to assess the risk of losses resulting from errors in operational processes and settlements of transactions, their accounting and recognition in the financial statements and to control implementation of corrective actions;
- Maintaining of the losses database, which contains information on losses, failures and irregularities of business processes and control over implementation of corrective actions;
- Preliminary assessment (procedure of preliminary assessment by a business-unit not responsible for conducting operating activities) of internal regulatory acts, which limit operational risks and introduce internal regulating processes for existence and adequacy of control mechanisms;
- Assessment of existing system of segregation of duties and responsibilities, etc.;
- Assessment of information on failures in the operational process;
- Compliance with the Russian legislation, requirements of the CBR and the Bank's internal regulations.

(in thousands of Russian rubles)

26. Risk management policies (continued)

Operational risk (continued)

A system of assessment of the operational risk exposure in business units was developed and implemented by the Bank.

The management believes that the established procedures mitigate the operational risk. The Bank's internal audit function is responsible for control over compliance with the operational risk management requirements and procedures and reporting the level of operational risk to the Board of Directors.

Strategic risk

Strategic risk arises from adverse changes in the Bank's performance due to bad business decisions made in the process of managing Bank's activities, including those related to development, approval and implementation of strategic goals, improper implementation of the decisions taken, and failure of the Bank's management to take into account external factors.

In the course of its activity, the Bank applies the Development Strategy for the three-year period approved by the Board of Directors that specifies its major long-term goals set in accordance with the vision of the participant and management, the Bank's major competitive advantages in the core market segments, and the plan to achieve these goals, as well as qualitative and quantitative milestones for the Bank's economic development.

Goals and objectives set by the Development Strategy are used as a basis for decision-making at all levels of corporate governance and the Bank's current activities.

To mitigate the strategic risk, the Bank monitors implementation of the Development Strategy, as well as macroeconomic and market conditions which have been taken into account in developing the Development Strategy, and analyses emerging trends. Achievement of the Bank's strategic goals is one of the key performance indicators that are taken into account in assessing performance of the management.

This risk is controlled and managed indirectly as part of the management process related to other risks which occurrence has a direct impact on the strategic risk exposure.

27. Transactions with related parties

As defined by IAS 24 *Related Party Disclosures*, related parties are:

(a) A person or a close member of that person's family is related to the Bank if that person:

- (i) Has control or joint control over the Bank;
- (ii) Has significant influence over the Bank; or
- (iii) Is a member of the key management personnel of the Bank or of a parent of the Bank.

(b) An entity is related to the Bank if any of the following conditions applies:

- (i) The entity and the Bank are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
- (iii) Both entities are joint ventures of the same third party;
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Bank or an entity related to the Bank. If the reporting entity is such a plan itself, the sponsoring employers are also considered to be related parties of the Bank;
- (vi) The entity is controlled or jointly controlled by a person identified in (a);
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity);
- (viii) The entity, or any member of a group, of which it is a part, provides key management personnel services to the reporting entity or to the parent of the Bank.

(in thousands of Russian rubles)

27. Transactions with related parties (continued)

In considering each possible related party relationship, attention is redirected to the substance of the relationship, not merely the legal form.

In 2016 and 2015, the Bank entered into transactions with related parties on terms and conditions similar to those applied to transactions with third parties.

Details of balances and transactions between the Bank and other related parties are disclosed below:

	December 31, 2016		*December 31, 2015*	
	Transactions with related parties	***Total category as per the financial statements***	***Transactions with related parties***	***Total category as per the financial statements***
Cash and cash equivalents	**2,817,191**	**5,653,870**	**50,258**	**1,738,113**
- participant and ultimate controlling party	2,817,191	–	49,547	–
- entities controlled by the participant and ultimate controlling party	–	–	711	–
Loans to customers	**1,077**	**90,467,449**	**451**	**89,028,298**
- key management personnel of the Bank or its participant and ultimate controlling party	1,077	–	451	–
Financial assets at fair value through profit or loss	**3,273**	**3,273**	**3,034**	**3,034**
- participant and ultimate controlling party	3,273	–	3,034	–
Other assets	**70,421**	**510,209**	**230,632**	**635,716**
- participant and ultimate controlling party	37,051	–	211,907	–
- entities controlled by the participant and ultimate controlling party	33,370		18,725	–
Due to credit institutions	**(13,648,236)**	**(13,665,858)**	**(7,551,922)**	**(8,071,947)**
- participant and ultimate controlling party	(13,648,236)	–	(6,746,941)	–
- entities controlled by the participant and ultimate controlling party	–		(804,981)	–
Due to customers	**(505,726)**	**(13,543,377)**	**(4,827,164)**	**(18,310,460)**
- entities controlled by the participant and ultimate controlling party	(504,208)	–	(4,825,666)	–
- key management personnel of the Bank or its participant and ultimate controlling party	(1,518)	–	(1,498)	–
Debt securities issued	**(8,881,705)**	**(44,145,798)**	**(8,512,705)**	**(37,711,321)**
- participant and ultimate controlling party	(7,841,753)	–	(8,512,705)	–
- entities controlled by the participant and ultimate controlling party	(1,039,952)	–		–
Other liabilities	**(615,200)**	**(1,640,194)**	**(2,013,267)**	**(3,269,798)**
- participant and ultimate controlling party	(612,510)	–	(2,011,026)	–
- entities controlled by the participant and ultimate controlling party	(2,690)	–	(2,241)	–

(in thousands of Russian rubles)

27. Transactions with related parties (continued)

Included in the statement of profit or loss for the years ended December 31, 2016 and 2015 are the following amounts which were recognized in transactions with related parties:

	December 31, 2016		December 31, 2015	
	Transactions with related parties	Total category as per the financial statements	Transactions with related parties	Total category as per the financial statements
Interest income	**199,791**	**15,344,547**	**633,234**	**17,318,333**
- participant and ultimate controlling party	199,710	–	633,160	–
- key management personnel of the Bank or its participant and ultimate controlling party	81	–	74	–
Interest expense	**(846,935)**	**(7,209,697)**	**(2,279,458)**	**(8,292,468)**
- participant and ultimate controlling party	(565,737)	–	(1,637,627)	–
- entities controlled by the participant and ultimate controlling party	(281,196)	–	(641,829)	–
- key management personnel of the Bank or its participant and ultimate controlling party	(2)	–	(2)	–
Net gain on financial instruments at fair value through profit or loss	**3,273**	**3,294**	–	–
- participant and ultimate controlling party	3,273	–	–	–
Net gains from foreign exchange operations	**7**	**(22,377)**	**11**	**11,159**
- key management personnel of the Bank or its participant and ultimate controlling party	7	–	11	–
Fee and commission income	**335,997**	**1,369,202**	**299,144**	**1,258,264**
- participant and ultimate controlling party	459	–	1,322	–
- entities controlled by the participant and ultimate controlling party	335,538	–	297,821	–
- key management personnel of the Bank or its participant and ultimate controlling party	–	–	1	–
Fee and commission expense paid	**(57,970)**	**(159,419)**	**(62,048)**	**(140,157)**
- participant and ultimate controlling party	(57,970)	–	(46,621)	–
- entities controlled by the participant and ultimate controlling party	–	–	(15,427)	–
Other income	**257,087**	**370,397**	**195,837**	**335,783**
- participant and ultimate controlling party	218,317	–	153,522	–
- entities controlled by the participant and ultimate controlling party	38,770	–	42,315	–
Operating expenses	**(102,363)**	**(5,762,907)**	**(22,312)**	**(5,326,164)**
- participant and ultimate controlling party	(84,752)	–	(5,568)	–
- entities controlled by the participant and ultimate controlling party	(17,611)	–	(16,744)	–

Société Générale (ultimate controlling party of the Bank) provided a guarantee on behalf of the Bank under the loan agreement between the Bank and IFC dated June 22, 2012 (Note 15). The amount of the guarantee as of December 31, 2016 amounted to RUB 1,800,000 thousand (2015: RUB 1,800,000 thousand).

The compensation to directors and key management personnel was as follows:

	December 31, 2016		December 31, 2015	
	Transactions with related parties	Total category as per the financial statements	Transactions with related parties	Total category as per the financial statements
Compensation to key management personnel				
- salaries and bonuses	85,823	**3,089,331**	90,435	**2,832,131**
- social taxes	11,534	**731,767**	11,602	**715,546**
Total	**97,357**	**3,821,098**	**102,037**	**3,547,677**

The amount of salaries and bonuses to key management personnel includes the amount totaling RUB 320 thousand in 2016 (2015: RUB 259 thousand) distributed under the share plan Société Générale (Note 28).

(in thousands of Russian rubles)

28. Share based payments

In November 2010, the Bank adopted the plan of granting of shares to the employees (the "share plan"). Under the share plan, the Bank will be granting the cash equivalent of 40 shares of Société Générale per employee subject to ongoing employment with Société Générale Group and achievement by the Group of certain performance indicators (performance conditions). The share plan covers all employees and management personnel working at the Bank as at the date the share plan is adopted. The terms of transfer of rights are as follows:

1. Vesting period:
   (a) The vesting period for the first tranche comprising 16 preference shares in form of equivalent payments expired on March 31, 2015;
   (b) The vesting period for the second tranche comprising 24 preference shares in form of equivalent payments expired on March 31, 2016.
2. Vesting conditions:

   Payments in the equivalent of the value of preference shares are granted to employees subject to ongoing employment and achievement of certain performance indicators. By the end of each of the stated periods, each employee is assessed for compliance with the abovementioned conditions.

The fair value of the amount payable is recorded in operating expenses during the vesting period with the corresponding liability recognized in other liabilities. As at December 31, 2016, the total carrying amount of the corresponding liabilities was RUB 0 thousand (2015: RUB 261,064 thousand).

The vesting period for the second tranche under the share plan expired in March 2016. Each eligible Bank employee was granted cash equivalent of 24 shares of Société Générale denominated in local currency. At the date of payment, 2,430 employees were eligible for participation and the price was set at EUR 34.6798 per share. Société Générale compensated for the Bank's expenses in full.

The vesting period for the first tranche under the share plan expired in March 2015. Each eligible Bank employee was granted cash equivalent of 16 shares of Société Générale denominated in local currency. At the date of payment, 2,790 employees were eligible for participation and the price was set at EUR 42.9605 per share. Société Générale compensated for the Bank's expenses in full.

29. Subsequent events

The following subsequent events occurred after December 2016:

In January 2017, the second tranche of the loan received from the IFC in October 2012 and recorded in other borrowed funds totaling RUB 1,000,000 thousand was fully repaid.

In February 2017, pursuant to the Decision of the sole participant of December 28, 2016 (Note 17), the Bank transferred a portion of retained earnings of prior years recognized in other liabilities as at December 31, 2016 to its sole participant PJSC Rosbank in the amount of RUB 600,000 thousand (Note 16).

In January 2017, the Bank made an offer on non-convertible documented interest-bearing stock-exchange bonds of series BO-9 payable to bearer with coupon rates of 12.00% fixed for coupon periods 1 through 3. As part of the offer in January 2017 the Bank redeemed the bonds in the amount of RUB 1,344,841 thousand, while the bonds in the amount of RUB 2,655,159 thousand remained on the market with the maturity in 2020. Bonds available after the offer enable investors to sell the bonds back to the Bank at the rate of 10.10% (for the forth coupon).

In January 2017, the Bank made an offer on documentary interest-bearing non-convertible bearer bonds of series 13 with coupon rates of 11.90% for coupon periods 5 through 7. As part of the offer in January 2017 the Bank redeemed the bonds in the amount of RUB 1,015,000 thousand, while the bonds in the amount of RUB 1,663,687 thousand remained on the market with the maturity in 2018. Bonds available after the offer enable investors to sell the bonds back to the Bank at the rate of 9.90% (for the eighth to tenth coupon).

In March 2017, the Bank made an offer on non-convertible documented interest-bearing stock-exchange bonds of series BO-12 payable to bearer with coupon rates of 11.65% fixed for coupon periods 1 through 2. As part of the offer in March 2017 the Bank redeemed the bonds in the amount of RUB 4,112,947 thousand, while the bonds in the amount of RUB 887,053 thousand remained on the market with the maturity in 2021. Bonds available after the offer enable investors to sell the bonds back to the Bank at the rate of 9.65% (for the third coupon).