FBK
Finance

INTERSTATE BANK

IFRS Financial Statements and Independent Auditors' Report

for the year ended 31 December 2016*

Moscow 2017

* Translation from the original in Russian.
The original Financial Statements together with the Independent Auditor's Report in Russian are available on the Interstate Bank's website at www.isbnk.org or may be provided upon request.

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THE MANAGEMENT'S ACKNOWLEDGMENT OF RESPONSIBILITY FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

The below acknowledgment that is to be considered together with the description of the auditors' responsibilities described in the independent auditors' report has been made to divide responsibilities of the auditors and of the management of the Interstate Bank (hereinafter, the Bank) with respect to the financial statements.

The Bank's management is responsible for the preparation of financial statements that present fairly, in all material respects, the financial position, business performance, cash flows and changes in the equity of the Bank for the year ended December 31, 2016, in accordance with the International Financial Reporting Standards (hereinafter, IFRS).

When preparing financial statements, the management is responsible for:

- choosing adequate and appropriate accounting principles and ensuring their consistent application;
- using sound estimates and calculations;
- compliance with IFRS requirements and disclosure of all material departures from IFRS in the notes to financial statements; and
- preparing financial statements assuming that the Bank will continue its operations in the foreseeable future, except where such assumption is inappropriate.

Also, the management is responsible for:

- development, integration and ensuring performance of an effective and reliable internal control system at the Bank;
- maintenance an accounting system that may be used at any time to compile, to an adequate degree of accuracy, information about the Bank's financial position and that would ensure compliance of financial statements with IFRS requirements;
- maintenance of accounting procedures in accordance with the laws and accounting standards of the Russian Federation;
- taking measures, within the scope of its competence, in order to ensure integrity of the Bank's assets; and
- prevention and detection of fraud, errors and other irregularities.

These financial statements for the year ended December 31, 2016, were signed to be submitted for approval by the Bank's Council on February 10, 2017.

President	I. G. Souvorov
Chief Accountant	L. K. Razdevilova

February 10, 2017

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Finance

Independent Auditor's Report

To members of the Interstate
Bank and other persons

Audited Entity

Name:
Interstate Bank

Registered address:
15 Shukhova St., Moscow 115162 Russian Federation

State registration:
The Interstate Bank was registered by the Moscow Registration Chamber on March 24, 1994, Certificate No. 030.977.
The Interstate Bank was founded in accordance with the Agreement on the Foundation of the Interstate Bank dated January 22, 1993.
Registration number in the register of banks located in the territory of the Russian Federation: 2639-MG.

Auditor

Name:

Limited Liability Company FBK Finance (FBK Finance LLC).

Registered address:

Bldg. 4, 44/1 Myasnitskaya St., Moscow 101000

State registration:

Registered by Interdistrict Inspectorate of the Federal Tax Service for the city of Moscow No. 46 on October 7, 2013, Certificate: series 77 No. 015440339. Registered in the Unified State Register of Legal Entities on October 7, 2013, under Primary State Registration Number 1137746917692.

Membership in a self-regulatory auditors organization:

Non-Profit Partnership Auditor Association Sodruzhestvo (NPP AAS).

Number in the register of audit organizations of the self-regulatory auditor organization:

Certificate of Membership in NPP AAS No. 7021. Primary Registration Number of Entry 11406012265.

We have audited the accompanying annual financial statements of the Interstate Bank (hereinafter, the Bank) comprising the statement of financial position for the year ended December 31, 2016, the statement of comprehensive income for 2016, the statement of changes in equity and the statement of cash flows for 2016, and a summary of principal accounting policies and notes to the financial statements.

Responsibility of the audited entity for the preparation of the annual financial statements

The management of the Interstate Bank is responsible for the preparation and reliability of these annual financial statements in accordance with the International Financial Reporting Standards and for the internal control system necessary for preparing the annual financial statements free of material misstatements due to negligence or error.

Responsibility of the Auditor

Our responsibility is to express an opinion on the reliability of the annual financial statements in all material respects on the basis of the audit that we have performed. We have conducted the audit in accordance with the federal auditing standards. Those standards provide for the observance of the applicable ethical practices and require the audit to be planned and performed so as to obtain reasonable assurance that the annual financial statements are free of material misstatements.

The audit comprised audit procedures aimed at obtaining audit evidences to confirm the amounts and disclosures presented in the annual financial statements. The choice of the audit procedures was subject to our judgment based on the assessment of the risk of material misstatements due to negligence or error. When assessing this risk, we analyzed the internal control system providing for the preparation and reliability of the annual financial statements, the only aim of such analysis being to select appropriate audit procedures and not to express an opinion on the efficiency of the internal control system. In addition, the audit included assessment of the adequacy of the accounting policy in use and the relevancy of the estimates made by the Bank's management as well as assessment of presentation of the annual financial statements as a whole.
We believe that the audit evidences obtained in the course of the audit gives sufficient grounds to express an opinion on the reliability of the annual financial statements.

Opinion

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

General Director

FBK Finance LLC

N.P. Mushkarina
On the basis of the Articles of Association,
Auditor's Qualification Certificate No. 01-000988, Primary Registration Number of Entry (ORNZ) 20401041655

Audit report date
February 17, 2017

(in thousands of Russian rubles unless otherwise stated)

Statement of comprehensive income

	Note	2016	2015
Interest income	5	746,001	630,177
Interest expense	5	(1,205)	(131,577)
Net interest income / (expense)		**744,796**	**498,600**
Provision charge for impairment of interest-bearing assets	6	(4,279)	-
Net interest income / (expense) after provision for impairment		**740,517**	**498,600**
Gains less losses arising from transactions with financial assets / liabilities	7	-	434,435
Gains less losses arising from foreign exchange transactions		21,875	170,958
Gains less losses from revaluation of foreign currency		(39,222)	401,569
Fee and commission income	8	8,942	5,993
Fee and commission expense	8	(6,974)	(4,587)
Provision charge for impairment of other assets and changes in contingent liabilities	19	374	(685)
Other operating income	9	726	1,732
Operating expenses	10	(309,860)	(290,786)
Profit / (loss) before tax		**416,378**	**1,217,229**
NET PROFIT / (LOSS)		**416,378**	**1,217,229**
Other comprehensive income		**128,738**	**(2,067)**
Other comprehensive income to be reclassified in profit or loss in subsequent periods: Changes in fair value reserve for financial assets available for sale	14	128,738	(2,067)
Total other comprehensive income, net of tax		**128,738**	**(2,067)**
COMPREHENSIVE INCOME		**545,116**	**1,215,162**

Signed on February 10, 2017.

President I. G. Souvorov

Chief Accountant L. K. Razdevilova

Notes on Pages 10–39 make an integral part of these financial statements.

(in thousands of Russian rubles unless otherwise stated)

Statement of financial position

	Note	December 31, 2016	December 31, 2015
ASSETS			
Cash and cash equivalents	11	288,972	535,124
Due from financial institutions	12	3,561,202	3,187,987
Loans and advances to customers	13	4,414	5,750
Financial assets available for sale	14	3,280,741	3,587,713
Fixed and intangible assets	15	46,158	43,748
Other assets	16	13,420	84,519
Total assets		**7,194,907**	**7,444,841**
LIABILITIES			
Due to financial institutions	17	281,282	835,274
Customers accounts	18	1,621,009	1,836,689
Other liabilities and reserves	19	8,257	2,856
Total liabilities		**1,910,548**	**2,674,819**
EQUITY			
Authorized capital / Paid-in shares	20	212,086	212,086
Shares in authorized capital reaquired from members	20	(1,100)	(1,100)
Fair value reserve for financial assets available for sale	14	3,464	(125,274)
Other equity instruments		2,052,230	2,052,230
Retained earnings	21	3,017,679	2,632,080
Total equity		**5,284,359**	**4,770,022**
Total liabilities and equity		**7,194,907**	**7,444,841**

Signed on February 10, 2017.

President I. G. Souvorov

Chief Accountant L. K. Razdevilova

Notes on Pages 10–39 make an integral part of these financial statements.

(in thousands of Russian rubles unless otherwise stated)

Statement of changes in equity

	Note	Authorized capital / Paid-in shares	Shares in authorized capital reaquired from members	Other equity instruments	Fair value reserve for financial assets available for sale	Retained earnings	Total equity
Balance as of January 1, 2015		**212,086**	**(1,100)**	**-**	**(123,207)**	**1,416,621**	**1,504,400**
Comprehensive income for the year ended December 31, 2015, net of tax	21	-	-	-	(2,067)	1,217,229	1,215,162
Perpetual subordinated loans		-	-	2,052,230	-	-	2,052,230
Amounts paid on perpetual subordinated loans		-	-	-	-	(1,770)	(1,770)
Balance as of January 1, 2016		**212,086**	**(1,100)**	**2,052,230**	**(125,274)**	**2,632,080**	**4,770,022**
Comprehensive income for the year ended December 31, 2016, net of tax	21	-	-	-	128,738	416,378	545,116
Amounts paid on perpetual subordinated loans		-	-	-	-	(30,779)	(30,779)
Balance as of December 31, 2016		**212,086**	**(1,100)**	**2,052,230**	**3,464**	**3,017,679**	**5,284,359**

Signed on February 10, 2017.

President — I. G. Souvorov

Chief Accountant — L. K. Razdevilova

Notes on Pages 10–39 make an integral part of these financial statements.

(in thousands of Russian rubles unless otherwise stated)

Statement of cash flows

	Note	2016	2015
Cash flows from operating activities			
Interest received		758,613	635,045
Interest paid		(977)	(37,971)
Fee and commission received		8,942	5,993
Fee and commission paid		(6,974)	(4,587)
Gains / (losses) arising from transactions with financial assets designated at fair value through profit or loss, available for sale		-	434,435
Gains / (losses) arising from foreign exchange transactions		21,875	170,958
Other operating income		464	1,698
Operating expenses paid		(298,902)	(286,054)
Cash flows from / (used in) operating activities before changes in operating assets and liabilities		**483,041**	**919,517**
Net (increase) / decrease in operating assets and liabilities			
Net (increase) / decrease in due from financial institutions		(377,065)	(1,914,365)
Net (increase) / decrease in loans and advances to customers		1,336	(965)
Net (increase) / decrease in other assets		68,535	(71,216)
Net increase / (decrease) in financial liabilities designated at fair value through profit or loss		-	(34,631)
Net increase / (decrease) in due to financial institutions		(553,992)	686,425
Net increase / (decrease) in customers accounts		(215,680)	(50,721)
Net increase / (decrease) in other liabilities		(208)	(73,335)
Net cash received from / (used in) operating activities		**(594,033)**	**(539,291)**
Cash flows from investing activities			
Purchase of financial assets available for sale		-	(2,079,885)
Proceeds from disposal of financial assets available for sale		422,669	2,109,347
Dividends received from investment securities		150	210
Purchase of fixed assets		(5,049)	(3,979)
Proceeds from sale of fixed assets		112	-
Net cash received from / (used in) investing activities		**417,882**	**25,693**
Cash flows from financing activities			
Interest paid on perpetual subordinated loans		(30,779)	(744)
Net cash received from / (used in) financing activities		**(30,779)**	**(744)**
Effect of exchange rate changes on cash and cash equivalents		(39,222)	57,809
Net increase in cash and cash equivalents		**(246,152)**	**(456,533)**
Cash and cash equivalents as at the beginning of the reporting period	11	535,124	991,657
Cash and cash equivalents as at the end of the reporting period	11	**288,972**	**535,124**

Signed on February 10, 2017.

President I. G. Souvorov

Chief Accountant L. K. Razdevilova

Notes on Pages 10–39 make an integral part of these financial statements.

Notes to the Financial Statements

1 Principal Activities

The Interstate Bank (hereinafter - the Bank) was established in 1993.

The Bank is an international settlement and financial institution existing and operating in accordance with the provisions of the international public law. The Bank engages in operations in the territory of the states that are parties to the Agreement on Foundation of the Interstate Bank dated 22 January 1993 (hereinafter - the Agreement), on the basis of agreements with the governments and central (national) banks of such states.

The Bank's members are: the Republic of Armenia, the Republic of Belarus, the Republic of Kazakhstan, the Kyrgyz Republic, the Republic of Moldova, the Russian Federation, the Republic of Tajikistan, Turkmenistan, and Ukraine.

Pursuant to the Agreement, the Bank's main functions are:

- arrangement of multilateral interstate settlements in trade and other operations;
- provision of assistance for effective and reliable functioning of payment systems in all member states;
- provision of short-term loans to central (national) banks;
- research and analysis of the economies of the states that are parties to the Agreement, elaboration of recommendations and proposals for the central (national) banks regarding coordination of their monetary and foreign exchange policies;
- other banking operations consistent with the Bank's objectives and goals arising out of the Agreement and the Bank's Charter.

The Bank engages in its activities in the Russian Federation as a financial institution in accordance with the Agreement between the Government of the Russian Federation and the Interstate Bank on the Terms of the Presence of the Interstate Bank in the territory of the Russian Federation dated 30 July 1996, and in accordance with the Agreement between the Bank and the Central Bank of the Russian Federation "On the Procedure for and Rules of Conducting by the Interstate Bank Banking Activities in the Territory of the Russian Federation" dated 2 December 1996. Pursuant to the said Agreements, the Bank is exempt from taxes, dues and other mandatory charges payable in the territory of the Russian Federation and is authorized to engage in banking activities in the Russian Federation without a license of Bank of Russia. In accordance with the Agreement between the Bank and the Central Bank of the Russian Federation "On the Procedure for and Rules of Conducting by the Interstate Bank Banking Activities in the Territory of the Russian Federation" dated 2 December 1996, the Bank is not subject to certain requirements of the federal laws of the Russian Federation "On the Central Bank of the Russian Federation (the Bank of Russia)" and "On Banks and Banking Activity", in particular, to provisions regarding banks regulation and banking supervision.

In accordance with the Agreement between the Bank and the Bank of Russia dated 2 December 1996, the Bank is authorized to sell and buy government securities and precious metals, engage in deposit banking; issue guarantees and sureties, make transactions with financial instruments, open accounts with Russian and foreign financial institutions, and conduct other banking operations that are not prohibited under Russian laws.

The Bank has no branches in the Russian Federation or abroad. The Bank has representative offices in the Republic of Armenia, the Republic of Belarus, and the Kyrgyz Republic.

The main types of banking transactions conducted by the Bank:

settlement transactions, foreign exchange operations, transactions with securities.

The supreme management body is the Bank's Council chaired by Georgy I. Luntovskiy, First Deputy Governor, Bank of Russia.

The Bank's principal place of business is Moscow.

The Bank's headquarters are at: 15 Shukhova St., Moscow 115162 Russian Federation

The Bank's average headcount in 2016 was 72 employees (2015: 74 employees). As of December 31, 2016, there were 75 employees working for the Bank (2015: 76 employees).

2 The Bank's Economic Environment

The Bank carries out its operations primarily in the Russian Federation.

In 2016, the general economic situation in Russia was stable. Inflation continued falling, and economic trends gradually moved onto the recovery growth stage, even though there was no uniformity in production dynamics. Disinflation rates slackened off and inflation risks were somewhat mitigated. Seasonality-adjusted monthly price growth rates decreased. Disinflation trends with respect to various groups of goods and services gained more uniformity. Temporary factors such as the ruble strengthening and positive trends on the agricultural market in Russia continue contributing to some extent to disinflation. The restraining influence of demand can be still observed but there is evidence that such influence is appearing weaker with positive annual rates of growth in real income. Yet, despite the continuing disinflation, inflationary expectations remained high and decreased unsteadily.

An agreement on production cuts by countries - oil suppliers had its effect on the trends in the global commodity markets and the probability of the global oil prices rising. However, so far one should be very careful in saying that the market has seen any fundamental change. One can still observe the factors determining excess supply on the oil market: higher elasticity of oil supply, particularly, from non-traditional sources, a high level of accumulated oil resources, and a slow growth of the global economy.

The increase in the volatility on the global commodity and financial markets had no material impact on the internal conditions in the Russian economy. The GDP year-on-year decline rates continued slowing down, alongside signs of recovery in economic activities, specifically, in individual sectors and regions.

Amid a moderate global economy growth and the remaining relatively stable internal financial conditions, the recession in the Russian economy kept slowing down. According to Rosstat (the Federal State Statistics Service), in Q III 2016 the GDP year-on-year decrease came to 0.4% (vs. 0.6% in the previous quarter). Moreover, according to the Bank of Russia's estimates, the seasonality-adjusted quarterly GDP growth rates are no longer negative, which evidences that there are preconditions for the recovery of economic activities in the short term.

There is a possibility of oil prices to go further down in 2017-2019. At the same time, the situation on the oil market in 2017 may turn out to be more favorable. In 2016, international organizations made practically no adjustments in their global economy growth forecasts. With the global economy growth rates forecast to be slow, inflation in countries - trade partners will remain low, and forecasts of the global food prices do not suggest any marked increase against the average figures for 2016.

Among the Bank's business partners are Russian and foreign legal entities, but the Bank's business model does not imply high credit and interest rate exposure. Besides, the Bank's business is connected with the settlement services in Russia and the CIS member countries, which makes the Bank less dependent on the economic development of Russia's economy sectors. The Bank's management regularly assess economic development trends in Russia and the CIS member countries and takes measures to prevent any material impact of negative factors on the Bank's business. At the same time, the Bank's business model is characterized by dependence on the level of interactions of economies of the CIS member countries. Considering all specifics of the economic development, the Bank's management provides for timely planning of the operational process on the basis of available forecasts.

3 Basis of Preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), including all earlier adopted IFRS and SIC and IFRIC interpretations. The Bank maintains accounting procedures and prepares accounting statements in accordance with the requirements of the laws applicable in the country of its residence. These financial statements have been prepared on the basis of the accounting statements, subject to adjustments and re-classifications of items necessary to bring them in line with IFRS. The principles of the accounting policy used for the preparation of these financial statements are described below. The said principles have been applied on a consistent basis to all periods presented in the statements (unless otherwise specified).

The Bank keeps accounting records in the national currency of the Russian Federation and in accordance with the requirements of the Russian banking laws. These financial statements have been prepared on the basis of the said accounting records, subject to adjustments necessary to bring them in line with all material aspects of IFRS.

The management has prepared these financial statements on the basis of the going concern assumption. See Note 28 "Effect of estimates and assumptions on recognized assets and liabilities".

The financial statements are presented in the national currency of the Russian Federation – Russian ruble (RUB), which is the Bank's functional currency and the presentation currency. Unless specified otherwise, figures disclosed in the financial statements are given in thousands of Russian rubles.

The accounting policy in use conforms to the policy that was used in the previous financial year, except for new, revised standards that have been adopted by the Bank as mandatory standards in relation to the annual periods as of January 1, 2016.

The Bank did not use voluntary re-classification during the reporting period and the preceding reporting period.

Certain new IFRS became mandatory for the Bank in the period from January 1 to December 31, 2016. Below are the new and revised standards and interpretations that are currently applicable to the Bank's business and their impact on the Bank's accounting policy. All changes in the accounting policy have been made (if and where needed) on a retrospective basis, unless otherwise specified.

IFRS 14 Regulatory Deferral Accounts — IFRS 14 is not a mandatory standard; it permits rate-regulated entities adopting IFRS for the first time to continue to account for regulatory deferral account balances in accordance with their current accounting policies, with some limited changes in them. Entities that apply IFRS 14 must present regulatory deferral account balances as separate items in the statement of financial position, and movements in such balances as separate items in the statement of profit and loss and other comprehensive income. The standard requires disclosing information about the nature of business of a rate-regulated entity, associated risks and impact of the rate regulation on the entity's financial statements. IFRS 14 is effective for annual reporting periods beginning on January 1, 2016, or after this date. As the Bank already prepares IFRS-compliant statements and does not engage in rate-regulated activities, this standard is not applicable to the Bank.

Amendments to IFRS 11 — Joint Arrangements: accounting for the acquisition of interests — Amendments to IFRS 11 say that if the acquisition of an interest in a joint operation constitutes a business, entities must apply the relevant requirements of IFRS 3 Business Combinations as are laid down for the accounting for combinations of business. The amendments also clarify that an interest that was earlier held in a joint operation is not subject to re-measurement in case of acquisition of an additional interest in the same joint operation provided that joint control is retained. Furthermore, IFRS 11 has been added with scope exemption provisions to clarify that the amendments do not apply in cases where parties maintaining joint control, including the reporting entity, are under common control of one ultimate controlling party. The amendments apply both to the acquisition of the initial interest in a joint operation and to the acquisition of any additional interests in the same joint operation, and are prospectively effective for the annual periods beginning on January 1, 2016, or after this date. The said amendments have no impact on the Bank because during the period the Bank did not acquire interests in joint operations.

Amendments to IAS 16 and IAS 38 — Clarification of Acceptable Methods of Depreciation and Amortization — The amendments clarify one of the principles of IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets, which says that revenue reflects the economic benefits generated as a result of an activity, in which an asset is used, and not the economic benefits consumed during the asset's use. Hence, the revenue-based depreciation may not be used to depreciate fixed assets and rarely, if ever, may be used to depreciate intangible assets. The amendments are prospectively effective for the annual periods beginning on January 1, 2016, or after this date. The said amendments have no impact on the Bank because the Bank does not apply revenue-based methods to depreciate non-current assets.

Annual Improvements to IFRSs 2012-2014 Cycle

These improvements are effective for the annual periods beginning on January 1, 2016, or after this date. The improvements include the following amendments:

IFRS 7 Financial Instruments: Disclosures
(i) Servicing Contracts — The amendment clarifies that a servicing contract providing for a commission may be deemed as a continuing involvement in a financial asset. Entities are required to evaluate the nature of such contract and commission in accordance with the guidance proposed in IFRS 7 on the evaluation of the continuing involvement in order to determine the required disclosures. Evaluation of which of servicing contracts constitute a continuing involvement should be made retrospectively. Entities do not have to make the required disclosures with respect to any period preceding the period, in which an entity applied this amendment for the first time.

IAS 19 Employee Benefits — The amendment clarifies that the extent of activity of the market for high quality corporate bonds should be assessed based on the currency, in which a liability is denominated, and not on the country to which such liability pertains. If there is no developed market for high quality corporate bonds in a corresponding currency, the public bond yield rate should be used. This amendment must be applied prospectively.

Amendments to IAS 1 — Disclosure Initiative — Amendments to IAS 1 clarify rather than materially change the existing requirements of IAS 1. The amendments clarify:
- IAS 1 requirements to the definition of materiality;
- that individual items in the statement(s) of profit or loss and other comprehensive income and in the statement of financial position can be disaggregated;
- that entities may choose procedures for the presentation of notes to financial statements;
- that the share of other comprehensive income of equity-accounted associates and joint ventures should be presented in aggregate as single line items with a breakdown by items based on whether or not they will subsequently be re-classified to profit or loss.

Furthermore, the amendments clarify the requirements that apply to the presentation of additional subtotals in the statement of financial position and the statement(s) of profit or loss and other comprehensive income. These amendments are effective for the annual periods beginning on January 1, 2016 or after this date.

In the Bank's opinion, the application of the foregoing standards and interpretations will have no material impact on the Bank's financial statements during the period of their initial adoption.

The judgments that are made by the Bank's management when applying the accounting policy, that materially impact the sums disclosed in the financial statements and are most significant for the financial statements are outlined in Note 28.

4 Summary of Principal Accounting Policies

4.1 Key Valuation Methods

When accounting for financial instruments, the Bank uses the following methods for their measurement:

- at fair value,
- at amortized cost, or
- at cost.

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

Financial instruments are deemed as quoted on an active market if quotations for such instruments are regularly determined and information about them is available on the stock exchange, via information analysis systems or from other information sources, and also if such prices reflect real and regular market transactions closed by independent market participants.

Fair value for financial instruments quoted on an active market is determined on the basis of:

- stock market quotations (market prices), generally for financial instruments handled by trade organizers;
- demand price for financial assets and supply price for financial liabilities and the estimated fair value determined according to the data of information analysis systems (for example, Reuters and Bloomberg), market dealers and other sources.

If there are no current quotations on an active market for determining fair value, the following information can be used:

- the latest quotation (demand/supply price) provided by independent external sources, if the economic situation has not significantly changed since its determination until the reporting date;
- the actual price of a transaction closed by the Bank on standard terms if the economic situation has not significantly changed since the transaction date until the reporting date.

In case of significant changes in the economic situation, the last-mentioned quotation (transaction price) is subject to adjustment considering updated quotations (transaction prices) for similar financial instruments. Debt securities may be subject to adjustment of the last-mentioned quotation (transaction price) considering the updated debt security maturity.

Fair value measurement rests on the ongoing concern assumption implying that the entity does not intend or does not have to be liquidated, considerably reduce the scope of its business or conduct operations on unfavorable terms. Thus, fair value is not equivalent to the sum obtained by the Bank from a forced transaction, in case of forced liquidation or sale of assets to repay debts.

The fair value of financial instruments, for which external sources provide no information about market prices (quotations), is measured with the use of valuation methods such as the discounted cash flow model and analysis of financial data. If there is a financial instrument valuation method that is widely used by the market participants and that has proved the conformity of estimates to prices determined on the basis of actual market transactions, the price of an instrument can be determined by using such valuation method.

The valuation method in use can be chosen for each individual case of determining fair value and, unless otherwise justified, the valuation methods based on exchange market prices and quotations of demand and supply prices are applied. Determination of the fair value of financial instruments, for which external sources provide no information about market prices (quotations), depends on various factors and circumstances and requires a professional judgment.

The Bank classifies information used to determine the fair value of a financial instrument depending on the relevancy of input data used in estimates, as follows:

- the current prices (quotations) on an active market for financial instruments identical to the financial instrument under valuation (Level 1);
- if no information about current prices (quotations) is available, the price of the latest transaction closed on an active market provided that there have been no significant changes in the economic situation as of the transaction date until the end of the reporting period, and current prices (quotations) for comparable financial instruments if the economic situation has changed since the transaction date, and information on the basis of observable market inputs (Level 2);
- prices calculated with the use of valuation methods, for which source data are not based on observable market inputs (Level 3).

Amortized cost of a financial asset or a financial liability is the cost calculated by subtracting the amount of any made (received) payments from the value of the asset or liability at the time of the initial recognition, adjusted by the amount of the accumulated amortization difference between the amounts initially recognized and actually received (paid out) on the financial instrument, and by the value of the recognized impairment losses for such instrument. The said difference is amortized at the effective interest rate. Accumulated interest includes amortization of transaction costs deferred at initial recognition of premiums or discounts of the repayment value with the use of the effective interest rate method. Accumulated interest income and accumulated interest expense, including both the accumulated coupon yield and amortized discount and premium, are not presented separately but are included in the book value of the relevant assets and liabilities.

Cash flows and the effective interest rate are restated for financial assets and financial liabilities with a floating rate at the time of setting a new coupon (interest) rate. The effective rate is restated based on the current amortized cost and expected future payments. In such case, the current amortized cost of a financial instrument does not change and the amortized cost is subsequently restated at the new effective rate.

The effective interest rate method is a method to calculate the amortized cost of a financial asset or a financial liability and to define interest income or expense over a relevant period of life of the financial asset or liability.

The effective interest rate is the rate of discounting of estimated future cash flows during the expected life of a financial instrument or, if applicable, during a shorter period, to the net book value of a financial asset or a financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms related to a financial instrument (e.g., repsyment before maturity option), without accounting for future credit losses.

Such calculation includes all commissions and fees paid and received by the parties under a contract, which are an essential part of calculations of the effective interest rate, transaction costs, and all other premiums and discounts. In case of doubt whether originated loans will be repaid, their book value is adjusted to the recoverable amount, with the interest income being subsequently recognized on the basis of the interest rate that has been used to discount future cash flows in order to determine the recoverable amount.

It is assumed that cash flows and the estimated term for a group of similar financial instruments can be reliably measured. However, in rare cases when it is impossible to measure cash flows or the expected validity term of a financial instrument, the Bank uses contractual cash flows throughout the contracted term of the financial instrument.

Cost is the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset as of the purchase date, and includes transaction cost. Measurement at cost is only applicable to investments in equity instruments, which do not have quoted market prices and the fair value of which cannot be reliably measured, as well as to derivative financial instruments, which are linked to equity instruments unquoted on an open market and must be settled by delivery of such equity instruments. Transaction costs are additional expenses directly related to the acquisition, issue or disposal of a financial instrument and include remunerations and commissions paid to agents, consultants, brokers or dealers, dues and fees paid to regulatory authorities and stock exchanges, and also fees and taxes payable for conveyance of property. Transaction costs do not include premiums or discounts on debt liabilities, financing costs and internal administrative or storage expenses.

4.2 Initial Recognition of Financial Instruments

On initial recognition of a financial asset or a financial liability, the Bank measures it at the fair value plus, in case of a financial asset or a financial liability not measured at the fair value through profit or loss, transaction costs directly related to the acquisition or issue of the financial asset or the financial liability. Profit or loss at the initial recognition of a financial asset or a financial liability is only accounted for if there is a difference between the transaction price and the fair value, which can be evidenced by other current transactions with the same instrument on the market or a valuation method that uses only data from existing markets as the reference data.

In case of standard settlement terms, purchase and sale of financial assets are recognized for accounting purposes as of the transaction date, i.e. the date when the Bank undertakes to purchase or sell the given asset, or as of the settlement date, i.e. the date when the financial asset is delivered to or by the Bank. The chosen method is consistently applied by the Bank to all purchases and sales of financial assets referred to the same category of financial assets. For this purpose, financial assets held for trade form a category separate from financial assets measured at the fair value through profit or loss.

Accounting as of the transaction date implies:

- recognizing a financial asset to be received and liabilities to pay for such asset on the transaction date;
- derecognizing the asset that is the subject of sale, recognizing any profit or loss from its disposal and recognizing receivables from the buyer payable as of the transaction date.

Accounting as of the settlement date implies:

- recognizing the asset on the date of its delivery to the Bank;
- derecognizing the asset and recognizing any profit or loss from its disposal on the date of delivery by the Bank.

When accounting as of the settlement date, the Bank accounts for any change in the fair value of the financial asset to be received between the transaction date and the settlement date, in the same manner as it accounts for the change in the cost of the acquired asset, i.e. the change in the cost is not recognized with respect to assets recorded at cost or at amortized cost; it is booked to profit or loss in relation to assets classified as financial assets measured at the fair value through profit or loss and is recognized in the statement of changes in equity in relation to assets classified as assets available for sale.

In case of accounting as of the settlement date, before settlements are effected transactions are classified as transactions with derivative financial instruments.

4.3 Impairment of financial assets

For the objective recognition of assumed risks in its statements, the Bank forms provisions for investments in all categories of financial assets, excluding those measured at fair value through profit or loss.

Financial assets gets impaired and impairment losses occur only if there are objective signs of impairment as a result of one or several events, which took place after the asset's initial recognition ("event of loss") and if such event (or events) of loss has (have) an impact on the expected future cash flows relating to the financial asset that can be reliably measured.

The main signs that help the Bank to determine whether or not a financial asset is impaired (whether or not there is an event of loss) include the following circumstances:

- any payment becomes overdue and delay in payment is not due to failure in the payment system;
- the borrower or the issuer has significant financial problems, which is evidenced by the borrower's or the issuer's financial statements presented to the Bank;
- the borrower or the issuer considers possibly bankruptcy;
- the borrower's or the issuer's solvency has deteriorated due to changes in the national or regional economic situation, affecting the borrower or the issuer;
- the collateral value has significantly decreased due to unfavorable market conditions;
- for economic or legal reasons, the lender has provided concessional terms to the borrower, which would not have happened under different circumstances;
- assets have been provided to the borrower for repayment of debts under an earlier provided asset;
- the active market for the given financial asset no longer exists due to the issuer's financial difficulties (but not because the asset is no longer traded on the market);
- there is information evidencing that the borrower or the issue has breached contractual terms with respect to similar financial assets.

Losses from impairment of financial assets recorded at amortized cost are recognized in the income statement as they occur as a result of one or several events ("events of loss"), which take place after the initial recognition of a financial asset.

The Bank does not recognize impairment losses at the initial recognition of financial assets.

If the Bank does not have objective evidence of impairment for an individually measured financial asset, regardless of its materiality, such asset is included in a group of financial assets with similar credit risk parameters and is measured for impairment in the aggregate with such assets.

For the aggregate impairment measurement purposes, financial assets are grouped by similar credit risk parameters. Such parameters relate to the measurement of future cash flows for groups of such assets and evidence of debtors' ability to repay all amounts due and payable according to contractual terms with respect to assets measured.

Future cash flows in a group of financial assets aggregately measured for impairment are determined on the basis of contractual cash flows throughout the remaining term of an asset and on the basis of the Bank's statistics on the volumes of overdue debts resulting from events of loss and on the possible recovery of overdue debts. Statistics on previous years are adjusted on the basis of the currently observable data in order to reflect the effect of the current conditions, which had no effect on the previous periods, and to eliminate the effect of past events, which do not exist in the current period.

Losses from impairment of a financial asset are recognized by creating provisions for possible losses from impairment of a financial asset in an amount sufficient to reduce the asset's book value to the current value of the expected cash flows (which does not include future loan losses that have not yet been incurred to date), discounted at the initial effective interest rate for the given asset. The discounted value of the expected cash flows from a collateralized financial asset is calculated by considering cash flows that may arise in case of sale of collateral, less expenses on its sale, regardless of the extent of probability of such sale.

If the amount of the loss from impairment of a financial asset decreases in the subsequent period and such decrease can be objectively regarded to be an event taking place after the recognition of the financial asset's impairment (as, for example, upgrade of the debtor's credit rating), the earlier reflected impairment loss is reversed by adjusting the provisions created through the income statement.

After the loan is adjusted upon impairment to the recoverable amount, the interest income is recognized on the basis of the interest rate that has been used to discount the future cash flows in order to determine the impairment loss.

Financial assets, which are impossible for recover and with respect to which all required procedures have been completed for full or partial recovery and the final loss amount has been determined, are written off out of the provisions for possible impairment losses formed in the balance sheet.

When writing off bad debts and interest thereon, the Bank takes necessary and sufficient measures to collect the specified loan, such measures being practicable in accordance with the laws, on the basis of usual business practice, or under a contract.

Bad debts and interest thereon are written off through formed provisions for possible impairment losses by decision of the Bank's authorized body, on the basis of documents confirming the counterparty's default on its obligations, within a period of 1 year minimum.

If, in case of revision of terms in relation to impaired financial assets, revised terms considerably differ from the previous ones, a new asset is initially recognized at fair value.

Losses from impairment of financial assets available for sale are recognized in the income statement as they occur as a result of one or several events ("events of loss"), which take place after the initial recognition of financial assets available for sale.

A significant or long-term decrease in the fair value of an equity security classified as available for sale below the cost of its acquisition is deemed as a sign of impairment. In case of signs of impairment, the accumulated loss determined as the difference between the acquisition cost and the current fair value less loss from impairment of the given asset, which was earlier recognized in the income statement, is carried over from the statement of changes in equity to the income statement. Losses from impairment of equity instruments are not reversed through the income statement; an increase in fair value upon impairment is recognized directly in the statement of changes in equity.

Debt instruments classified as available for sale are tested for signs of impairment according to the same criteria ("events of loss") as are used for financial assets accounted at amortized cost. The loss amount to be carried over to the income statement equals the difference between the asset acquisition price (less sums paid for the repayment of the principal debt and considering amortization for assets measured by the effective interest rate method) and the current fair value, except for losses from impairment of the given asset that have been earlier recognized in the income statement. Interest income from impaired assets is accrued on the basis of amortized costs determined by considering the recognition of the impairment loss, at the interest rate used to discount the future cash flows in order to measure impairment losses. Interest expense is reflected in the "Interest Income" item of the income statement. If the fair value of a debt instrument classified as available for sale increases in the subsequent reporting period and such increase can be objectively regarded to be an event that has taken place after the recognition of the impairment loss in the income statement, the impairment loss is reversed through the income statement for the current reporting period.

4.4 Derecognition of financial assets

The Bank derecognizes a financial asset only if one of the following occurs:

- the term of the contractual rights of claim for cash flows from the financial asset expires;
- the Bank transfers the financial asset and such transfer meets derecognition criteria.

A financial asset is deemed as transferred by the Bank only if one of the following is true:

- the Bank transfers contractual rights to receive cash flows from the financial asset;
- the Bank reserves contractual rights to receive cash flows from the financial asset but contractually undertakes to pay monies to one or several recipients, and given other certain conditions.

When transferring a financial asset, the Bank measures the extent to which it retains risks and benefits in connection with the possession of the given financial asset. If the Bank:

- transfers a considerable part of all risks and benefits in connection with the possession of a financial asset, such financial asset is derecognized. Rights and obligations that arise or are retained in case of transfer of a financial asset are separately recognized as assets and liabilities;
- retains a considerable part of all risks and benefits in connection with the possession of a financial asset, such financial asset continues to be recognized;
- does not transfer and does not retain a considerable part of all risks and benefits in connection with the possession of a financial asset, the Bank determines whether control over such financial asset has been retained.
- if control is not retained, the Bank derecognizes the transferred financial asset. Rights and obligations that arise or are retained in case of transfer of a financial asset are separately recognized as assets and liabilities. If control is retained, the Bank continues recognizing the transferred financial asset to the extent, to which it continues its participation in such asset.

If assets are restructured with a significant change of terms, a restructured asset is derecognized and is recorded in the balance sheet as newly acquired.

If financial assets are restructured without any significant change of terms, a restructured asset is reflected at the book value of the restructurable financial asset.

4.5 Cash and Cash Equivalents

Cash and cash equivalents are cash on hand and on the Bank's current accounts, including cash equivalents that are short-term, highly liquid investments that can be easily converted to a known amount of money and are exposed to a minor risk of changes in their value. All short-term inter-bank deposits, except for overnight deposits, are presented within amounts due from other banks. Sums, the use of which is subject to any restriction, are excluded from cash and cash equivalents.

4.6 Financial Assets Measured at Fair Value through Profit or Loss

A financial asset is classified into this category if it is acquired for sale within a short term. Derivative financial instruments with a positive fair value are also classified as financial assets measured at fair value through profit or loss unless they are derivatives designated as effective hedging instruments.

Initially and afterwards, financial assets measured at fair value through profit or loss are accounted at the fair value that is calculated either on the basis of market quotations or with the use of different valuation methods assuming potential sale of such financial assets in future. Depending on the situation, different valuation methods can be applied. Published price quotations of an active market are the best tool to measure an instrument's fair value.

If there is no active market, methods based on information about the latest market arm's length transactions between knowledgeable, willing parties, the current fair value of another, to a great extent equivalent instrument, results of the analysis of discounted cash flows and option pricing models may be used. If there is a valuation method that is widely used by the market participants to determine an instrument's price and that has proved the accuracy of price estimates made on the basis of actual market transactions, such valuation method should be used.

Realized and non-realized gains and losses from transactions with financial assets measured at fair value through profit or loss are reflected in the profit and loss statement for the period in which they occurred, within income less expenses on transactions with financial assets measured at fair value through profit or loss.

Interest income from financial assets measured at fair value through profit or loss is reflected in the profit and loss statement as interest income from financial assets measured at fair value through profit or loss. Dividends received are reflected in the "Dividend Income" item of the profit and loss statement, within operating income.

Purchase and sale of financial assets measured at fair value through profit or loss, which are to be delivered within the time frames set by the laws or the rules of a given market (purchase and sale under "standard contracts"), are reflected as of the transaction date, i.e. the date when the Bank undertakes to purchase or sell the given asset.

In all other cases, such transactions are reflected as derivative financial instruments until settlements are effected.

The Bank classifies financial assets measured at fair value through profit or loss into a relevant category at the time of their acquisition. Financial assets classified into such category are not subject to re-classification.

4.7 Due from Other Banks

Amounts due from other banks include non-derivative financial assets with set or defined payments, not quoted on an active market and provided by the Bank to counterparty banks (including the Bank of Russia), except for:
a) overnight deposits;
b) assets that are intended by the Bank for immediate or near-term sale and must be classified as held for trading, and assets that are designated by the Bank upon initial recognition as measured at fair value through profit or loss;
c) assets that are designated upon initial recognition as available for sale;
d) assets, for which the owner will not be able to cover the entire substantial amount of its original investment for reasons other than solvency deterioration and which must be classified as available for sale.

Funds deposited with other banks are reflected as of the issue (depositing) of funds. At the time of initial recognition, amounts due from other banks are measured at fair value. Financial assets reclassified from “measured at fair value through profit or loss” or from “available for sale” must be recognized at fair value as of the re-classification date. Profit or loss already recognized in profit and loss at the time of the re-classification of financial assets from “measured at fair value through profit or loss” is not reversed. Subsequently, issued loans and deposits are accounted at amortized cost less impairment provisions. Amortized cost is based on the fair value of the amount of an issued loan or a deposit, calculated by considering the established interest rates on similar loans and deposits, effective on the loan issue or deposit date.

The difference between the fair value and the par value of a loan (deposit) that arises if a loan is issued (funds are deposited) at interest rates above or below the established rates is reflected in the profit and loss statement at the time of the loan issue (deposit) in the “Income from (Expense on) Assets Placed at Rates Above (Below) Market” item. Subsequently, the book value of such loans (deposits) is adjusted for amortization of the said income/(expense), and the interest income is reflected in the profit and loss statement by the effective interest rate method.

The procedure for determination of impairment of financial assets is outlined in 4.3 Impairment of Financial Assets.

4.8 Loans and advances to customers

This category includes non-derivative financial assets with set or defined payments, not quoted on an active market, except for:
a) assets that are intended for immediate or near-term sale and must be classified as held for trading, that are measured at initial recognition at fair value through profit or loss;
b) assets that are designated upon initial recognition as available for sale;
c) assets, for which the owner will not be able to cover the entire substantial amount of its original investment for reasons other than solvency deterioration and which must be classified as available for sale.

Loans and advances are initially recognized at fair value plus incurred transaction costs (i.e. the fair value of paid or received consideration). If there is an active market, the fair value of loans and accounts receivable is measured as the current value of all future receipts (payments) of monetary funds, discounted at the prevailing market interest rate for a similar instrument. If there is no active market, the fair value of loans and accounts receivable is determined by using one of valuation methods.

Afterwards, loans and advances are measured at amortized cost by using the effective interest rate method.

Loans and advances are reflected as of the issue of funds to borrowers (customers and credit institutions). Loans issued at interest rates other than the market interest rates are measured as of the date of issue at the fair value, which is the future interest payments and the principal debt amount discounted considering the market interest rates for similar loans.

The difference between the fair and the par values of a loan is reflected in the profit and loss statement as income from assets placed at rates above the market ones or as expense on assets placed at rates below the market ones. Subsequently, the book value of such loans is adjusted for amortization of the loan income/(expense), and the corresponding income is reflected in the profit and loss statement by the effective interest rate method.

Loans and accounts receivable get impaired only if there are objective signs of impairment as a result of events, which took place after an asset’s initial recognition and if losses that have an impact on the estimated future cash flows relating to the financial asset or a group of financial assets can be reliably measured.

The loss amount is determined as the difference between an asset’s book value and the discounted value of the estimated future cash flows, calculated at an effective interest rate that is the reference rate for the given financial asset.

The book value of a loan and accounts receivable is decreased through the account of provisions for the loan portfolio impairment. Following the identification of objective signs of impairment on an individual basis and given that such signs are not detected, loans are included in a group of financial assets with similar credit risk parameters for the identification of signs of impairment on an aggregate basis.

As of December 31, 2016, the Bank identified signs of impairment on an individual basis.

Uncollectible loans are written off through the relevant impairment provisions formed in the balance sheet. Such loans are written off only upon completion of all necessary procedures and determination of the loss amount. Reversal of the earlier written off sums is reflected in the profit and loss statement. Reduction of the earlier formed provisions for impairment of the loan portfolio is reflected in the profit and loss statement.

Acquired bills of exchange are classified depending on the purposes of their acquisition into one of the categories of financial assets: financial assets measured at fair value through profit or loss; financial assets held to maturity; loans and accounts receivable; financial assets available for sale, and are afterwards accounted for according to the accounting policy outlined in this note for the said categories of assets.

4.9 Financial assets available for sale

This category includes non-derivative financial assets designated as available for sale or not classified as loans and advances to customers, investments held to maturity, financial assets measured at fair value through profit or loss. The Bank classifies financial assets into a relevant category at the time of their acquisition.

At initial recognition, financial assets available for sale must be accounted at fair value plus transaction costs directly connected with the acquisition of a financial asset. Generally, the fair value is the price of the transaction on the acquisition of a financial asset. Subsequently, financial assets available for sale are measured at the fair value based on the quotations for purchase of financial assets.

Individual investments available for sale, for which external independent sources offer no quotations, are measured by the Bank at the fair value based on the results of the recent sale of similar equity securities to unrelated third parties, on the analysis of other information such as discounted cash flows and other financial data, and also on the use of other valuation methods.

Depending on the situation, different valuation methods can be used. Investments in equity instruments, for which no quoted market prices exist, are measured at cost.

Unrealized gains and expenses resulting from a change in the fair value of financial assets available for sale are reflected in the statement of changes in equity.

Upon disposal of financial assets available for sale, relevant accumulated unrealized gains and expenses are included in the profit and loss statement in “Income less expenses on transactions with financial assets available for sale”. Impairment and recovery of the earlier impaired value of financial assets available for sale are reflected in the profit and loss statement.

The value of financial assets available for sale is decreased if their book value exceeds the estimated recoverable amount. The recoverable amount is determined as the current cost of the expected cash flows discounted at the current market interest rates for a similar financial asset.

Interest income from financial assets available for sale is reflected in the profit and loss statement as interest income from financial assets available for sale. Dividends received are reflected in the “Dividend Income” item of the profit and loss statement, within operating income from transactions with securities.

In case of standard settlement terms, purchase and sale of financial assets available for sale are recognized as of the transaction date, i.e. the date when the Bank undertakes to purchase or sell the given asset.

All other purchases and sales are reflected as derivative financial instruments until settlements are effected.

4.10 Financial Assets Held to Maturity

This category includes financial assets with a fixed maturity period, which the Bank intends and is able to hold to maturity. The Bank classifies financial assets into a relevant category at the time of their acquisition. The Bank analyzes its intention and ability to hold to maturity with respect to financial assets classified by it as held to maturity as of each reporting date, and not only at the time of the initial recognition of such financial assets.

Initially, financial assets held to maturity are accounted at fair value plus transaction costs, and afterwards — at amortized cost by using the effective interest rate method, less impairment provisions calculated as the difference between the book value and the current value of the expected future cash flows discounted at the initial effective interest rate.

Interest income from financial assets held to maturity is reflected in the profit and loss statement as interest income from financial assets held to maturity.

In case of standard settlement terms, purchase and sale of financial assets held to maturity are recognized as of the transaction date, i.e. the date when the Bank undertakes to purchase or sell the given asset. All other purchases and sales are reflected as derivative financial instruments until settlements are effected.

4.11 Fixed Assets

Fixed assets are accounted at the acquisition cost adjusted to the equivalent of the purchasing power of the national currency of the Russian Federation as of January 1, 2003, for assets acquired before January 1, 2003, or at a revalued cost, as stated below, less the accumulated depreciation and impairment provisions (where necessary).

If an asset’s book value exceeds its estimated recoverable amount, the asset’s book value is reduced to its recoverable amount and the difference is reflected in the profit and loss statement. The estimated recoverable amount is determined as the asset’s highest fair value less expenses on sale and its value in use.

The Bank’s buildings (fixed assets) are regularly revaluated. The revaluation frequency depends on changes in the fair value of the fixed asset items subject to revaluation. The fixed assets revaluation reserve, included in the equity, is directly allocated to undistributed profit (accumulated deficit) upon realization of the revaluation income, i.e. at the time of the write-off or disposal of an asset or as the given asset is used by the Bank. In the latter case, the amount of the realized revaluation income is the difference between amortization based on the revalued book value of the asset and amortization based on its initial cost.

As of each reporting date, the Bank assesses whether there is any sign of impairment of fixed assets. If such signs are detected, the Bank measures the recoverable amount, which is determined as the biggest of the net cost of sale of fixed assets and the value in use.

If the book value of fixed assets exceeds their estimated recoverable amount, the book value of fixed assets is reduced to the recoverable amount and the difference is reflected in the profit and loss statement as fixed assets impairment expense, unless revaluation was carried out earlier. In such case, positive revaluation is the first to be excluded, and any additional loss is recorded on the profit and loss account. Impairment losses recognized for fixed assets in the previous years are reversed if there have been changes in the estimates used to determine the recoverable amount of fixed assets.

Profits and losses resulting from disposal of fixed assets are determined on the basis of their book value and are considered when calculating the income (loss) amount. Costs on repair and technical maintenance are reflected in the profit and loss statement at the time such costs are incurred.

4.12 Depreciation

Assets are depreciated on a straight-line basis over the useful life of assets, at the following depreciation rates:

Fixed assets group	Per year, %
Buildings	2.5
Equipment	20.00
Intangible assets	33.30

The depreciation method applied to an asset must be revised at least once a year, at the end of each financial year. Every material change in the asset depreciation approach will impact the application of the asset depreciation method. Such change will be accounted as a change in the accounting valuations in accordance with IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”.

Depreciation is recognized even if an asset’s fair value exceeds its book value provided that the asset’s salvage value does not exceed the book value. Asset repairs and maintenance do not exclude the need for its depreciation.

An asset begins to be depreciated when it becomes available for use, i.e. when the asset’s location and condition allow it to be used as intended by the Bank. Depreciation is discontinued upon derecognition.

4.13 Intangible assets

Intangible assets include identifiable non-monetary assets without physical substance. Separately acquired intangible assets are initially measured at the cost of acquisition.

The cost of acquisition of intangible assets received under merger transactions is the fair value as of the date of acquisition. After initial recognition, intangible assets are disclosed at the cost of acquisition less accumulated amortization and accumulated impairment losses.

Intangible assets have finite or indefinite useful lives. Intangible assets with a finite useful life are amortized over the useful life and are analyzed for impairment if there are signs of possible impairment of an intangible asset. The timings and procedures for amortization of intangible assets with a finite useful life are analyzed at least annually, at the end of each reporting year.

Changes in the expected useful life or the expected type of use of a certain asset and receipt of future economic benefits from it are accounted by changing the timings or the procedure for amortization (as the case may be) and are regarded to be changes in accounting estimates. Amortization deductions for intangible assets with a finite useful life are disclosed in the profit and loss statement within expenses according to the purpose of an intangible asset.

Intangible assets with an indefinite useful life are not subject to amortization. However, they are annually analyzed for impairment, either individually or on the level of the unit generating cash flows. The useful life of an intangible asset with an indefinite life is analyzed for factors evidencing the accuracy of the existing estimates of such asset’s useful life. Otherwise, the useful life is changed on a prospective basis from indefinite to finite.

Software use costs are reflected within expenses as they occur. Costs directly related to identifiable software that is controlled by the Bank and is highly likely to bring within a period of over one year economic benefits in an amount exceeding costs are recognized as an intangible asset.

Direct costs include expenses on a software development team and an appropriate proportion of general running costs. Expenses on upgrading or extending software performance against initial specifications are recognized to be capital costs and are added to the initial software cost. Software development costs recognized as assets are amortized on a straight-line basis over their useful life at depreciation rates of 33.3% per year and above.

4.14 Operating Lease

When the Bank acts as a lessee, payments under operating lease contracts are disclosed by the Bank in the profit and loss statement on a straight-line basis over the lease period. If operating lease is terminated before the lease period expires, any sum payable to the lessor as a penalty is reflected as expense in the period, in which operating lease was terminated.

4.15 Trade and Other Payables

Accounts payable are recognized by the Bank upon the counterparty’s fulfillment of its obligations and are reflected at amortized cost.

4.16 Credit-Related Commitments

The Bank undertakes credit-related commitments, including letters of credit and financial guarantees. Financial guarantees are irrevocable commitments to make payments if a customer fails to fulfill its obligations to third parties and are exposed to the same credit risk as loans.

Initially, financial guarantees and loan commitments are reflected at the fair value that is generally confirmed by the amount of received commissions. Such amount is depreciated on a straight-line basis over the commitment period, except for loan commitments if the Bank is likely to enter into a specific loan agreement and will not plan to realize the loan within a short-term period upon its extension; such commission income relating to the loan commitment is recorded as deferred income and is included in the loan book value at initial recognition. As of each reporting date, commitments are evaluated at the greater of the two values: the amortized amount of the initial recognition and the best estimate of costs necessary for the commitment settlement as of the reporting date.

Provisions are formed for credit-related commitments if such commitments are likely to cause losses.

4.17 Authorized Capital

The authorized capital is accounted at the historical cost, and if it is paid by monetary assets before January 1, 2003, subject to inflation-adjustment.

4.18 Recognition of Income and Expenses

Interest income and expenses are disclosed in the profit and loss statement with respect to all debt instruments on an accrual basis with the use of the effective interest rate method.

Commission fees relating to the effective interest rate include commission fees received or paid in connection with the formation or acquisition of a financial asset or the issue of a financial liability (for example, commission fees for credit rating, evaluation or accounting of guarantees or collateral, settlement of terms for the provision of an instrument, and handling of transaction documents). Commission fees received by the Bank for commitments to extend loans at market rates make an integral part of the effective interest rate if the Bank is likely to enter into a specific loan agreement and will not plan to realize a loan within a short-term period upon its issue. The Bank does not classify loan commitments as financial liabilities measured at fair value through profit or loss.

In case of doubt about whether loans and other debt instruments will be repaid on time, their book value is reduced to the recoverable amount, with the interest income being subsequently recognized on the basis of the interest rate that has been used to discount future cash flows in order to measure the recoverable amount.

All other commission income and other income and other expenses are generally recognized on an accrual basis over the service provision period, depending on the extent of completion of a specific transaction, which is determined as the proportion of the actually provided service in the total scope of services to be provided.

Commission income received under transactions for third parties, for example, acquisition of loans, shares and other securities or purchase or sale of companies is recognized upon transaction closing. Commission income from investment portfolio management and other management and consulting services is recognized according to the terms of service contracts/agreements, as a rule, pro rata to the time consumed. Commission income from asset management (trust management) services is recognized according to contractual terms as of the date when the Bank acquires the right to receive such income and the income amount can be determined. Income from the provision of services implying an extended service period is recognized in each reporting period, pro rata to the scope of the services provided. The same principle applies with respect to services relating to asset management, financial planning and to custody services that are provided on an ongoing basis over an extended period of time.

4.19 Income Tax

Pursuant to the Agreement between the Bank and the Government of the Russian Federation dated July 30, 1996, the Bank is exempt from taxes, duties and other mandatory charges payable in the territory of the Russian Federation.

4.20 Foreign Currency Revaluation

Items stated in the Bank's financial statements are measured in the currency of the Bank's primary economic operating environment (the functional currency).

The financial statements are presented in the national currency of the Russian Federation, which is the Bank's functional currency and the presentation currency.

Transactions in foreign currency are reflected at the Bank of Russia's official rate effective as of the transaction date. Exchange differences resulting from settlements under transactions in foreign currency are included in the profit and loss statement at the Bank of Russia's official rate effective as of the transaction date.

Monetary assets and liabilities in foreign currency are converted to the national currency of the Russian Federation at the Bank of Russia's official rate as of the balance sheet date.

Exchange differences related to debt securities and other monetary financial assets recognized at fair value are included in income and expenses from foreign currency revaluation.

Exchange differences related to non-monetary items such as equity securities classified as financial assets measured at fair value through profit or loss are recognized as part of income or expenses from revaluation at fair value.

Exchange differences related to non-monetary financial assets available for sale are recorded in equity through the reserve for revaluation of financial assets available for sale.

(in thousands of Russian rubles unless otherwise stated)

As of December 31, 2016, the Bank of Russia's official rate used to revalue foreign currency items was:

100 Armenian drams	12.5195
1 Belarusian ruble	30.9474
1 US dollar	60.6569
100 Kazakhstani tenges	18.1637
100 Kyrgyzstani soms	87.4012
10 Moldovan lei	30.5269
10 Tajikistani somoni	76.8295
10 Ukrainian hryvnias	22.3826

4.21 Offsetting

Financial assets and liabilities are offset and the net amount is stated in the balance sheet only if there is a legally enforceable right to offset the recognized amounts and there is an intention to either offset or to realize an asset and discharge a liability at the same time.

4.22 Subordinated Loans

As of December 31, 2016, the Bank recognizes perpetual subordinated loans within the equity. Upon occurrence of certain events, contracts on such subordinated loans provide for termination (in full or in part) of the Bank's obligations to repay the principal debt (a possibility to use raised funds for "loss absorbency"). No mandatory payment of interest is provided for under the said subordinated loans. Interest payments are only made by the Bank's decision and liabilities on its payment are recognized by the Bank only after the relevant interest is declared as payable. Payment of interest is reflected in the statement of changes in equity, in the same manner as is used to reflect payment of dividends.

4.23 Contingent Liabilities

Contingent liabilities are recognized if the Bank has liabilities (legal or resulting from the established business practice) that arose before the reporting date. It is highly likely that the Bank will need an outflow of economic resources to discharge such liabilities and the amount of such liabilities can be reliably measured.

4.24 Payroll and Related Contributions

Expenses in connection with payroll, bonuses, leave allowances, and insurance contributions to state non-budgetary funds are incurred as the Bank's employees perform their duties, whereas expenses in connection with the accrual of temporary disability, childcare and benefits-in-kind are recognized as they are incurred.

The Bank undertakes to make unused leave payments to its employees. Such liabilities are reflected in the statement of financial position in "Other Liabilities" item and are recognized at the same time in the profit and loss statement as regards leaves during the reporting period and in the retained earnings as regards leaves during periods preceding the reporting one.

With respect to its employees, the Bank pays contributions to the Pension Fund, the Social Insurance Fund, and compulsory medical insurance funds of the Russian Federation. Such expenses are accounted as they are incurred and are included in staff costs.

4.25 Related Party Transactions

The Bank conducts related party transactions. Parties are deemed as related if one of the parties can control the other party, is under joint control with the other party, is under joint control of the other party and a third party, or can significantly influence the other party's financial and operational decision-making.

When considering relationships with related parties, the Bank takes into account the economic substance of such relationships and not only their legal form.

(in thousands of Russian rubles unless otherwise stated)

5 Interest Income and Expense

Interest incomes and expenses were as follows.

	2016	2015
Interest income		
Due from financial institutions	430,162	315,507
Loans to customers	427	356
Financial assets available for sale	315,412	314,314
Total interest income from financial assets not measured at fair value through profit or loss	**746,001**	**630,177**
Total interest income	**746,001**	**630,177**
Interest expense		
Due to financial institutions	(975)	(129,215)
Accounts and deposits of customers - legal entities	(230)	(2,362)
Total interest expenses from financial liabilities not measured at fair value through profit or loss	**(1,205)**	**(131,577)**
Total interest expenses	**(1,205)**	**(131,577)**
Net interest income	**744,796**	**498,600**

6 Impairment and Other Provisions

Impairment provisions disclosed on profit and loss accounts include deductions made in the reporting year for forming impairment provisions.

Change in impairment provisions in 2016:

	Balance as of December 31, 2015	Write-off out of provisions	Provision charge	Balance as of December 31, 2016
Provision charge for impairment of interest-bearing assets				
Due from financial institutions	-	-	4,279	4,279
Total provision charge for impairment of interest-bearing assets	**-**	**-**	**4,279**	**4,279**
Provision charge for impairment of other assets and other provisions				
Provisions for accounts receivable and other assets	3,606	(3,232)	(374)	-
Total provision charge for impairment of other assets and other provisions	**3,606**	**(3,232)**	**(374)**	**-**
Total impairment provision charge	**3,606**	**(3,232)**	**3,905**	**4,279**

(in thousands of Russian rubles unless otherwise stated)

Impairment provision charge in 2015:

	Balance as of December 31, 2014	Write-off out of provisions	Provision charge	Balance as of December 31, 2015
Provision charge for impairment of interest-bearing assets				
Due from financial institutions	-	-	-	-
Loans to customers	9,946,172	(12,499,342)	2,553,170	-
Total provision charge for impairment of interest-bearing assets	**9,946,172**	**(12,499,342)**	**2,553,170**	**-**
Provision charge for impairment of other assets and other provisions				
Provision charge for impairment of accounts receivable and other assets	309,354	(306,433)	685	3,606
Total provision charge for impairment of other assets and other provisions	**309,354**	**(306,433)**	**685**	**3,606**
Total impairment provision charge	**10,255,526**	**(12,805,775)**	**2,553,855**	**3,606**

7 Gains Less Losses from Transactions with Financial Assets and Liabilities

	2016			2015		
	Adjustment to fair value and revaluation	**From sale and repayment**	**Total**	**Adjustment to fair value and revaluation**	**From sale and repayment**	**Total**
Financial assets available for sale	-	-	**-**		434,435	**434,435**
Total gains less losses from transactions with financial assets and liabilities	**-**	**-**	**-**	**-**	**434,435**	**434,435**

In 2016, the Bank did not sell any financial assets available for sale classified as such at initial recognition.

In 2015, the net profit from transactions with financial assets and liabilities included: 434,435 thousand rubles of the net profit from transactions with financial assets available for sale classified as such at initial recognition.

8 Commission Income and Expense

Commission income and expense were as follows.

	2016	2015
Fee and commission income		
From cash and settlement transactions	8,528	5,330
Other commission income	414	663
Total commission income	**8,942**	**5,993**
Fee and commission expense		
Cash transfer services, including payment and settlement systems services	(127)	(95)
Settlement and cash services and bank accounts maintenance	(4,712)	(2,268)
Under brokerage and similar contracts/agreements	(1,848)	(1,922)
Transactions with foreign currency items	(102)	(112)
Other commission expenses	(185)	(190)
Total commission expense	**(6,974)**	**(4,587)**
Total commission income and expenses	**1,968**	**1,406**

(in thousands of Russian rubles unless otherwise stated)

9 Other Operating Income

Other operating income was as follows.

	2016	2015
Other operating income	482	1,435
From write-off of unclaimed payables	94	87
Dividends received	150	210
Total other operating income	**726**	**1,732**

10 Administrative and Other Operating Expenses

Administrative and other operating expenses were as follows.

	2016	2015
Operating expenses		
Staff costs	223,276	213,101
Depreciation	5,941	5,069
Communication services	23,495	10,715
Expenses on fixed assets (maintenance, repairs, disposal)	9,362	9,227
Professional services	17,002	10,055
Entertainment and business travel expenses	7,545	5,115
Operating lease expenses	3,439	2,781
Security expenses	6,617	6,562
Office costs	-	227
Costs of tangible assets	2,200	1,955
Insurance	2,111	1,941
Legal and arbitration expenses	-	7,438
Membership fees	3,888	1,339
Other operating expenses	4,984	15,261
Total administrative and other operating expenses	**309,860**	**290,786**

Staff costs included:

	2016	2015
Staff costs		
Payroll and bonuses payments	171,627	159,808
Compulsory insurance contributions expenses	34,912	31,886
Expenses on contributions to the non-state pension fund	6,699	11,978
Other payments to staff	10,038	9,429
Total staff costs	**223,276**	**213,101**

11 Cash and Cash Equivalents

	December 31, 2016	December 31, 2015
Cash on hand	44,368	70,373
Balances on accounts with the Bank of Russia	42,354	179,711
Cash on correspondent accounts	202,250	285,040
Total cash and cash equivalents	**288,972**	**535,124**

Analysis of cash and cash equivalents by the currency structure, maturity dates and analysis of interest rates are given in Note 23.

(in thousands of Russian rubles unless otherwise stated)

12 Due from Financial Institutions

Amounts due from financial institutions are loans (deposits) provided by the Bank to counterparty banks.

	December 31, 2016	December 31, 2015
Term interbank deposits	3,482,607	3,182,178
Other funds due from financial institutions	82,874	5,809
Total due from financial institutions before deduction of impairment provision	**3,565,481**	**3,187,987**
Impairment provision	(4,279)	-
Total due from financial institutions	**3,561,202**	**3,187,987**

Below is the analysis of changes in provisions for impairment of funds due from financial institutions, for 2016:

	Correspondent accounts	Term interbank loans and deposits	Bills of exchange of financial institutions	Reverse repurchase agreements	Other funds due from financial institutions	Total due from financial institutions
Impairment provisions as of December 31, 2015	-	-	-	-	-	-
Net provision charge for impairment	4,279	-	-	-	-	4,279
Impairment provisions as of December 31, 2016	**4,279**	**-**	**-**	**-**	**-**	**4,279**

Funds due from other banks are not secured.

Below is information about the quality of funds due from financial institutions as of December 31, 2016.

	Term interbank loans and deposits	Other funds due from financial institutions	Total due from financial institutions
Current (at fair value)			
- (with 20 major Russian banks)	2,601,712	7,658	2,609,370
- (with other Russian banks)	640,724	2,108	642,832
- (with other banks)	240,171	-	240,171
Total current (at fair value)	**3,482,607**	**9,766**	**3,492,373**
Individually impaired			
current but impaired	-	73,108	73,108
Total individually impaired	**-**	**73,108**	**73,108**
Total due from financial institutions before deduction of provisions	**3,482,607**	**82,874**	**3,565,481**
Impairment provisions	-	(4,279)	(4,279)
Total due from financial institutions	**3,482,607**	**78,595**	**3,561,202**

Below is information about the quality of funds due from financial institutions as of December 31, 2015.

	Term interbank loans and deposits	Other funds due from financial institutions	Total due from financial institutions
Current (at fair value)			
- (with 20 major Russian banks)	3,002,178	552	3,002,730
- (with other Russian banks)	180,000	5,257	185,257
Total due from financial institutions before deduction of impairment provisions	**3,182,178**	**5,809**	**3,187,987**
Impairment provisions	-	-	-
Total due from financial institutions	**3,182,178**	**5,809**	**3,187,987**

See Note 26 for fair value of funds due from financial institutions.

Analysis of interest rates and maturity dates with respect to funds due from financial institutions is given in Note 23. Information about related-party transactions is presented in Note 27.

(in thousands of Russian rubles unless otherwise stated)

13 Loans and Advances to Customers

	December 31, 2016	December 31, 2015
Current retail loans	4,414	5,750
Total loans and advances to customers before deduction of impairment provisions	**4,414**	**5,750**
Impairment provisions	-	-
Total loans and advances to customers	**4,414**	**5,750**

Below is information about the quality of loans and accounts receivable individually tested for impairment, as of December 31, 2016:

	Loans before deduction of impairment provisions	Impairment provisions	Loans less impairment provisions	Impairment to loans before deduction of impairment
Individually tested for impairment				
Current retail loans				
- performing loans	4,414	-	4,414	0.0%
Total current retail loans	**4,414**	**-**	**4,414**	**0.0%**
Total individually tested for impairment	**4,414**	**-**	**4,414**	

Below is information about the quality of loans and accounts receivable individually tested for impairment, as of December 31, 2015.

	Loans before deduction of ıpairment provisions	Impairment provisions	Loans less Impairment provisions	Impairment to loans before deduction of impairment
Individually tested for impairment				
Current retail loans				
- performing loans	5,750	-	5,750	0.0%
Total current retail loans	**5,750**	**-**	**5,750**	**0.0%**
Total individually tested for impairment	**5,750**	**-**	**5,750**	

Analysis of interest rates and maturity dates with respect to loans and advances to customers is given in Note 23. Information about related-party transactions is presented in Note 27.

See Note 26 for fair value of loans and advances to customers.

(in thousands of Russian rubles unless otherwise stated)

14 Financial Assets Available for Sale

	December 31, 2016	December 31, 2015
Debt-based financial assets		
Eurobonds of the Russian Federation	406,153	392,996
Federal bonds of the Russian Federation (OFZ)	2,253,351	2,170,702
Debt securities of other issuers	621,237	1,024,015
Total financial assets available for sale before deduction of impairment provision	**3,280,741**	**3,587,713**
Impairment provisions	-	-
Total financial assets available for sale	**3,280,741**	**3,587,713**

Below is information about changes in the book value of financial assets available for sale:

	December 31, 2016	December 31, 2015
Book value as of December 31 of the year preceding the reporting one	**3,587,713**	**3,282,047**
Change in the fair value revaluation reserve	128,738	(2,067)
Received	-	2,079,885
Disposed	(435,710)	(2,713,197)
Exchange differences under monetary assets	-	941,045
Book value as of December 31 of the reporting year	**3,280,741**	**3,587,713**

Below is the description of main investments in financial assets available for sale.

	Issuer	December 31, 2016	December 31, 2015
Eurobonds of the Russian Federation	Ministry of Finance of the Russian Federation	396,560	383,400
Federal loan bonds of the Russian Federation	Ministry of Finance of the Russian Federation	2,186,393	2,092,788
Debt securities of other issuers	Miscellaneous	608,838	1,000,134
Accrued coupon		88,950	111,391
		3,280,741	**3,587,713**

In 2016, the Bank did not place funds in financial assets available for sale at rates below market.

The securities portfolio as of December 31, 2016, includes Eurobonds of the Russian Federation (2015: one issue), with a total par value of RUB 400,000 thousand (2015: RUB 400,000 thousand), maturing in March 2018 (2015: in March 2018).

As of December 31, 2016, the coupon rate on the said Eurobonds is 7.85% (2015: 7.85%), with coupon payable twice a year.

The Russian federal bonds (OFZ) portfolio as of December 31, 2016, includes securities of eight issues (2015: eight issues of securities) with a total par value of RUB 2,167,599 thousand (2015: RUB 2,167,599 thousand).

As of December 31, 2016, the coupon rate on the said bonds is between 5.00% and 14.48%, with coupon payable from two to four times a year (2015: between 5.00% and 14.48%).

The portfolio of debt securities of other issuers includes: bonds of Russian residents with a credit rating of at least BB+ according to Standard and Poor's and (or) Fitch Ratings, with a total par value of RUB 628,173 thousand (2015: RUB 1,052,848 thousand).

As of December 31, 2016, the coupon rate on the said bonds is between 7.0% and 13.0%, with coupon payable from two to four times a year (2015: between 7.0% and 13.0%).

Analysis of interest rates and maturity dates of financial assets available for sale is given in Note 23. Information about related-party transactions is presented in Note 27.

See Note 26 for fair value of financial assets available for sale.

(in thousands of Russian rubles unless otherwise stated)

15 Fixed and Intangible Assets

Below is information about the value of fixed and intangible assets in 2016.

	Buildings	Office equipment and computer facilities	Intangible assets	Total fixed and intangible assets
Book value as of January 1, 2016	**36,699**	**7,049**	**-**	**43,748**
Cost				-
Cost as of January 1, 2016	65,893	82,097	340	148,330
Received	-	4,602	3,933	8,535
Disposed	-	(4,097)	-	(4,097)
Cost as of December 31, 2016	**65,893**	**82,602**	**4,273**	**152,768**
Accumulated depreciation				-
Accumulated depreciation as of January 1, 2016	(29,194)	(75,048)	(340)	(104,582)
Depreciation charges	(1,623)	(3,152)	(1,166)	(5,941)
Disposed	-	3,913	-	3,913
Accumulated depreciation as of December 31, 2016	**(30,817)**	**(74,287)**	**(1,506)**	**(106,610)**
Book value as of December 31, 2016	**35,076**	**8,315**	**2,767**	**46,158**

Below is information about the value of fixed and intangible assets in 2015.

	Buildings	Office equipment and computer facilities	Intangible assets	Total fixed and intangible assets
Book value as of January 1, 2015	**38,322**	**6,355**	**-**	**44,677**
Cost				-
Cost as of January 1, 2015	65,893	78,994	340	145,227
Received	-	4,140	-	4,140
Disposed	-	(1,037)	-	(1,037)
Cost as of December 31, 2015	**65,893**	**82,097**	**340**	**148,330**
Accumulated depreciation				-
Accumulated depreciation as of January 1, 2015	(27,571)	(72,639)	(340)	(100,550)
Depreciation charges	(1,623)	(3,446)	-	(5,069)
Disposed	-	1,037	-	1,037
Accumulated depreciation as of December 31, 2015	**(29,194)**	**(75,048)**	**(340)**	**(104,582)**
Book value as of December 31, 2015	**36,699**	**7,049**	**-**	**43,748**

(in thousands of Russian rubles unless otherwise stated)

16 Other Assets

	December 31, 2016	December 31, 2015
Accounts receivable and advances	10,866	15,443
Tax prepayment	-	193
Interest in controlled companies	300	300
Software prepayments	20	4,037
Other	2,234	68,152
Impairment provisions	-	(3,606)
Total other assets	**13,420**	**84,519**

Analysis of interest rates and maturity dates of other assets is given in Note 23. Information about related-party transactions is presented in Note 27.

17 Due to Financial Institutions

	December 31, 2016	December 31, 2015
Correspondent accounts of other banks	281,282	835,274
Total due to financial institutions	**281,282**	**835,274**

During 2016, the Bank did not raise funds from financial institutions at rates above market.

As of December 31, 2016, deviations in the book value of funds due to financial institutions from fair value are insignificant.

See Note 26 for fair value of funds due to financial institutions.

Analysis of interest rates and maturity dates of funds due to financial institutions is given in Note 23. Information about related-party transactions is presented in Note 27.

(in thousands of Russian rubles unless otherwise stated)

18 Customers Accounts

	December 31, 2016	December 31, 2015
Funds of government and public organizations		
Current and settlement accounts	10	12
Total funds of government and public organizations	**10**	**12**
Funds of non-government legal entities		
Current and settlement accounts	1,580,123	1,827,307
Term deposits	30,231	-
Total funds of non-government legal entities	**1,610,354**	**1,827,307**
Funds of individuals		
Current and demand accounts	7,838	9,108
Total funds of individuals	**7,838**	**9,108**
Other customer funds		
Other customer accounts	2,807	262
Total other customer funds	2,807	262
Total customer funds	**1,621,009**	**1,836,689**

Government and public organizations do not include state-owned commercial companies.

In 2016, the Bank did not raise customer deposits at rates above market.

Below is a breakdown of customers accounts by industry:

	December 31, 2016		December 31, 2015	
	Amount (RUB, thousand)	%	Amount (RUB, thousand)	%
International and public organizations	1,562,269	96.4%	1,810,463	98.6%
Government and municipal organizations	10	0.0%	12	0.0%
Education	523	0.0%	4,043	0.2%
Finance and investments	53	0.0%	440	0.0%
Trade and services	33,009	2.0%	7,744	0.4%
Manufacturing enterprises	14,424	0.9%	3,909	0.2%
Insurance	21	0.0%	620	0.1%
Transport	23	0.0%	34	0.0%
Construction	0	0.0%	54	0.0%
Individuals	7,838	0.5%	9,108	0.5%
Other	2,839	0.2%	262	0.0%
Total customer funds	**1,621,009**	**100.0%**	**1,836,689**	**100.0%**

As of December 31, 2016, balance of one customer account was RUB 1,349,047 thousand, which equals 83.2% of total customer funds (2015: RUB 1,573,959 thousand, which equals 85.7% of total customer funds).

As of December 31, 2016, deviations in the book value of customers accounts from fair value are insignificant.

See Note 26 for fair value of customer funds.

Analysis of interest rates and maturity dates of customers accounts is given in Note 23. Information about related-party transactions is presented in Note 27.

(in thousands of Russian rubles unless otherwise stated)

19 Other Liabilities

	December 31, 2016	December 31, 2015
Accounts payable	8,257	2,856
Total other liabilities	**8,257**	**2,856**

As of December 31, 2016 (in 2016), the Bank has no overdue liabilities to customers and counterparties. In 2016 (2015), the Bank did not form provisions for liabilities.

Information about related-party transactions is presented in Note 27.

20 Authorized Capital

	December 31, 2016			December 31, 2015		
	Par value	Inflation-adjusted value	Acquisition cost	Par value	Inflation-adjusted value	Acquisition cost
Shares	20,000	212,086	-	20,000	212,086	-
Repurchase of shares in the authorized capital from members	-	-	(1,100)	-	-	(1,100)
Total authorized capital	**20,000**	**212,086**	**(1,100)**	**20,000**	**212,086**	**(1,100)**

The Bank was founded by the parties to the Agreement on the Foundation of the Interstate Bank, signed on January 22, 1993 by heads of the member states: the Republic of Armenia, the Republic of Belarus, the Republic of Kazakhstan, the Kyrgyz Republic, the Republic of Moldova, the Russian Federation, the Republic of Tajikistan, Turkmenistan, the Republic of Uzbekistan, and Ukraine.

In 2012, the Republic of Uzbekistan ceased its membership in the Bank. A respective Agreement on the Settlement of Relations between the Interstate Bank and the Republic of Uzbekistan was signed on February 16, 2012.

The votes in the Bank's Council, its supreme management body, are distributed between the Bank's members as follows:

the Russian Federation: 50% of the total votes; the other members: pro rata to the share of each state in the total reciprocal foreign trade turnover in 1990.

21 Retained Earnings

	December 31, 2016	December 31, 2015
Reserve fund	1,416,400	1,416,400
Retained earnings	1,601,279	1,215,680
Total	**3,017,679**	**2,632,080**

In the reporting periods before 2009, the Bank's Council resolved on the distribution of profit on the basis of the Bank's statements prepared in accordance with requirements of the Bank of Russia's regulations to published financial statements of credit institutions. As per the resolution of the Bank's Council of April 22, 2010, in the IFRS-compliant statements the Bank created a reserve fund in an amount equals to the amount of the reserve fund formed in statements prepared in accordance with requirements of the Bank of Russia's regulations to published financial statements of credit institutions. As of December 31, 2009, the reserve fund was RUB 730,000 thousand.

22 Segment Analysis

The Bank's operations are carried out in three main business segments:

1. Services to organizations — this business segment includes settlement services to organizations operating in the CIS member countries.
2. Transactions on the securities market — this business segment includes the Bank's activities related to investments in securities.
3. Transactions on the interbank lending market.

The Bank does not issue securities freely floating on open markets and, therefore, does not present segment reporting.

23 Risk Management

The Bank manages financial, operating and legal risks. Financial risks include the credit risk, the liquidity risk and the market risk (comprising the currency risk, the interest rate risk and other price risk).

Among the main goals of financial risk management are risk identification and measurement, mitigation of risk exposures, including determination of risk limits and subsequent ensuring of the observance of the set limits. Assessment of an assumed risk serves as the basis for the optimal risk-adjusted distribution of capital, transaction pricing and performance analysis. Operating and legal risk management aims at ensuring due compliance with legislative rules, internal regulations and procedures in order to minimize respective risks.

Risk management is centralized. The management bodies are the Bank's Council and the Bank's President. The Bank's Council is in charge of the overall risk management. Its competence covers, inter alia:

- approval of the fundamental risk management principles and assessment of the adequacy of the Bank's organizational structure to such principles;

- control over risk management activities of the Bank's executive bodies.

Financial risks are managed by setting transaction limits that are binding upon the relevant units and officers authorized to conduct transactions. A general list of limits and restrictions for banking transactions is approved by the Bank's President. Specific values of limit parameters are approved by the Bank's Credit Committee. All limits and restrictions applicable in the Bank are communicated to the officers of the Financial Markets Department and the Lending Department, authorized to close relevant transactions, and are binding upon them. The said officers are responsible for failure to meet the set limits and restrictions; furthermore, a Bank's officer who is not directly involved in the transaction closing is in charge of monitoring the compliance with the limits and restrictions.

The Bank's departments regularly prepare management reports to provide the Bank's management bodies with information necessary for decision-making.

The risks are managed and assessed by the Bank on an ongoing basis.

– **Credit Risk**

Credit risk is the risk of losses that may be incurred by the Bank due to a debtor's non-fulfillment, late or partial fulfillment of financial obligations to the Bank pursuant to contractual terms. Credit risk arises in the course of the Bank's lending and other transactions with counterparties, upon which financial assets arise.

The Bank's credit risk management system includes:

- setting funds placement limits;
- determining decision-making powers for loan providing;
- analyzing the borrowers' financial position;
- monitoring the borrowers' fulfillment of obligations under the loans granted.

The Bank's Council has approved a Memorandum on the Bank's Lending Activities, the Bank's Credit Strategy and Lending Principles that lay down the following fundamental principles and basic rules for the Bank's lending transactions.

The Bank creates loan impairment provisions that reflect estimates of loan portfolio losses. The Bank devotes a lot of attention on reviewing concentration of major credit risks and forecasting the credit risk extent.

Credit risk under off-balance sheet financial instruments is determined as the probability of losses due to failure of the other party under a financial instrument to meet terms and conditions of a contract. For approval of credit-related commitments (unutilized lines of credit, letters of credit and guarantees), the Bank applies the same procedures and methods as are set in the Bank's lending policy for loan liabilities (loans) recognized in the balance sheet. The maximum credit risk limits under off-balance sheet financial instruments are given in Note 27.

The Bank monitors concentration of credit risk by industries and geographic regions. The analysis of credit risk concentration by loans is given in Note 13.

– **Liquidity Risk**

Liquidity risk is the risk of insufficiency of the Bank's available resources for fulfillment of its obligations to counterparties.

Liquidity risk is assessed:

- depending on the amount of assets available with the Bank and possible dates of their disposal without significant losses for the Bank;

- depending on existing liabilities, their maturity dates and dynamics.

An item is deemed as exposed to risk if the Bank's liquid assets and expected inflows of financial resources are not sufficient for the fulfillment of the Bank's obligations in a certain period of time.

The Bank's liquidity management activities are coordinated by the Bank's management by means of control of the current, short-term and long-term liquidity.

Current liquidity is the ratio of the Bank's assets to liabilities maturing within one day. Short- and long-term liquidity are the ratios of the Bank's assets to liabilities maturing over specific periods of time.

The Bank is exposed to risk due to the daily need to use available monetary resources for settlements on customer accounts, closure of deposits, and other payments. The Bank does not accumulate monetary funds for simultaneous settlement of all of the aforesaid liabilities because, given the Bank's experience to date, the Bank is able to forecast, to a sufficient degree of accuracy, amounts of funds necessary for the settlement of the said liabilities. Liquidity risk is managed by the Bank's Asset & Liability Management Committee.

The Bank seeks to maintain a stable finance base constituted mainly of funds due to other banks and corporate deposits and to invest money in diversified liquid assets portfolios.

The Bank's liquidity management requires analyzing the level of liquid assets necessary for settlement of obligations upon maturity; ensuring access to various sources of financing; having plans of actions in case of difficulties with financing. Information about financial assets and liabilities is communicated to the Financial Markets Department that provides for an adequate short-term liquid assets portfolio, which is made up mainly of bank deposits and other instruments, to maintain sufficient liquidity across the Bank.

(in thousands of Russian rubles unless otherwise stated)

The Financial Markets Department monitors the daily liquidity position and regularly analyzes liquidity in different scenarios covering standard and rapidly changing market conditions.

Liquidity risk management includes the following procedures:

- forecasting flows of payments by currencies and determining the necessary amount of liquid assets;
- monitoring and forecasting liquidity ratios;
- maintaining diversified sources of liquidity;
- planning active operations in terms of availability of free resources and maintaining a tolerable liquidity risk level;
- planning actions for restoring the required liquidity level in unfavorable conditions and crisis situations;
- setting limits for the transformation of liquid assets to other types of assets;
- re-allocating assets by terms; managing the open foreign currency position.

The book value of financial instruments by expected maturity dates is shown in the below table, as of December 31, 2016:

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 1 year	Indefinite maturity	Total
ASSETS						
Cash and cash equivalents	288,972	-	-	-	-	288,972
Due from financial institutions	3,561,202	-	-	-	-	3,561,202
Loans and advances to customers	514	2,192	1,566	142	-	4,414
Financial assets available for sale	7,533	168,166	155,798	2,949,244	-	3,280,741
Fixed and intangible assets	-	-	-	46,158	-	46,158
Other assets	12,133	987	-	-	300	13,420
Total assets	**3,870,354**	**171,345**	**157,364**	**2,995,544**	**300**	**7,194,907**
LIABILITIES						
Due to financial institutions	281,282	-	-	-	-	281,282
Customers accounts except for accounts of individuals	1,582,936	30,235	-	-	-	1,613,171
Individuals accounts	7,838	-	-	-	-	7,838
Other liabilities and reserves	6,584	650	1,023	-	-	8,257
Total liabilities	**1,878,640**	**30,885**	**1,023**	**-**	**-**	**1,910,548**
Net balance sheet position as of December 31, 2016	**1,991,714**	**140,460**	**156,341**	**2,995,544**	**300**	**5,284,359**
Net balance sheet position, cumulative, as of December 31, 2016	**1,991,714**	**2,132,174**	**2,288,515**	**5,284,059**	**5,284,359**	

(in thousands of Russian rubles unless otherwise stated)

The book value of financial instruments by expected maturity dates is shown in the below table, as of December 31, 2015:

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 1 year	Indefinite maturity	Total
ASSETS						
Cash and cash equivalents	535,124	-	-	-	-	535,124
Due from financial institutions	3,187,987	-	-	-	-	3,187,987
Loans and advances to customers	647	2,442	2,286	375		5,750
Financial assets available for sale	7,437	120,631	-	3,459,645	-	3,587,713
Fixed and intangible assets	-	-	-	43,748	-	43,748
Other assets	84,519	-	-	-	-	84,519
Total assets	**3,815,714**	**123,073**	**2,286**	**3,503,768**	**-**	**7,444,841**
LIABILITIES						
Due to financial institutions	835,274	-	-	-	-	835,274
Customers accounts except for accounts of individuals	1,827,581	-	-	-	-	1,827,581
Individuals accounts	9,108	-	-	-	-	9,108
Other liabilities and reserves	1,180	650	1,026	-	-	2,856
Total liabilities	**2,673,143**	**650**	**1,026**	**-**	**-**	**2,674,819**
Net balance sheet position as of December 31, 2015	**1,142,571**	**122,423**	**1,260**	**3,503,768**	-	**4,770,022**
Net balance sheet position, cumulative, as of December 31, 2015	**1,142,571**	**1,264,994**	**1,266,254**	**4,770,022**	**4,770,022**	

The tables below show the distribution of undiscounted contractual cash flows under the Bank's liabilities by contractual terms of maturity.

The table below is the analysis of financial liabilities by maturity dates, as of December 31, 2016:

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 1 year	Indefinite maturity	Total
LIABILITIES						
Due to financial institutions	281,282	-	-	-	-	281,282
Customers accounts except for accounts of individuals	1,582,936	30,764	-	-	-	1,613,700
Individuals accounts	7,838	-	-	-	-	7,838
Other liabilities and reserves	6,584	650	1,023	-	-	8,257
Total potential future payments under financial liabilities	**1,878,640**	**31,414**	**1,023**	**-**	**-**	**1,911,077**

The table below is the analysis of financial liabilities by maturity dates, as of December 31, 2015:

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 1 year	Indefinite maturity	Total
LIABILITIES						
Due to financial institutions	835,274	-	-	-	-	835,274
Customers accounts except for accounts of individuals	1,827,581	-	-	-	-	1,827,581
Individuals accounts	9,108	-	-	-	-	9,108
Other liabilities and reserves	1,180	650	1,026	-	-	2,856
Total potential future payments under financial liabilities	**2,673,143**	**650**	**1,026**	**-**	**-**	**2,674,819**

(in thousands of Russian rubles unless otherwise stated)

Market Risk

The Bank is exposed to market risk, which is the risk of financial losses due to adverse moves in market prices (foreign exchange rates, interest rates, etc.). The Bank sets limits for the level of the assumed risk and monitors their observance on a daily basis. But this approach does not prevent losses in case of material market changes.

Market risk comprises:

- interest rate risk
- currency risk
- other price risk.

Interest rate risk

The Bank assumes the risk associated with the effect of fluctuations of market interest rates on its financial position and cash flows. Such fluctuations can give a rise the interest margin level; but in case of sudden changes in interest rates, the interest margin can also go down or lead to losses.

Interest rate risk management aims to reduce the impact of changes in interest rates on net interest income. For the purpose of managing interest rate risk, the Bank sets maximum interest rates for raising funds and minimum rates for placing resources, minimum rates of return on investments in securities, and restrictions for long-term active transactions. Interest rate and other price risks are regulated also by setting maximum amounts of investments in market price sensible assets, by terms and rates. But this approach does not prevent losses in case of material market changes.

Below is the analysis of the Bank's risk in connection with changes in interest rates, as of December 31, 2016. The table shows assets and liabilities exposed to interest rate risk, grouped in different time intervals by the contractual interest rate revision dates.

	On demand and less than 1 month	**From 1 to 6 months**	**From 6 to 12 months**	**Over 1 year**	**Indefinite term / No interest rate risk**	**Total**
ASSETS						
Cash and cash equivalents	288,972		-	-	-	288,972
Due from financial institutions	3,561,202	-	-	-	-	3,561,202
Loans and advances to customers	514	3,900	-	-	-	4,414
Financial assets available for sale	7,533	1,367,386	334,120	1,571,702	-	3,280,741
Fixed and intangible assets	-	-	-	46,158	-	46,158
Other assets	12,133	987	-	-	300	13,420
Total assets	**3,870,354**	**1,372,273**	**334,120**	**1,617,860**	**300**	**7,194,907**
Total assets, cumulative	**3,870,354**	**5,242,627**	**5,576,747**	**7,194,607**	**7,194,907**	
LIABILITIES						
Due to financial institutions	281,282	-	-	-	-	281,282
Customers accounts except for accounts of individuals	1,582,936	30,000	-	-	235	1,613,171
Individuals accounts	7,838	-	-	-	-	7,838
Other liabilities and reserves	6,585	650	-	-	1,022	8,257
Total liabilities	**1,878,641**	**30,650**	**-**	**-**	**1,257**	**1,910,548**
Total liabilities, cumulative	**1,878,641**	**1,909,291**	**1,909,291**	**1,909,291**	**1,910,548**	
Absolute GAP	1,991,713	1,341,623	334,120	1,617,860		
Gap ratio (total relative GAP, cumulative)	**2.06**	**2.75**	**2.92**	**3.77**		
Interest rate risk sensitivity	19,087	9,503	835			29,425

(in thousands of Russian rubles unless otherwise stated)

Below is the analysis of the Bank's risk in connection with changes in interest rates, as of December 31, 2015.

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 1 year	Indefinite term / No interest rate risk	Total
ASSETS						
Cash and cash equivalents	535,124		-	-	-	535,124
Due from financial institutions	3,184,838	-	-	-	3,149	3,187,987
Loans and advances to customers	647	2,442	2,286	375	-	5,750
Financial assets available for sale	7,437	120,631	-	3,459,645	-	3,587,713
Fixed and intangible assets	-	-	-	-	43,748	43,748
Other assets	-	-	-	-	84,519	84,519
Total assets	**3,728,046**	**123,073**	**2,286**	**3,460,020**	**131,416**	**7,444,841**
Total assets, cumulative	**3,728,046**	**3,851,119**	**3,853,405**	**7,313,425**	**7,444,841**	
LIABILITIES						
Due to financial institutions	835,274	-	-	-	-	835,274
Customers accounts except for accounts of individuals	1,827,581	-	-	-	-	1,827,581
Individuals accounts	9,108	-	-	-	-	9,108
Other liabilities and reserves	1,180	-	1,026	-	650	2,856
Total liabilities	**2,673,143**	**-**	**1,026**	**-**	**650**	**2,674,819**
Total liabilities, cumulative	**2,673,143**	**2,673,143**	**2,674,169**	**2,674,169**	**2,674,819**	
Absolute GAP	1,054,903	123,073	1,260	3,460,020	130,766	
Gap ratio (total relative GAP, cumulative)	**1.39**	**1.44**	**1.44**	**2.73**		
Interest rate risk sensitivity	10,109	615	3			10,728

Sensitivity to interest rate changes is the effect of a parallel shift of all yield curves by 100 basis points on the amount of the net interest income for one year.

The analysis of interest rate risk based on the above tables is made with respect to the absolute year-end gap value. As of December 31, 2016, with the interest rate increased by 100 basis points, the effect on the net interest income for the year amounted to RUB 29,425 thousand, and with the interest rate decreased, RUB 29,425 thousand (2015: with the interest rate increased by 100 basis points, the effect on the net interest income for the year was RUB 10,728 thousand, and with the interest rate decreased, RUB 10,728 thousand).

(in thousands of Russian rubles unless otherwise stated)

– **Currency risk**

Currency risk arises due to changes in the value of financial instruments in case of fluctuations in exchange rates. The Bank is exposed to currency risk due to open positions, mainly, in US dollars, against the Russian ruble.

Currency risk is managed by the Financial Markets Department, based on the current value of the open foreign currency position and expected change of currency exchange rates.

The table below shows a general analysis of the Bank's currency risk as of the reporting date December 31, 2016:

	RUB	USD	EUR	Other currencies	Total
ASSETS					
Cash and cash equivalents	65,100	63,307	16,444	144,121	288,972
Due from financial institutions	3,492,373	-	-	68,829	3,561,202
Loans and advances to customers	4,414	-	-	-	4,414
Financial assets available for sale	3,280,741	-	-	-	3,280,741
Fixed and intangible assets	46,158	-	-	-	46,158
Other assets	10,676	1,015	-	1,729	13,420
Total assets	**6,899,462**	**64,322**	**16,444**	**214,679**	**7,194,907**
LIABILITIES					
Due to financial institutions	113,130	2,553	-	165,559	281,282
Customers accounts except for accounts of individuals					
- current and demand accounts	1,557,644	1,630	193	23,469	1,582,936
- term deposits	30,235	-	-	-	30,235
Individuals accounts					
- current and demand accounts	7,838	-	-	-	7,838
Other liabilities and reserves	8,158	-	86	13	8,257
Total liabilities	**1,717,005**	**4,183**	**279**	**189,081**	**1,910,548**
Net balance sheet position	**5,182,457**	**60,139**	**16,165**	**25,598**	**5,284,359**

The table below shows a general analysis of the Bank's currency risk as of the reporting date December 31, 2015:

	RUB	USD	EUR	Other currencies	Total
ASSETS					
Cash and cash equivalents	211,257	114,155	32,439	177,273	535,124
Due from financial institutions	3,187,987	-	-	-	3,187,987
Loans and advances to customers	5,750	-	-	-	5,750
Financial assets available for sale	3,587,713	-	-	-	3,587,713
Fixed and intangible assets	43,748	-	-	-	43,748
Other assets	12,946	67,418	16	4,139	84,519
Total assets	**7,049,401**	**181,573**	**32,455**	**181,412**	**7,444,841**
LIABILITIES					
Due to financial institutions	688,328	314	-	146,632	835,274
Customers accounts except for accounts of individuals					
- current and demand accounts	1,815,829	2,556	261	8,935	1,827,581
Individuals accounts					
- current and demand accounts	9,108	-	-	-	9,108
Other liabilities and reserves	2,751	-	95	10	2,856
Total liabilities	**2,516,016**	**2,870**	**356**	**155,577**	**2,674,819**
Net balance sheet position	**4,533,385**	**178,703**	**32,099**	**25,835**	**4,770,022**

(in thousands of Russian rubles unless otherwise stated)

– **Other price risk**

The Bank is exposed to other price risk arising due to changes in the fair value of financial instruments in case of changes in their market prices (except for those caused by interest rate and currency risks). For the purpose of limiting exposure to other price risk, the Bank limits the list of issuers in whose securities it can invest, and sets limits on the total investment volume.

24 Capital Management

In accordance with the Agreement between the Bank and the Central Bank of the Russian Federation "On the Procedure for and Rules of Conducting by the Interstate bank Banking Activities in the Territory of the Russian Federation" dated December 2, 1996, the Bank is not subject to the requirements of the federal laws of the Russian Federation "On the Central Bank of the Russian Federation (the Bank of Russia)" and "On Banks and Banking Activity" in terms of provisions regarding banks regulation and banking supervision, in particular, to the capital adequacy requirements.

The size and the structure of the capital are disclosed in the statement of financial position and in the statement of changes in equity. As of December 31, 2016, the "Other equity instruments" item in the structure of the Bank's capital includes perpetual subordinated debt made up of converted subordinated loans. The par value of perpetual subordinated loans as of the conversion date was RUB 6,155,215 thousand. Perpetual subordinated loans in the capital structure are accounted at the discounted value. The terms of providing of the subordinated loans are disclosed in details in the Bank's annual financial statements for 2014 and 2015.

25 Contingent Liabilities

Litigations

From time to time, in the course of its current activities, the Bank is involved in trials. Based on its own judgments and recommendations of internal and external professional consultants, the Bank's management believes that trials will not cause significant losses for the Bank, that is why no trial provisions have been formed.

Tax

Pursuant to the Agreement between the Government of the Russian Federation and the Interstate Bank on the Terms of Presence of the Interstate Bank in the territory of the Russian Federation dated July 30, 1996, the Bank is exempt from all taxes, duties and other mandatory charges payable in the territory of the Russian Federation.

Operating Lease Liabilities

Below are the minimum rental payments under non-cancellable operating lease contracts where the Bank acts as the lessee:

	December 31, 2016	December 31, 2015
No later than 1 year	3,521	3,566
After 1 year but no later than 5 years	1,934	2,082
Total operating lease liabilities	**5,455**	**5,648**

26 Fair Value of Financial Instruments

Fair value is an amount of compensation in an arm's length transaction with an asset or a liability between knowledgeable, willing parties. The best evidence of fair value is the price of a financial instrument quoted on the market.

The estimated fair value of financial instruments has been calculated by the Bank based on the available market data (if any) and appropriate valuation methods. However, professional judgment is needed for the interpretation of market data to determine fair value. Russia's economy is still characterized by certain specifics typical for developing countries and the economic conditions still restrict the volumes of trading on financial markets. Market quotations can be outdated or can reflect sales at low prices and thus cannot be indicative of the fair value of financial instruments. When determining the fair value of financial instruments, the management uses all available market data.

Financial Instruments Measured at Fair Value

Trading and other securities, changes in the fair value of which are recognized through the profit and loss statement, including securities classified as "receivable under repurchase agreements", derivative financial instruments, and financial assets available for sale are recorded in the balance sheet at fair value. Fair value is calculated on the basis of quoted market prices. Cash and cash equivalents are recognized at amortized cost, which is approximately equal to their current fair value.

Due from Financial Institutions

According to the management's estimates, the fair value of funds due from financial institutions did not significantly vary from their book value. This is due to the existing interest rate revision practices for the reflection of the market conditions. Accordingly, most funds are placed at interest rates equal the market interest rates.

Loans and Advances to Customers

The fair value of instruments with a floating interest rate generally equals their book value. In case of significant changes in the market situation, the Bank may revise interest rates on loans to customers and funds due from other banks provided at a fixed interest rate. As a result, interest rates on loans issued before the reporting date do not significantly differ from the effective interest rates on the market of borrowings for new instruments implying a similar credit risk and similar maturity. If, according to the Bank's estimates, rates on earlier issued loans significantly differ from the rates effective as of the reporting date for similar instruments, the Bank measures the estimated fair value of such loans. Estimates are based on the discounted cash flow method, at effective interest rates on the market of borrowings for new instruments implying a similar credit risk and similar maturity. Discount rates in use depend on the currency, the instrument's maturity and the counterparty's credit risk.

(in thousands of Russian rubles unless otherwise stated)

Financial Assets Held to Maturity

The fair value of financial assets held to maturity is calculated on the basis of quoted market prices.

The Bank measures the fair value of other financial assets, including accounts receivable under trading and business transactions, as equal to the book value, considering a short term of receivables.

Liabilities Recognized at Amortized Cost

The fair value of such liabilities is based on market prices, if any. The estimated fair value of instruments with a fixed interest rate and a specified maturity, without a quoted market price, is based on discounted cash flows by using interest rates for new instruments with a similar credit risk and similar maturity. The fair value of liabilities repayable on demand or upon advance notice ("liabilities repayable on demand") is calculated as the amount payable on demand, discounted from the first date of potential liability discharge demand.

Derivative Financial Instruments

All derivative financial instruments are accounted at fair value as assets if the fair value of such instruments is positive, and as liabilities if their fair value is negative.

The fair value of financial instruments is shown below:

	December 31, 2016		December 31, 2015	
	Book value	**Fair value**	**Book value**	**Fair value**
Financial assets				
Financial assets recognized at fair value				
Financial assets available for sale	3,280,741	3,280,741	3,587,713	3,587,713
Financial assets recognized at amortized cost				
Cash and cash equivalents	288,972	288,972	535,124	535,124
Due from financial institutions	3,561,202	3,561,202	3,187,987	3,187,987
Loans and advances to customers	4,414	4,414	5,750	5,750
Other assets	13,420	13,420	84,519	84,519
Total financial assets	**7,148,749**	**7,148,749**	**7,401,093**	**7,401,093**
Financial liabilities				
Financial liabilities recognized at amortized cost				
Due to financial institutions	281,282	281,282	835,274	835,274
Customer funds	1,621,009	1,621,009	1,836,689	1,836,689
Other liabilities and reserves	8,257	8,257	2,856	2,856
Total liabilities	**1,910,548**	**1,910,548**	**2,674,819**	**2,674,819**

27 Related Party Transactions

For purposes of the preparation of these financial statements, parties are deemed as related ones if one of the parties is able to control the other party or to significantly influence the other party's financial and operational decision-making as stated in IAS 24 Related Party Disclosures. When considering all possible relationships with related parties, the Bank takes into account the economic substance of such relationships, not only their legal form.

The Bank's related parties are member states, a subsidiary, and also the key management personnel. As of December 31, 2016, the Bank's key management personnel include the executive management and members of the Asset & Liabilities Management Committee, 7 persons in total. Related parties - states were the Bank's member states.

Transactions with related parties included settlements, raising of deposits and foreign exchange transactions. These transactions were carried out mainly at the market rates (unless otherwise specified). Below are the balances as of the end of the period, income and expense items for the year under transactions with related parties.

Transactions with the Bank's member states as of December 31, 2016, represented by their central (national) banks deemed as related parties, are shown in the table below:

	December 31, 2016	December 31, 2015
ASSETS		
Cash and cash equivalents	146,440	339,228
Total assets	**146,440**	**339,228**
LIABILITIES		
Due to financial institutions	91,538	677,791
Total liabilities	**91,538**	**677,791**

(in thousands of Russian rubles unless otherwise stated)

Below are expenses on transactions with related parties — the Bank's member states, for 2016 and 2015.

	2016	**2015**
Interest expense	(901)	(129,215)

The Bank's key management personnel

Below are asset and liability items under transactions with related parties — the Bank's key management personnel, for 2016 and 2015.

	December 31, 2016	**December 31, 2015**
ASSETS		
Loans and advances to customers	1,362	1,327
Total assets	**1,362**	**1,327**
LIABILITIES		
Individual customer funds	3,258	4,464
Total liabilities	**3,258**	**4,464**

Below are income and expense items under transactions with related parties — the Bank's key management personnel, for 2016 and 2015.

	2016	**2015**
Interest income	96	101
Administrative and other operating expenses	(76,088)	(73,051)

Administrative Expenses are remunerations to the key management personnel, including contributions to the non-state pension fund in the amount of RUB 2,479 thousand (2015: RUB 4,388 thousand).

28 Effect of Estimates and Judgments on Recognized Assets and Liabilities

The Bank makes estimates and judgments having an effect on recognized amounts of assets and liabilities during the next financial year. Estimates and judgments are made and based on past experience and other factors, including anticipated future events, which may be expected to occur under certain circumstances.

Losses from impairment of loans and receivables

The Bank analyzes the condition of the loan portfolio for impairment on a continuous basis. In determining whether losses from impairment must be recognized in the profit and loss, the Bank relies on judgments regarding the existence of information evidencing that anticipated cash flows on the loan portfolio would decrease before such decrease can be identified in respect of a particular loan in that portfolio. Such evidence may include information evidencing of changes in the creditworthiness of the Bank's borrower, national or local economic conditions causing a decrease in the value of the Bank's assets. The Bank uses estimates based on past experience in respect of losses from assets characterized by credit risk and on objective evidence of impairment similar to that contained in the portfolio in planning future cash flows. The methodology and assumptions used to estimate the amounts and times of cash flows are analyzed on a regular basis in order to reduce the differences between loss estimates and actual impairment losses.

Initial recognition of related party transactions

In the course of its operations, the Bank enters into related party transactions. In accordance with IAS 39, financial instruments must be initially recognized at fair value. If there is no active market for such transactions, professional judgments are used in order to determine whether the transactions are priced at market or non-market interest rates. The judgment is based on pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

The going concern

The management has prepared these financial statements on the basis of the going concern assumption. Using this judgment, the management took into account the existing intentions, the profitability of transactions, available financial resources and the effect of the current economic situation on the Bank's business.

Signed on February 10, 2017.

President	I. G. Souvorov
Chief Accountant	L. K. Razdevilova