Commercial Bank “J.P. Morgan Bank International” (Limited Liability Company)

International Financial Reporting Standards
Financial Statements and
Independent Auditor’s Report
31 December 2016

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Independent Auditor's Report

To the Shareholders and Board of Directors of Commercial Bank «J.P. Morgan Bank International» (Limited Liability Company):

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Commercial Bank «J.P. Morgan Bank International» (Limited Liability Company) as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

What we have audited

The financial statements of the Bank comprise:

- the statement of financial position as at 31 December 2016;
- the statement of profit and loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the section *"Auditor's responsibilities for the audit of the financial statements"* of our report.

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

Independence

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") together with the ethical requirements of the Auditor's Professional Ethics Code and Auditor's Independence Rules that are relevant to our audit of the financial statements in the Russian Federation. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable

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the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the ability of the Bank to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the financial reporting process of the Bank.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Bank.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on ability of the Bank to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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Report on other legal and regulatory requirements

Report on examination in accordance with Article No.42 of Federal Law of 2 December 1990 No.395-1 "On Banks and Banking Activity"

The management of the Bank is responsible for compliance of the Bank with the statutory ratios set by the Bank of Russia and for compliance of internal control and organisation of risk management systems of the Bank with the Bank of Russia's requirements for such systems.

In accordance with Article No.42 of Federal Law of 2 December 1990 No.395-1 "On Banks and Banking Activity", we have examined the following during the audit of the financial statements of the Bank for the year 2016:

- compliance of the Bank as at 1 January 2017 with the statutory ratios set by the Bank of Russia;
- compliance of internal control and organisation of risk management systems of the Bank with the requirements set by the Bank of Russia for such systems.

Our examination was limited to procedures selected based on our judgement, such as inquiries, analysis and examination of documents, comparison of requirements, procedures and methodologies adopted by the[Bank with the Bank of Russia's requirements, as well as recalculation, comparison and reconciliation of figures and other information.

We have identified the following based on our examination:

1) as related to compliance of the Bank with the statutory ratios set by the Bank of Russia:

   as at 1 January 2017 the Bank's statutory ratios set by the Bank of Russia were within the limits set by the Bank of Russia.

   We draw your attention to the fact that we have not performed any procedures related to the underlying accounting data of the Bank other than the procedures we considered necessary to express our opinion on whether or not the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with IFRS.

2) as related to compliance of internal control and organisation of risk management systems of the Bank with the Bank of Russia's requirements for such systems:

   a) in accordance with the Bank of Russia's requirements and recommendations, as at 1 January 2017 subdivisions of the Bank for managing significant risks of the Bank were not subordinated or accountable to subdivisions assuming corresponding risks;

   b) internal documents of the Bank effective as at 1 January 2017 which set out the methodologies to identify and manage significant credit, liquidity, operational, market, interest rate, legal and reputational risks and the methodologies to carry out stress testing are duly approved by appropriate management bodies of the Bank in accordance with the Bank of Russia's requirements and recommendations;

   c) as at 1 January 2017 the Bank had in place a reporting system for significant credit, liquidity, operational, market, interest rate, legal and reputational risks and for equity (capital) of the Bank;

   d) the frequency and consistency of reports prepared by risk management subdivisions of the Bank and its internal audit function during 2016 as related to management of credit, liquidity, operational, market, interest rate, legal and reputational risks complied with internal documents of the Bank; those reports included observations made by risk pwc

management subdivisions of the Bank and its internal audit function as related to the assessment of the effectiveness of the respective procedures of the Bank as well as recommendations on their improvement;

e) as at 1 January 2017 the authority of the Board of Directors of the Bank and its executive bodies included control over compliance of the Bank with risk and equity (capital) adequacy limits set by internal documents of the Bank. To exercise control over the effectiveness of the risk management procedures applied in the Bank and their consistent application in 2016, the Board of Directors of the Bank and its executive bodies regularly discussed the reports prepared by risk management subdivisions of the Bank and its internal audit function and considered proposed measures to eliminate weaknesses.

We have performed the above procedures related to internal control and organisation of risk management systems of the Bank solely to examine compliance of internal control and risk management systems of the Bank with the Bank of Russia's requirements for such systems.

AO PricewaterhouseCoopers Audit

28 April 2017

Moscow, Russian Federation

N.V. Kosova, certified auditor (licence no. 01-000396), AO PricewaterhouseCoopers Audit

Audited entity: CB «J.P. Morgan Bank International (LLC)»

State registration certificate № 2629, issued by the Central Bank of Russian Federation on 26 October 1993.

Certificate of inclusion in the Unified State Register of Legal Entities issued on 22 November 2002 under registration № 006209511

10 Butyrsky Val, 125047, Russia

Independent auditor: AO PricewaterhouseCoopers Audit

State registration certificate № 008.890, issued by the Moscow Registration Chamber on 28 February 1992

Certificate of inclusion in the Unified State Register of Legal Entities issued on 22 August 2002 under registration № 1027700148431

Member of Self-regulated organization of auditors «Russian Union of auditors» (Association)

ORNZ 11603050547 in the register of auditors and audit organizations

In thousands of Russian Roubles	Note	31 December 2016	31 December 2015
ASSETS			
Cash and cash equivalents	7	16 137 142	21 346 855
Mandatory cash balances with the Central Bank of the Russian Federation		32 301	48 272
Trading securities	8	10 092	-
Investment securities available for sale	9	18	18
Derivative financial instruments	10	5 752 470	6 212 979
Deferred income tax asset	24	43 025	47 922
Premises and equipment	11	136 228	186 439
Intangible assets	12	95 787	96 706
Other financial assets	13	135 398	246 800
Other assets	14	108 885	171 756
TOTAL ASSETS		**22 451 346**	**28 357 747**
LIABILITIES			
Derivative financial instruments	10	5 815 410	6 226 496
Due to other banks	15	1 055 999	2 363 179
Customer accounts	16	1 875 044	4 239 574
Provision for commitments	27	108 323	227 884
Subordinated debt	17	-	2 336 536
Current income tax liability	24	80 977	93 297
Other liabilities	18	587 407	543 582
TOTAL LIABILITIES		**9 523 160**	**16 030 548**
EQUITY			
Charter capital	19	2 715 315	2 715 315
Share based compensation reserve	20	1 893 609	1 779 793
Other reserves	19	557 604	557 604
Retained earnings		7 761 658	7 274 487
TOTAL EQUITY		**12 928 186**	**12 327 199**
TOTAL LIABILITIES AND EQUITY		**22 451 346**	**28 357 747**

Approved for issue and signed on behalf of the Board of Directors on 28 April 2017.

L. Dudnick
Executive Director,
Head of Finance Department

A. Vorontsov
Chief Accountant

In thousands of Russian Roubles	**Note**	**2016**	**2015**
Interest income	21	371 582	160 132
Interest expense	21	(107 368)	(97 755)
Net interest income/(expense)		**264 214**	**62 377**
Gains less losses/losses less gains from trading securities		125 709	2
Gains less losses/(Losses less gains) from trading in foreign currencies		3 448 532	(947 607)
Foreign exchange translation gains less losses		(2 213 915)	2 853 537
Fee and commission income	22	1 875 447	1 647 886
Fee and commission expense	22	(17 041)	(21 332)
Dividends received		3	2
Other operating income		5 012	257
Administrative and other operating expenses	23	(2 675 399)	(2 487 478)
Share based payments	20	(113 816)	(163 723)
Provision for commitments	27	(9 065)	164 154
Profit before tax		**689 681**	**1 108 075**
Income tax expense	24	(202 510)	(298 145)
Profit for the year		**487 171**	**809 930**
Total comprehensive income for the year		**487 171**	**809 930**

In thousands of Russian Roubles	**Note**	**Charter capital**	**Share based compen-sation reserve**	**Other reserves**	**Retained earnings**	**Total**
At 1 January 2015		**2 715 315**	**1 616 070**	**557 604**	**6 464 557**	**11 353 546**
Profit for the year		-	-	-	809 930	809 930
Total comprehensive income for 2015		**-**	**-**	**-**	**809 930**	**809 930**
Share based payments	20	-	163 723	-	-	163 723
Balance at 31 December 2015		**2 715 315**	**1 779 793**	**557 604**	**7 274 487**	**12 327 199**
At 1 January 2016		**2 715 315**	**1 779 793**	**557 604**	**7 274 487**	**12 327 199**
Profit for the year		-	-	-	487 171	487 171
Total comprehensive income for 2016		**-**	**-**	**-**	**487 171**	**487 171**
Share based payments	20	-	113 816	-	-	113 816
Balance at 31 December 2016		**2 715 315**	**1 893 609**	**557 604**	**7 761 658**	**12 928 186**

In thousands of Russian Roubles	Note	2016	2015
Cash flows from operating activities			
Interest received		371 429	160 126
Interest paid		(94 312)	(70 360)
Gains less losses/losses less gains from trading securities		125 709	2
Gains less losses from trading in foreign currencies		3 485 410	(854 632)
Fees and commissions received		1 993 772	1 588 942
Fees and commissions paid		(17 041)	(21 332)
Staff costs paid		(2 003 589)	(1 869 251)
Administrative and other operating expenses paid		(690 257)	(537 680)
Income tax paid		(209 933)	(254 319)
Other operating income received		75 558	258
Dividends received		3	2
Cash flows used in operating activities before changes in operating assets and liabilities		**3 036 749**	**(1 858 244)**
Changes in operating assets and liabilities			
Net increase/(decrease) in mandatory cash balances with the Central Bank of the Russian Federation		15 971	79 345
Net increase in trading securities		(9 765)	-
Net decrease in other financial assets and other assets		101 616	26 722
Net decrease in due to other banks		(1 435 438)	(5 999 812)
Net decrease in customer accounts		(1 830 727)	(955 193)
Payment under onerous lease contract	27	(66 189)	(83 307)
Net increase/(decrease) in other liabilities		26 048	(25 689)
Net decrease in subordinated debt		(2 332 246)	-
Net cash used in operating activities		**(2 493 981)**	**(8 816 178)**
Cash flows from investing activities			
Acquisition of premises and equipment	11	(7 043)	(91 242)
Disposals of premises and equipment	11	14 930	9 425
Acquisition of intangible assets	12	(14 905)	(14 547)
Net cash used in investing activities		**(7 018)**	**(96 364)**
Effect of exchange rate changes on cash and cash equivalents		**(2 708 714)**	**4 679 667**
Net (decrease)/increase in cash and cash equivalents		**(5 209 713)**	**(4 232 875)**
Cash and cash equivalents at the beginning of the year	7	21 346 855	25 579 730
Cash and cash equivalents at the end of the year	**7**	**16 137 142**	**21 346 855**

1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2016 for Commercial Bank “J.P. Morgan Bank International” (Limited Liability Company) (the “Bank”).

Principal activity. The Bank is incorporated and domiciled in the Russian Federation. The Bank’s principal business activity is commercial banking operations within the Russian Federation. The Bank has operated under a full banking license issued by the Central Bank of the Russian Federation (“CBRF”) since 1993. The Bank previously operated as Chase Manhattan Bank International (Limited Liability Company) and in 2001 changed its name to the current one as a part of a worldwide merger of Chase, J.P. Morgan and Flemings groups. The change in the name did not result in a change in the principal business activity of the Bank.

The Bank is 99.9944% owned by J.P. Morgan International Finance Limited (USA) with a small share of 0.0056% owned by J.P. Morgan Limited (UK). The ultimate parent of the Bank is JPMorgan Chase & Co. The Bank is a member of JPMorgan Chase & Co. group (the “Group”).

The Bank is a Russian limited liability company and in accordance with its charter and related Russian legislation the participants of the Bank have no right to request redemption of their interest in the Bank at amount. Refer to Note 18.

Registered address and place of business. The Bank’s registered address is: 10 Butyrsky Val, Moscow, 125047, Russia.

Presentation currency. These financial statements are presented in thousands of Russian Roubles (“RR thousands”).

Publication of the financial statements. These financial statements are published by the Bank electronically on its internet website: http://www.jpmorgan.ru.

2 Operating Environment of the Bank

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations (Note 27). During 2016, the Russian economy continued to be negatively impacted by low oil prices, ongoing political tension in the region and international sanctions against certain Russian companies and individuals, all of which contributed to the country’s economic recession characterised by a decline in gross domestic product. The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. Russia's credit rating was downgraded to below investment grade. This operating environment has a significant impact on the Group’s operations and financial position. Management is taking necessary measures to ensure sustainability of the Group’s operations. However, the future effects of the current economic situation are difficult to predict and management’s current expectations and estimates could differ from actual results.

3 Significant Accounting Policies

Basis of Preparation. These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) under the historical cost convention as modified by the initial recognition of financial instruments based on fair value, by the revaluation of trading securities, investment securities available for sale, derivatives, and by the valuation of share-based payment transactions. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 5).

3 Significant Accounting Policies (Continued)

Financial instruments – key measurement terms. Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for assets carried at fair value on a recurring basis if the Bank: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same. Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Refer to Note 28.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount.

Initial recognition of financial instruments. Trading securities and derivatives are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

3 Significant Accounting Policies (Continued)

All purchases and sales of financial instruments that require delivery within the time frame established by regulation or market convention (“regular way” purchases and sales) are recorded at trade date, which is the date that the Bank commits to deliver a financial instrument. All other purchases and sales are recognised when entity becomes a party to the contractual provisions of the instrument.

The Bank uses discounted cash flow valuation techniques to determine the fair value of currency and interest rate swaps and foreign exchange forwards that are not traded in an active market. Differences may arise between the fair value at initial recognition which is considered to be the transaction price and the amount determined at initial recognition using the valuation technique. Any such differences are amortised on a straight-line basis over the term of the currency and interest rate swaps and foreign exchange forwards.

Derecognition of financial assets. The Bank derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Bank has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include all interbank placements with original maturities of less than three months. Funds restricted for a period of more than three months are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

Mandatory cash balances with the CBRF. Mandatory cash balances with the CBRF are carried at amortised cost and represent non-interest bearing mandatory reserve deposits which are not available to finance the Bank’s day-to-day operations and hence are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows.

Trading securities. Trading securities are financial assets, which are either acquired for generating a profit from short-term fluctuations in price or trader’s margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Bank classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. within 12 months. Trading securities are not reclassified out of this category even when the Bank’s intentions subsequently change.

Financial assets that would meet the definition of loans and receivables may be reclassified if the Bank has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

Trading securities are carried at fair value. Interest earned on trading securities calculated using the effective interest method is presented in the statement of profit or loss and other comprehensive income as interest income. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in profit or loss for the year as gains less losses from trading securities in the period in which they arise.

Investment securities available for sale. This classification includes investment securities which the Bank intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Investment securities available for sale are carried at fair value. Interest income on debt securities available for sale is calculated using the effective interest method and recognised in profit or loss for the year. Dividends on available-for-sale equity instruments are recognised in profit or loss for the year when the Bank’s right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired, at which time the cumulative gain or loss is reclassified from other comprehensive income to profit or loss for the year.

3 Significant Accounting Policies (Continued)

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available for sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income to profit or loss for the year. Impairment losses on equity instruments are not reversed and any subsequent gains are recognised in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss for the year.

Due from other banks. Amounts due from other banks are recorded when the Bank advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Bank determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Bank considers whether a financial asset is impaired is its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine that there is objective evidence that an impairment loss has occurred:

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by borrower's financial information that the Bank obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower;
- the value of collateral significantly decreases as a result of deteriorating market conditions.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in the profit or loss for the year.

3 Significant Accounting Policies (Continued)

Credit related commitments. The Bank enters into credit related commitments, including letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans.

Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period.

Sale and repurchase agreements and lending of securities. Sale and repurchase agreements ("repo agreements") which effectively provide a lender's return to the counterparty are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognised. The securities are not reclassified in the statement of financial position unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as repurchase receivables. The corresponding liability is presented within amounts due to other banks or other borrowed funds.

Securities purchased under agreements to resell ("reverse repo agreements") which effectively provide a lender's return to the Bank are recorded as due from other banks or loans and advances to customers, as appropriate. The difference between the sale and repurchase price is treated as interest income and accrued over the life of repo agreements using the effective interest method.

Securities lent to counterparties for a fixed fee are retained in the financial statements in their original statement of financial position category unless the counterparty has the right by contract or custom to sell or repledge the securities, in which case they are reclassified and presented separately. Securities borrowed for a fixed fee are not recorded in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded in profit or loss for the year within gains less losses arising from trading securities. The obligation to return the securities is recorded at fair value in other borrowed funds.

Premises and equipment. Equipment includes office and computer equipment and is stated at cost, less accumulated depreciation and provision for impairment, where required.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of equipment items are capitalised and the replaced part is retired. Cost of leasehold improvements is capitalised using the same principles as for an acquired asset.

At the end of each reporting period management assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss for the year within other operating income of expenses.

Depreciation. Depreciation of items of premises and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives at 20% annual rate. Depreciation of leasehold improvements is calculated over the term of the underlying lease.

Intangible assets. All of the Bank's intangible assets have definite useful life and consist of capitalised computer software.

3 Significant Accounting Policies (Continued)

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful live of 10 years.

Operating leases. Where the Bank is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Bank, the total lease payments are charged to profit or loss for the year (rental expense) on a straight-line basis over the period of the lease.

When assets are leased out under an operating lease, the lease payments receivable are recognised in profit or loss for the year as rental income on a straight-line basis over the lease term.

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Bank by counterparty banks. The non-derivative liability is carried at amortised cost.

Customer accounts. Customer accounts are non-derivative liabilities to corporate customers and are carried at amortised cost.

Share-based payments. The Bank participates in the Group's motivation program, which grants share based awards to eligible employees. The awards are issued by the ultimate parent. Since the award involves equity instruments of the parent and the rights to those instruments are granted by the parent, the Bank accounts for it as an equity-settled share-based payment. The award is measured at fair value of the equity instruments granted on the grant date, taking into consideration the estimated number of the instruments expected to vest. The resulting amount is recognised as an expense in the statement of profit or loss and other comprehensive income and a share-based payments reserve in equity, over the vesting period. Changes in the estimated number of the instruments expected to vest are reflected in the statement of profit or loss and other comprehensive income until the award vests.

Subordinated debt. Subordinated debt represents long-term funds attracted by the Bank from the participant and is carried at amortised cost. The holders of the subordinated debt would be subordinate to all other creditors to receive repayment of debt in case of liquidation.

Derivative financial instruments. Derivative financial instruments are carried at their fair value.

All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year. The Bank does not apply hedge accounting.

Charter capital. Charter capital is classified as equity.

Income taxes. Income taxes have been provided for in the financial statements in accordance with Russian legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in the profit or loss for the year.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes, other than on income, are recorded within administrative and other operating expenses.

Deferred income tax is provided for using the balance sheet liability method for tax losses carried forward and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profits will be available against which the deductions can be utilised.

3 Significant Accounting Policies (Continued)

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Bank has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Trade and other payables. Trade payables are accrued when the counterparty performed its obligations under the contract and are carried at amortised cost.

Income and expense recognition. Interest income and expense are recorded for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Bank to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Bank does not designate loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become doubtful of collection, they are written down to present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Loan syndication fees are recognised as income when the syndication has been completed and the Bank retained no part of the loan package for itself or retained a part at the same effective interest rate for the other participants.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, which are earned on execution of the underlying transaction are recorded on its completion. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis. Asset management fees related to investment funds are recorded rateably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

Foreign currency translation. The functional currency of the Bank is the currency of the primary economic environment in which the entity operates. The Bank's functional and presentation currency is the national currency of the Russian Federation, Russian Roubles ("RR")

Monetary assets and liabilities are translated into functional currency at the official exchange rate of the CBRF at the end of respective reporting period. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into functional currency at year-end official exchange rates of the CBRF are recognised in profit or loss for the year (as foreign exchange translation gains less losses).

Fiduciary assets. Assets held by the Bank in its own name, but on the account of third parties, are not reported in the statement of financial position. Commissions received from fiduciary activities are shown in fee and commission income.

3 Significant Accounting Policies (Continued)

Offsetting. Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Staff costs and related contributions. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave and bonuses and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Bank. The Bank has no legal or constructive obligation to make pension or similar benefit payments beyond the unified payments to the statutory defined contribution scheme.

Presentation of statement of financial position in order of liquidity. The Bank does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the statement of financial position. Instead, analysis of assets and liabilities by their expected maturities is presented in Note 24.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Bank makes estimates and assumptions that affect amounts recognised in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Fair value of derivatives. The fair values of financial derivatives that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair values.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 26.

Related party transactions. In the normal course of business the Bank enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 30.

5 Adoption of New or Revised Standards and Interpretations

The following amended standards became effective for the Group from 1 January 2016, but did not have any material impact on the Group:

- IFRS 14, Regulatory Deferral Accounts (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016).
- Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11 (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016).
- Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016).

5 Adoption of New or Revised Standards and Interpretations (Continued)

- Agriculture: Bearer plants – Amendments to IAS 16 and IAS 41 (issued on 30 June 2014 and effective for annual periods beginning 1 January 2016).
- Equity Method in Separate Financial Statements – Amendments to IAS 27 (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016).
- Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016).
- Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016).
- Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28 (issued in December 2014 and effective for annual periods on or after 1 January 2016).

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2016 or later, and which the Group has not early adopted.

IFRS 9 "Financial Instruments: Classification and Measurement" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The Bank is currently assessing the impact of the new standard on its financial statements.

6 New Accounting Pronouncements (Continued)

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Bank is currently assessing the impact of the new standard on its financial statements.

IFRS 16, Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Bank is currently assessing the impact of the new standard on its financial statements.

Disclosure Initiative – Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. The Group will present this disclosure in its 2017 financial statements.

The following other new pronouncements are not expected to have any material impact on the Group when adopted:

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).
- Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017).
- Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 2, Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 4, Insurance Contracts (issued on 12 September 2016 and effective for annual periods beginning on or after 1 January 2018).

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Bank's financial statements.

7 Cash and Cash Equivalents

In thousands of Russian Roubles	2016	2015
Correspondent accounts and overnight placements with other banks	14 997 614	17 186 449
Balances on settlement accounts with trading system	928 603	3 949 217
Cash balances with the CBRF (other than mandatory reserve deposits)	210 925	211 189
Total cash and cash equivalents	**16 137 142**	**21 346 855**

Corresponding accounts and overnight deposits with other banks comprise:

In thousands of Russian Roubles	2016	2015
Large international banks	14 985 855	17 182 083
Russian banks	11 175	2 624
Russian subsidiaries of large international banks	584	1 742
Total corresponding accounts and overnight placements with other banks	**14 997 614**	**17 186 449**

Large international banks in the table above are multinational or OECD-based banks with investment grade ratings as at 31 December 2016 and 2015. An investment grade rating is a long-term international rating of A or above by Standard & Poor's, A or above by Fitch and A1 or above by Moody's.

As at 31 December 2016 the Bank had one counterparty (2015: one counterparty) with balances above RR 13 000 000 thousand. The aggregate balance of this counterparty was RR 13 951 087 thousand (2015: RR 13 387 031 thousand) or 86.5% (2015: 62.7%) of total cash and cash equivalents.

As at 31 December 2016 and 2015 the fair value of each class of financial assets included in cash and cash equivalents approximated their carrying value. Refer to Note 28.

Geographical, currency and interest rate analyses of cash and cash equivalents are disclosed in Note 25. Information on related party balances is disclosed in Note 31.

8 Trading Securities

In thousands of Russian Roubles	2016	2015
State bonds	10 092	-
Total trading securities	**10 092**	**-**

State bonds are debt securities denominated in Russian Roubles, issued by the Government of the Russian Federation and freely tradable in the Russian Federation.

8 Trading Securities (Continued)

The following table provides details of the trading securities as at 31 December 2016:

	Maturity		Coupon rate per annum		Yield to maturity per annum	
	Earliest	**Latest**	**Minimum**	**Maximum**	**Minimum**	**Maximum**
State bonds	20 July 2022	20 July 2022	7.60%	7.60%	8.22%	8.22%

The Bank did not hold any trading securities as at 31 December 2015.

The following table provides information on the credit quality of the Bank's trading securities as at 31 December 2016 and 2015:

In thousands of Russian Roubles	2016	2015
Credit rating between BB+	10 092	-
Total trading securities owned by the Bank	**10 092**	**-**

As trading securities are carried at their fair values based on observable market data, the Bank does not analyse or monitor impairment indicators. The Bank uses external ratings for evaluation of credit quality of debt securities.

The Bank is licensed by the Federal Service on Financial Markets (FSFM, whose functions are now performed by CBRF) for trading in securities.

Geographical, currency, maturity and interest rate analyses of trading securities are disclosed in Note 25.

9 Investment Securities Available For Sale

The movements in investment securities available for sale were as follows:

In thousands of Russian Roubles	2016	2015
Carrying amount at 1 January	**18**	**18**
Fair value gains less losses	-	-
Carrying amount at 31 December	**18**	**18**

At 31 December 2016 the principal equity investment securities available for sale were:

Name	Nature of business	Percentage of ownership as at 31 Dec 2016	Percentage of ownership as at 31 Dec 2015	Country of registration	Fair value 2016	Fair value 2015
ZAO "National Settlement Depositary"	Cash settlements for stock exchange participants	0.00008%	0.00008%	Russian Federation	18	18
Total					**18**	**18**

10 Derivative Financial Instruments

The fair values of derivative instruments held are set out in the following table:

	31 December 2016			31 December 2015		
	Contract/	**Fair values**		**Contract/**	**Fair values**	
In thousands of Russian Roubles	**notional amount**	**Assets**	**Liabilities**	**notional amount**	**Assets**	**Liabilities**
Foreign exchange derivative contracts						
- currency spot contracts	1 214 150	-	(6 721)	11 770 000	-	(14 309)
- currency forward contracts	45 911 408	722 786	(779 005)	8 041 432	107 491	(106 699)
- knock-in knock-out currency forwards	8 396 249	1 425 057	(1 425 057)	21 144 000	1 281 646	(1 281 646)
- currency options	8 613 280	84 278	(84 278)	6 415 931	252 886	(252 886)
- knock-out currency options	121 314	23 108	(23 108)	-	-	-
Interest rate derivative contracts						
-cross-currency interest rate swaps	50 888 750	3 408 216	(3 408 216)	1 512 253	4 570 956	(4 570 956)
- single-currency interest rate swaps	24 262 760	89 025	(89 025)	-	-	-
Total derivative assets/(liabilities)		**5 752 470**	**(5 815 410)**		**6 212 979**	**(6 226 496)**

Currency spot transactions are regular way foreign exchange contracts, which are settled within two working days after the trade date.

Currency forwards are over-the-counter contracts, which establish terms and conditions of a deal, which is settled at a future date.

Cross currency swaps are over-the-counter contracts whereby one party swaps a set of payments in one currency for a set of payments in a different currency.

Interest rate swaps are over-the-counter contracts whereby one party swaps interest payments determined using a fixed rate for interest payments determined using a floating interest rate.

Knock-in knock-out currency forward ("KIKO") contracts are over-the-counter contracts whereby one party obtains a right to exercise the foreign exchange transaction if the underlying exchange rate hits one of the two barriers, called knock-in and knock-out respectively.

Currency options are over-the-counter contracts whereby one party obtains the right to buy and the other the obligation to sell an agreed amount of currency at some future date at a predetermined rate.

Knock-out currency options are over-the-counter contracts whereby one party obtains the right to buy and the other the obligation to sell an agreed amount of currency at some future date at a predetermined rate, which may be extinguished upon the exchange rate of the currency reaching a specified barrier level.

10 Derivative Financial Instruments (Continued)

The following table provides information on the credit quality of the Bank's derivative instruments as at 31 December 2016 and 2015:

	31 December 2016		31 December 2015	
	Fair values		Fair values	
In thousands of Russian Roubles	Assets	Liabilities	Assets	Liabilities
Currency spot contracts				
Credit rating above BBB+	-	-	-	(14 309)
Credit rating between BB+ and below	-	(6 721)	-	-
Currency forward contracts				
Credit rating above BBB+	1 345	(765 146)	84 976	(22 121)
Credit rating BB+ and below	182 465	(13 859)	-	-
Not rated	538 976	-	22 515	(84 578)
KIKO contracts				
Credit rating between BBB- and AA+	1 425 057	(1 425 057)	1 281 646	(1 281 646)
Currency options				
Credit rating between BBB- and AA+	-	(84 278)	252 886	(252 886)
Not rated	84 278	-	-	-
Knock-out currency options				
Credit rating between BBB- and AA+	-	(23 108)	-	-
Not rated	23 108	-	-	-
Interest rate contracts				
Credit rating between BBB- and AA+	3 497 241	(3 497 241)	4 570 956	(4 570 956)
Total derivative contracts	**5 752 470**	**(5 815 410)**	**6 212 979**	**(6 226 496)**

Geographical, currency analyses and maturity structure of derivative financial instruments are disclosed in Note 25. Information on related party transactions is disclosed in Note 31.

11 Premises and Equipment

The reconciliation of the carrying amount of property and equipment as at 31 December 2016 and 2015 is presented below:

In thousands of Russian Roubles	Leasehold improvements	Office, computer and other equipment	Total property and equipment
Net book amount as at 31 December 2014	**47 842**	**96 488**	**144 330**
Cost			
Opening balance	80 241	241 033	321 274
Additions	280	90 962	91 242
Disposals	-	(9 425)	(9 425)
Closing balance	**80 521**	**322 570**	**403 091**
Accumulated depreciation			
Opening balance	32 399	144 545	176 944
Depreciation charges (Note 22)	4 787	44 006	48 793
Disposals	-	(9 085)	(9 085)
Closing balance	**37 186**	**179 466**	**216 652**
Net book amount as at 31 December 2015	**43 335**	**143 104**	**186 439**
Cost			
Opening balance	80 521	322 570	403 091
Additions	-	7 043	7 043
Disposals	-	(14 930)	(14 930)
Closing balance	**80 521**	**314 683**	**395 204**
Accumulated depreciation			
Opening balance	37 186	179 466	216 652
Depreciation charges (Note 22)	9 057	48 197	57 254
Disposals	-	(14 930)	(14 930)
Closing balance	**46 243**	**212 733**	**258 976**
Net book amount as at 31 December 2016	**34 278**	**101 950**	**136 228**

As at 31 December 2015 the gross book value of fully depreciated equipment that was in use was RR 149 928 thousand (31 December 2015: RR 23 978 thousand).

Leasehold improvements represent capitalised cost of refurbishment of Bank premises leased under operating lease.

12 Intangible Assets

The reconciliation of the carrying amount of intangible assets as at 31 December 2016 and 2015 is presented below:

In thousands of Russian Roubles	**Computer software**	**Total**
Net book amount as at 31 December 2014	**97 274**	**97 274**
Cost		
Opening balance	145 825	145 825
Additions	14 547	14 547
Closing balance	**160 372**	**160 372**
Accumulated amortization		
Opening balance	48 551	48 551
Amortization charges (Note 23)	15 115	15 115
Closing balance	**63 666**	**63 666**
Net book amount as at 31 December 2015	**96 706**	**96 706**
Cost		
Opening balance	160 372	160 372
Additions	14 905	14 905
Closing balance	**175 277**	**175 277**
Accumulated amortization		
Opening balance	63 666	63 666
Amortization charges (Note 23)	15 824	15 824
Closing balance	**79 490**	**79 490**
Net book amount as at 31 December 2016	**95 787**	**95 787**

13 Other Financial Assets

In thousands of Russian Roubles	**2016**	**2015**
Accrued income	119 526	237 851
Other	15 872	8 949
Total financial assets	**135 398**	**246 800**

Accrued income represents accrued custody, equities, treasury services, equity and debt capital market consultancy and mergers and acquisitions advisory fees.

None of the assets classified under other financial assets are past due and are expected to be recovered within twelve months from the reporting date.

None of the assets are used as collateral or restricted in any manner for use by the Bank.

Geographical, currency, maturity and interest rate analyses of other financial assets are disclosed in Note 25. The information on related party balances is disclosed in Note 31.

14 Other Assets

In thousands of Russian Roubles	**2016**	**2015**
Prepaid services	108 740	171 090
Prepaid taxes other than on income payable	145	666
Total assets	**108 885**	**171 756**

The information on related party balances is disclosed in Note 31.

15 Due to Other Banks

In thousands of Russian Roubles	**2016**	**2015**
Correspondent accounts and overnight placements of other banks	1 055 999	2 363 179
Total due to other banks	**1 055 999**	**2 363 179**

As at 31 December 2016 and 2015 the fair value of each class of financial liabilities included in due to other banks approximated their carrying value. Refer to Note 28.

Geographical, currency, maturity and interest rate analyses of due to other banks are disclosed in Note 25. The information on related party balances is disclosed in Note 31.

16 Customer Accounts

Customer accounts include current accounts and term deposits as follows:

In thousands of Russian Roubles	**2016**		**2015**	
	Amount	**%**	**Amount**	**%**
Current accounts	1 875 044	100	4 239 574	100
Total customer accounts	**1 875 044**	**100**	**4 239 574**	**100**

16 Customer Accounts (Continued)

Economic sector concentrations within customer accounts and term deposits are as follows:

In thousands of Russian Roubles	2016 Amount	%	2015	
Manufacturing	334 875	17.9	3 167 619	74.7
Scientific Research and Technical Development	357 334	19.1	428 687	10.1
Market Research	825 799	44.0	282 007	6.7
Publishing	38 549	2.0	125 526	3.0
Transport	2 522	0.1	39 971	0.9
Other	315 965	16.9	195 764	4.6
Total customer accounts	**1 875 044**	**100**	**4 239 574**	**100**

As at 31 December 2016 the Bank had two customers (2015: four customers) with balances above RR 300 000 thousand. The aggregate balance of these customers was RR 1 183 133 thousand (2015: RR 1 816 951 thousand) or 63% (2015: 42%) of total customer accounts.

As at 31 December 2016 and 2015 the fair value of each class of financial liabilities included in customer accounts approximated their carrying value. Refer to Note 28.

Geographical, currency, maturity and interest rate analyses of customer accounts are disclosed in Note 25. The information on related party balances is disclosed in Note 31.

17 Subordinated Debt

On 28 March 2006 the Bank received USD 32 000 thousand subordinated debt from its main participant, J.P. Morgan International Finance Limited (USA) (refer to Note 1), maturing in March 2016 at an interest rate of 6 months LIBOR. This subordinated debt was accounted for as part of additional capital for statutory prudential supervision ratios calculation purposes.

As at 31 December 2015 the estimated fair value of subordinated debt approximated RR 2 336 536. The loan was fully repaid in March 2016. Refer to Note 28.

Geographical, currency, maturity and interest rate analyses of subordinated debt are disclosed in Note 25. Information on related party balances is disclosed in Note 31.

18 Other Liabilities

In thousands of Russian Roubles	2016	2015
Accrued employee benefit costs	533 793	512 146
Taxes other than on income payable	44 451	25 541
Other accrued expenses	9 163	5 895
Total other liabilities	**587 407**	**543 582**

As at 31 December 2016 and 2015 other liabilities represent non-financial liabilities.

The information on related party balances is disclosed in Note 31.

19 Charter Capital

As at 31 December 2016 and 2015 the nominal value of authorised, issued and fully paid charter capital of the Bank was RR 2 715 315 thousand. The Bank is a limited liability company. In accordance with effective Russian legislation, voting rights of participants of the organisations that are established in the form of limited liability company correspond to their share of nominal value of the charter capital. The charter capital was adjusted for inflation in accordance with IAS 29 for RR 557 604 thousand recognised in other reserves in equity.

20 Employee Share Plan

The ultimate parent of the Bank, JPMorgan Chase & Co. (the “Firm”) has granted restricted stock units (“RSUs”) to certain employees, as further discussed below. The Firm’s share-based payment awards generally have graded vesting schedules, with typically two vesting tranches: 50 percent vests in two years, and 50 percent vests in three years. The Bank separately recognises compensation expense for each tranche of each award as if it were a separate award with its own vesting date. For each tranche granted compensation expense is recognised on a straight-line basis from the grant date until the vesting date of the respective tranche.

Compensation expense for RSUs is measured based upon the number of shares granted multiplied by the stock price at the grant date, and is recognised over the required service period. Starting January 2006 eligible employees receiving annual bonus over certain amount for the performance year receive a portion of their award in the form of RSUs.

	2016		2015	
In thousands of Russian Roubles	**RSUs**	**Weighted average grant price**	**RSUs**	**Weighted average grant price**
Outstanding as at 1 January	**146 971**	**3.98**	**195 277**	**2.66**
Granted	6 395	3.47	52 558	4.07
Exercised	(69 956)	3.53	(85 596)	4.30
Cancelled	(1 113)	3.43	(373)	3.60
Transferred	6 517	3.44	(14 895)	3.98
Outstanding as at 31 December	**88 814**	**3.44**	**146 971**	**3.98**

RSUs were granted at no cost to the recipient. These awards are subject to forfeiture until certain restrictions have lapsed, including continued employment for a specified period. The recipient of RSU is entitled to voting rights and dividends on the common stock. An RSU entitles the recipient to receive a share of common stock after the applicable restrictions lapse; the recipient is entitled to receive cash payments equivalent to any dividends paid on the underlying common stock during the period the RSU is outstanding. Effective January 2006, the equity portion of the Bank’s annual incentive awards is granted primarily in the form of RSUs.

The fair value of RSUs is measured on the basis of an observable market price of the underlying stock.

Under long-term incentive compensation plans in 2016 the Firm provided to its employees stock options with an exercise price equal to the fair value of the Firm’s common stock on the grant date.

	2016		2015	
In thousands of Russian Roubles	**Stock options and share appreciation rights**	**Weighted average grant price**	**Stock options and SARs**	**Weighted average grant price**
Outstanding as at 31 December	6 000	2.69	6 000	3.23

21 Interest Income and Expense

In thousands of Russian Roubles	Note	2016	2015
Interest income			
Cash and cash equivalents	7	350 973	160 131
Trading securities		20 609	1
Total interest income		**371 582**	**160 132**
Interest expense			
Customer accounts	16	33 205	38 437
Term placements of other banks	15	55 284	27 112
Onerous lease contract	27	18 879	23 684
Subordinated debt	17	-	8 522
Total interest expense		**107 368**	**97 755**
Net interest income/(expense)		**264 214**	**62 377**

The information on income and expense items with related parties is disclosed in Note 31.

22 Fee and Commission Income and Expense

In thousands of Russian Roubles	2016	2015
Fee and commission income		
Commission on investment banking	1 012 617	647 465
Commission on custodian services	252 282	186 884
Commission on treasury services	170 244	164 626
Commission on equity services	165 753	355 294
Commission on arranging derivative financial instruments for clients	159 390	151 226
Commission on settlement transactions	58 098	7 806
Commission on transactions with securities	46 605	95 192
Commission on guarantees provided	10 365	29 254
Other	93	10 139
Total fee and commission income	**1 875 447**	**1 647 886**
Fee and commission expense		
Commission on guarantees received	7 444	8 306
Commission on transactions with foreign currency	4 262	9 139
Commission on settlement transactions	3 080	3 109
Commission on transactions with securities	2 255	763
Other	-	15
Total fee and commission expense	**17 041**	**21 332**
Net fee and commission income	**1 858 406**	**1 626 554**

The information on income and expense items with related parties is disclosed in Note 31.

23 Administrative and Other Operating Expenses

In thousands of Russian Roubles	Note	2016	2015
Staff costs		2 025 235	1 894 976
Rent expenses		153 462	148 018
Taxes other than on income		64 844	90 657
Business trip and representative expenses		66 843	90 368
Communication expenses		89 175	58 562
Expenses on repair and utilities		61 308	51 849
Depreciation of property and equipment	11	57 254	48 793
Professional services		98 438	37 715
IT expenses		11 712	31 322
Amortization of intangible assets	12	15 824	15 115
Other		31 304	20 103
Total administrative and other operating expenses		**2 675 399**	**2 487 478**

Included in staff costs are statutory social security and pension contributions of RR 474 307 thousand (2015: RR 257 119 thousand).

24 Income Taxes

Income tax expense comprises the following:

In thousands of Russian Roubles	2016	2015
Current tax	197 613	246 461
Deferred tax	4 897	51 684
Income tax expense for the year	**202 510**	**298 145**

As at 31 December 2015 the income tax rate applicable to the majority of the Bank’s income was 20% (2014: 20%). Reconciliation between the expected and the actual taxation charge is provided below.

In thousands of Russian Roubles	2016	2015
IFRS profit before tax	**689 681**	**1 108 075**
Theoretical tax charge at statutory rate (2016: 20%; 2015: 20%)	137 936	221 615
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-deductible expenses	65 552	76 530
- Impact of income on state securities taxed at different rates (15%)	(978)	-
Income tax expense for the year	**202 510**	**298 145**

24 Income Taxes (Continued)

Differences between IFRS and Russian statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% (2015: 20%).

In thousands of Russian Roubles	Note	31 December 2015	Movement	31 December 2016
Tax effect of deductible temporary differences				
Provision for commitments	27	45 577	(23 912)	21 665
Accrued expenses		9 369	(1 632)	7 737
Premises and equipment		(9 727)	10 823	1 096
Derivative financial instruments		2 703	9 885	12 588
Gross deferred tax asset		**47 922**	**(4 836)**	**43 086**
Tax effect of taxable temporary differences				
Fair value of trading securities	8	-	(61)	(61)
Gross deferred tax liability		-	(61)	(61)
Total net deferred tax asset		**47 922**	(4 897)	**43 025**

Deferred tax expense is recognized in profit or loss.

In thousands of Russian Roubles	2016	2015
Deferred tax (credit)/expense recorded in profit or loss	4 897	51 684
Deferred income tax movement for the year	**4 897**	**51 684**

All of the deferred tax is expected to be recovered later than 12 months after the reporting date.

In thousands of Russian Roubles	Note	31 December 2014	Movement	31 December 2015
Tax effect of deductible temporary differences				
Provision for commitments	27	81 299	(35 722)	45 577
Accrued expenses		6 470	2 899	9 369
Premises and equipment		28 257	(37 984)	(9 727)
Gross deferred tax asset		**116 026**	**(70 807)**	**45 219**
Tax effect of taxable temporary differences				
Derivative financial instruments		(16 420)	19 123	2 703
Gross deferred tax liability		**(16 420)**	**19 123**	**2 703**
Total net deferred tax asset		**99 606**	**(51 684)**	**47 922**

25 Financial Risk Management

Risk management is an inherent part of the Group's business activities and the Bank has adopted the risk management policies and procedures of the Group. The Bank exercises oversight over the risks through the Board of Directors and delegation from the Board to various sub-committees which are organised in line with Group Risk Management policy.

An overview of the key aspects of risk management and use of financial instruments is provided below.

Credit risk. Credit department together with global Risk department is responsible for monitoring and control for the credit risk. They approve significant new transactions and product offerings and make final authority over credit risk assessment. They are also responsible for monitoring the credit risk profile of the portfolio and reporting monthly to the Group's Operating Committee.

To measure credit risk, the Bank employs several methodologies for estimating the likelihood of obligor or counterparty default. These methodologies vary depending on certain factors, including type of asset, risk measurement parameters and collection processes. Credit risk measurement is based upon the amount of exposure should the obligor or the counterparty default, the probability of default and the loss sensitivity given a default event. Based upon these factors and related market-based inputs, the Bank estimates both probable and unexpected losses for its asset portfolio.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts which are set by Treasury department. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed by Credit department through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate guarantees.

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

Market risk. Market risk represents the potential loss in value of portfolios and financial instruments caused by adverse movements in market variables such as interest and foreign exchange rates, credit spreads, and equity and commodity prices. Market Risk Management (MRM) is a function within the Bank that is independent of the businesses and identifies, measures, monitors and controls market risk.

Since no single measure can reflect all aspects of market risk, the Bank uses several measures, both statistical and non-statistical, including:

- Statistical Risk Measures:
  - Value-at-Risk (VAR);
  - Risk identification for large exposures (RIFLE);
- Non-Statistical Risk Measures:
  - Economic value stress tests;
  - Earning-at-risk stress tests;
  - Other measures of position size and sensitivity to market moves.

The Bank's VAR statistical measure gauges the potential loss from adverse market movements in an ordinary market environment. Through the RIFLE system, risk managers identify worst-case losses that could arise from an unusual or specific event, such as a potential tax change, and estimate the probabilities of such a loss. This information is then communicated to the appropriate level of management, thereby permitting the Bank and the Board of directors to identify further earnings vulnerabilities. MRM regularly reviews and updates risk limits, and the Group's Operating Committee reviews and approves risk limits at least twice a year. VAR is not calculated on a legal entity basis.

25 Financial Risk Management (Continued)

Currency risk. The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Treasury department sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

The table below summarises the Bank's exposure to foreign currency exchange rate risk as at 31 December 2016. The derivative financial instruments in assets and liabilities represent cash flows for currency spot and forward transactions, KIKO forwards and cross-currency interest swaps split by currency. Foreign exchange derivatives assets and liabilities include gross cash flows by each currency.

In thousands of Russian Roubles	RR	USD	Euro	Other	Total
Assets					
Cash and cash equivalents	538 638	15 533 303	13 775	51 426	16 137 142
Mandatory cash balances with the Central Bank of Russian Federation	32 301	-	-	-	32 301
Trading securities	10 092	-	-	-	10 092
Investment securities available for sale	18	-	-	-	18
Derivative financial instruments	722 786	(35 234 043)	-	40 263 727	5 752 470
Other financial assets	1 194	132 127	2 077	-	135 398
Total financial assets	**1 305 029**	**(19 568 613)**	**15 852**	**40 315 153**	**22 067 421**
Liabilities					
Derivative financial instruments	(691 888)	35 140 205	-	(40 263 727)	(5 815 410)
Due to other banks	(448 682)	(607 317)	-	-	(1 055 999)
Customer accounts	(1 253 832)	(606 983)	(13 246)	(983)	(1 875 044)
Provision for commitments	-	92 634	(200 957)	-	(108 323)
Total financial liabilities	**(2 394 402)**	**34 018 539**	**(214 203)**	**(40 264 710)**	**(8 854 776)**
Fair value of currency derivatives assets	722 786	-	-	-	722 786
Fair value of currency derivatives liabilities	(691 888)	(93 838)	-	-	(785 726)
Less total fair value of currency derivatives	30 898	(93 838)	-	-	(62 940)
Net balance sheet position less fair value of foreign exchange derivatives	**(1 058 475)**	**14 356 088**	**(198 351)**	**50 443**	**13 149 705**
Foreign exchange derivatives assets	28 392 508	8 228 410	5 266 946	6 200 939	48 088 803
Foreign exchange derivatives liabilities	(14 187 244)	(28 638 939)	(5 266 961)	(58 599)	(48 151 743)
Total foreign exchange derivatives	**14 205 264**	**(20 410 529)**	**(15)**	**6 142 340**	**(62 940)**
Net balance sheet and foreign exchange derivatives position as at 31 December 2015	**13 146 789**	**(6 054 441)**	**(198 366)**	**6 192 783**	**13 086 765**

25 Financial Risk Management (Continued)

As at 31 December 2015, the Bank had the following positions in currencies:

In thousands of Russian Roubles	RR	USD	Euro	Other	Total
Assets					
Cash and cash equivalents	1 637 340	19 535 630	112 381	61 504	21 346 855
Mandatory cash balances with the Central Bank of Russian Federation	48 272	-	-	-	48 272
Investment securities available for sale	18	-	-	-	18
Derivative financial instruments	2 732	(44 531 938)	134 686	50 607 499	6 212 979
Other financial assets	1 449	243 067	2 284	-	246 800
Total financial assets	**1 689 811**	**(24 753 241)**	**249 351**	**50 669 003**	**27 854 924**
Liabilities					
Derivative financial instruments	(2 338)	44 517 953	(134 612)	(50 607 499)	(6 226 496)
Due to other banks	(175 731)	(2 187 448)	-	-	(2 363 179)
Customer accounts	(1 080 405)	(3 094 283)	(63 724)	(1 162)	(4 239 574)
Provision for commitments	-	177 548	(405 432)	-	(227 884)
Subordinated debt	-	(2 336 536)	-	-	(2 336 536)
Total financial liabilities	**(1 258 474)**	**37 077 234**	**(603 768)**	**(50 608 661)**	**(15 393 669)**
Fair value of currency derivatives assets	2 733	65 095	39 663	-	107 491
Fair value of currency derivatives liabilities	(2 338)	(79 082)	(39 588)	-	(121 008)
Less total fair value of currency derivatives	(395)	13 987	(75)	-	13 517
Net balance sheet position less fair value of foreign exchange derivatives	**431 732**	**12 310 006**	**(354 342)**	**60 342**	**12 447 738**
Foreign exchange derivatives assets	15 765 426	3 085 220	1 012 775	-	19 863 421
Foreign exchange derivatives liabilities	(3 995 576)	(14 869 100)	(1 012 262)	-	(19 876 938)
Total foreign exchange derivatives	**11 769 850**	**(11 783 880)**	**513**	**-**	**(13 517)**
Net balance sheet and foreign exchange derivatives position as at 31 December 2014	**12 201 582**	**526 126**	**(353 829)**	**60 342**	**12 434 221**

The currency derivatives position in each column represents the fair value, at the reporting date, of the respective currency that the Bank agreed to buy (positive amount) or sell (negative amount). The amounts by currency are presented gross. The net total represents fair value of the derivatives.

The following table shows the effect of a reasonably possible change in exchange rates on the result of the activity of the Bank:

In thousands of Russian Roubles	2016	2015
20% increase in USD/RR exchange rate (2015: 20% increase)	(1 210 888)	105 225
20% decrease in USD/RR exchange rate (2015: 20% decrease)	1 210 888	(105 225)
20% increase in EUR/RR exchange rate (2015: 20% increase)	(39 673)	(70 868)
20% decrease in EUR/RR exchange rate (2015:20% decrease)	39 673	70 868

25 Financial Risk Management (Continued)

Interest rate risk. The Bank takes on exposure to effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise.

Derivative financial instruments in total financial assets and financial liabilities represent discounted cash flows for currency spot and forward transactions, KIKO forwards and cross-currency interest swaps split by periods according to cash flow execution dates.

The following table summarises the Bank’s exposure to interest rate risks as at 31 December 2016 by showing assets and liabilities at carrying amounts in categories based on the earlier of contractual repricing or maturity dates.

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 12 months**	**Over 12 months**	**Non-interest bearing**	**Total**
Assets					
Cash and cash equivalents	16 137 142	-	-	-	16 137 142
Mandatory cash balances with the Central Bank of the Russian Federation	32 301	-	-	-	32 301
Trading securities	-	-	10 092	-	10 092
Investment securities available for sale	-	-	-	18	18
Derivative financial instruments	1 792 616	642 461	3 317 393	-	5 752 470
Other financial assets	16 577	118 821	-	-	135 398
Total financial assets	**17 978 636**	**761 282**	**3 327 485**	**18**	**22 067 421**
Liabilities					
Derivative financial instruments	(1 859 285)	(638 732)	(3 317 393)	-	(5 815 410)
Due to other banks	(1 055 999)	-	-	-	(1 055 999)
Customer accounts	(1 875 044)	-	-	-	(1 875 044)
Provision for commitments	-	-	-	(108 323)	(108 323)
Total financial liabilities	**(4 790 328)**	**(638 732)**	**(3 317 393)**	**(108 323)**	**(8 854 776)**
Interest rate derivatives assets	-	179 848	3 317 393	-	3 497 241
Interest rate derivatives liabilities	-	(179 848)	(3 317 393)	-	(3 497 241)
Fair value of interest rate derivatives	**-**	**-**	**-**	**-**	**-**
Net sensitivity gap less fair value of interest rate derivatives	**13 188 308**	**122 550**	**10 092**	**(108 305)**	**13 212 645**
Interest rate derivatives inflows	-	42 404 404	80 158 510	-	122 562 914
Interest rate derivatives outflows	-	(42 404 404)	(80 158 510)	-	(122 562 914)
Effect of interest rate derivatives	**-**	**-**	**-**	**-**	**-**
Net sensitivity gap as at 31 December 2016	**13 188 308**	**122 550**	**10 092**	**(108 305)**	**13 212 645**
Cumulative sensitivity gap as at 31 December 2016	**13 188 308**	**13 310 858**	**13 320 950**	**13 212 645**	-

25 Financial Risk Management (Continued)

The following table summarises the Bank’s exposure to interest rate risks as at 31 December 2015 by showing assets and liabilities in categories based on the earlier of contractual repricing or maturity dates.

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 12 months**	**Over 12 months**	**Non-interest bearing**	**Total**
Assets					
Cash and cash equivalents	21 346 855	-	-	-	21 346 855
Mandatory cash balances with the Central Bank of the Russian Federation	-	-	-	48 272	48 272
Investment securities available for sale	-	-	-	18	18
Derivative financial instruments	144 115	(245 683)	6 314 547	-	6 212 979
Other financial assets	-	-	-	246 800	246 800
Total financial assets	**21 490 970**	**(245 683)**	**6 314 547**	**295 090**	**27 854 924**
Liabilities					
Derivative financial instruments	(157 987)	246 038	(6 314 547)	-	(6 226 496)
Due to other banks	(2 363 179)	-	-	-	(2 363 179)
Customer accounts	(4 239 574)	-	-	-	(4 239 574)
Provision for commitments	-	-	-	(227 884)	(227 884)
Subordinated debt	-	(2 336 536)	-	-	(2 336 536)
Total financial liabilities	**(6 760 740)**	**(2 090 498)**	**(6 314 547)**	**(227 884)**	**(15 393 669)**
Interest rate derivatives assets	-	(389 242)	4 960 198	-	4 570 956
Interest rate derivatives liabilities	-	389 242	(4 960 198)	-	(4 570 956)
Fair value of interest rate derivatives	**-**	**-**	**-**	**-**	**-**
Net sensitivity gap less fair value of interest rate derivatives	**14 730 230**	**(2 336 181)**	**-**	**67 206**	**12 461 255**
Interest rate derivatives inflows	-	27 602 563	124 193 632	-	151 796 195
Interest rate derivatives outflows	-	(27 602 563)	(124 193 632)	-	(151 796 195)
Effect of interest rate derivatives	**-**	**-**	**-**	**-**	**-**
Net sensitivity gap as at 31 December 2015	**14 730 230**	**(2 336 181)**	**-**	**67 206**	**12 461 255**
Cumulative sensitivity gap as at 31 December 2015	**14 730 230**	**12 394 049**	**12 394 049**	**12 461 255**	**-**

The table below summarises the effective interest rates by major currencies for major debt instruments. The analysis has been prepared based on period-end effective rates used for amortisation of the respective assets/liabilities.

25 Financial Risk Management (Continued)

	2016			2015		
In % p.a.	**RR**	**USD**	**EUR**	**RR**	**USD**	**EUR**
Assets						
Cash and cash equivalents	0.0	0.6	0.0	11.3	0.4	0.0
Mandatory cash balances with the Central Bank of the Russian Federation	0.0	-	-	0.0	-	-
Liabilities						
Term placements of other banks	-	-	-	-	-	-
Term deposits of customers	-	-	-	-	-	-
Subordinated debt	-	-	-	-	0.5	-

The sign “-” in the table above means that the Bank does not have the respective assets or liabilities in corresponding currency.

The following table shows the effect of a reasonably possible change in interest rates on the financial profit of the Bank:

In thousands of Russian Roubles	**2016**	**2015**
300 basis points increase in local interest rates (2015: 300 basis points)	381 155	385 531
300 basis points decrease in local interest rates (2015: 300 basis points)	(381 155)	(385 531)

The Bank seeks to maintain a stable funding base primarily consisting of amounts due to other banks, customer accounts and financing from the Group. The Bank invests funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

Liquidity risk. Liquidity risk is defined as the risk that entity will encounter difficulties in matching obligations associated with financial liabilities. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, loan draw downs, guarantees and from margin and other calls on cash settled derivative instruments. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk is managed by the Treasury Department of the Bank.

The following table shows the undiscounted cash flows on the Bank’s liabilities on the basis of their earliest possible contractual maturity. The gross nominal (inflow)/outflow disclosed in the table is the contractual, undiscounted cash flow on the financial liability or commitment.

Derivative financial instruments represent the gross undiscounted cash flows under currency spot and forward transactions, KIKO forwards and cross-currency interest swaps split by periods according to the expected/contractual cash flow execution dates.

25 Financial Risk Management (Continued)

The position of the Bank as at 31 December 2016 was as follows:

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 month**	**From 6 to 12 months**	**More than 12 months**	**Total gross nominal (inflow)/ outflow**	**Carrying Amount**
Non-derivative financial liabilities						
Due to other banks	1 055 999	-	-	-	1 055 999	1 055 999
Customer accounts	1 875 044	-	-	-	1 875 044	1 875 044
Provision for commitments	-	37 228	37 228	37 228	111 684	108 323
Derivative financial instruments						
- Inflow	(1 558 533)	(39 963 468)	(2 456 478)	(80 158 510)	(124 136 989)	(5 752 470)
- Outflow	1 574 124	39 958 086	2 461 842	80 158 510	124 152 562	5 815 410
Letters of credit and guarantees	2 887 595	-	-	-	2 887 595	2 887 595
Total undiscounted cash flows on financial liabilities and other commitments	**5 834 229**	**31 846**	**42 592**	**37 228**	**5 945 895**	**5 989 901**

The position of the Bank as at 31 December 2015 was as follows:

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 month**	**From 6 to 12 months**	**More than 12 months**	**Total gross nominal (inflow)/ outflow**	**Carrying Amount**
Non-derivative financial liabilities						
Due to other banks	2 363 179	-	-	-	2 363 179	2 363 179
Customer accounts	4 239 574	-	-	-	4 239 574	4 239 574
Provision for commitments	-	48 062	48 062	144 185	240 309	227 884
Subordinated debt	-	2 336 536	-	-	2 336 536	2 336 536
Derivative financial instruments						
- Inflow	(17 118 704)	(2 534 170)	(178 717)	(4 530 826)	(24 362 417)	(6 212 979)
- Outflow	17 146 884	2 954 864	178 717	4 960 198	25 240 663	6 226 496
Letters of credit and guarantees	2 542 300	-	-	-	2 542 300	2 542 300
Total undiscounted cash flows on financial liabilities and other commitments	**9 173 233**	**2 805 292**	**48 062**	**573 557**	**12 600 144**	**11 722 990**

25 Financial Risk Management (Continued)

The Bank does not use the above undiscounted maturity analysis to manage liquidity.

Instead, the Bank monitors expected maturities, which may be summarised as follows as at 31 December 2016.

Derivative financial instruments represent the gross discounted cash flows under currency spot and forward transactions, KIKO forwards and cross-currency interest swaps split by periods according to the expected/contractual cash flow execution dates.

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**Over 12 months**	**No stated maturity**	**Total**
Assets						
Cash and cash equivalents	16 137 142	-	-	-	-	16 137 142
Mandatory cash balances with the Central Bank of Russian Federation	32 301	-	-	-	-	32 301
Trading securities	10 092	-	-	-	-	10 092
Investment securities available for sale	-	-	-	-	18	18
Derivative financial instruments	1 792 616	763 199	(120 738)	3 317 393	-	5 752 470
Other financial assets	16 577	118 821	-	-	-	135 398
Total financial assets	**17 988 728**	**882 020**	**(120 738)**	**3 317 393**	**18**	**22 067 421**
Liabilities						
Derivative financial instruments	(1 859 285)	(760 762)	122 031	(3 317 394)	-	(5 815 410)
Due to other banks	(1 055 999)	-	-	-	-	(1 055 999)
Customer accounts	(1 875 044)	-	-	-	-	(1 875 044)
Provision for commitments	-	(36 479)	(36 479)	(35 365)	-	(108 323)
Total financial liabilities	**(4 790 328)**	**(797 241)**	**85 552**	**(3 352 759)**	**-**	**(8 854 776)**
Net liquidity gap	**13 198 389**	**84 779**	**(35 186)**	**(35 366)**	**18**	**13 212 634**
Cumulative liquidity gap as at 31 December 2016	**13 198 389**	**13 283 168**	**13 247 982**	**13 212 616**	**13 212 634**	**-**

25 Financial Risk Management (Continued)

The liquidity position of the Bank as at 31 December 2015 is set out below.

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**Over 12 months**	**No stated maturity**	**Total**
Assets						
Cash and cash equivalents	21 346 855	-	-	-	-	21 346 855
Mandatory cash balances with the Central Bank of Russian Federation	48 272	-	-	-	-	48 272
Investment securities available for sale	-	-	-	-	18	18
Derivative financial instruments	144 114	(69 255)	(176 429)	6 314 549	-	6 212 979
Other financial assets	8 949	237 851	-	-	-	246 800
Total financial assets	**21 548 190**	**168 596**	**(176 429)**	**6 314 549**	**18**	**27 854 924**
Liabilities						
Derivative financial instruments	(157 988)	69 341	176 697	(6 314 546)	-	(6 226 496)
Due to other banks	(2 363 179)	-	-	-	-	(2 363 179)
Customer accounts	(4 239 574)	-	-	-	-	(4 239 574)
Provision for commitments	-	(47 057)	(47 057)	(133 770)	-	(227 884)
Subordinated debt	-	(2 336 536)	-	-	-	(2 336 536)
Total financial liabilities	**(6 760 741)**	**(2 314 252)**	**129 640**	**(6 448 316)**	**-**	**(15 393 669)**
Net liquidity gap	**14 787 449**	**(2 145 656)**	**(46 789)**	**(133 767)**	**18**	**12 461 255**
Cumulative liquidity gap as at 31 December 2015	**14 787 449**	**12 641 793**	**12 595 004**	**12 461 237**	**12 461 255**	-

The table above shows assets and liabilities as at 31 December 2016 and 2015 by their remaining contractual maturity, unless there is evidence that any of the assets are impaired and will be settled after their contractual maturity dates, in which case the expected date of settlement of the assets is used. Some of the assets and liabilities, however, may be of a longer-term nature; for example, loans are frequently renewed and accordingly short-term loans can have a longer-term duration.

25 Financial Risk Management (Continued)

Geographical risk. The geographical concentration of the Bank's assets and liabilities as at 31 December 2016 is set out below:

In thousands of Russian Roubles	Russia	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	1 151 288	14 950 534	35 309	16 137 131
Mandatory cash balances with the Central Bank of the Russian Federation	32 301	-	-	32 301
Trading securities	10 092	-	-	10 092
Investment securities available for sale	18	-	-	18
Derivative financial instruments	5 662 099	90 371	-	5 752 470
Other financial assets	15 872	119 526	-	135 398
Total financial assets	**6 871 670**	**15 160 431**	**35 309**	**22 067 410**
Liabilities				
Derivative financial instruments	(109 606)	(5 705 804)	-	(5 815 410)
Due to other banks	-	(1 055 983)	-	(1 055 983)
Customer accounts	(1 633 667)	(241 377)	-	(1 875 044)
Provision for commitments	(108 323)	-	-	(108 323)
Total financial liabilities	**(1 851 596)**	**(7 003 164)**	**-**	**(8 854 760)**
Net balance sheet position as at 31 December 2016	**5 020 074**	**8 157 267**	**35 309**	**13 212 650**

Assets and liabilities have been based on the country in which the counterparty is located. Balances with Russian counterparties actually outstanding to/from offshore companies of these Russian counterparties are allocated to the caption "Russia". Cash on hand and equipment have been allocated based on the country in which they are physically held. The geographical concentration of the Bank's assets and liabilities at 31 December 2015 is set out below:

In thousands of Russian Roubles	Russia	OECD	Total
Assets			
Cash and cash equivalents	4 164 772	17 182 083	21 346 855
Mandatory cash balances with the Central Bank of the Russian Federation	48 272	-	48 272
Investment securities available for sale	18	-	18
Derivative financial instruments	5 875 118	337 861	6 212 979
Other financial assets	8 949	237 851	246 800
Total financial assets	**10 097 129**	**17 757 795**	**27 854 924**
Liabilities			
Derivative financial instruments	(4 908 420)	(1 318 076)	(6 226 496)
Due to other banks	-	(2 363 179)	(2 363 179)
Customer accounts	(4 098 454)	(141 120)	(4 239 574)
Provision for commitments	(227 884)	-	(227 884)
Subordinated debt	-	(2 336 536)	(2 336 536)
Total financial liabilities	**(9 234 758)**	**(6 158 911)**	**(15 393 669)**
Net balance sheet position as at 31 December 2015	**862 371**	**11 598 884**	**12 461 255**

26 Management of Capital

The CBRF sets and monitors capital requirements for the Bank.

Under the current capital requirements set by the CBRF banks have to maintain a ratio of capital to risk weighted assets ("statutory capital adequacy ratio") above the prescribed minimum level. As at 31 December 2016 this minimum level was 8% (2015: 8%). The Bank was in compliance with the statutory capital ratio during the years ended 31 December 2016 and 2015.

The Bank's objectives when managing capital are (i) to comply with the capital requirements set by the CBRF and (ii) to safeguard the Bank's ability to continue as a going concern. The amount of statutory capital that the Bank managed as at 31 December was RR 13 024 428 thousand (2015: RR 12 341 149 thousand). Compliance with capital adequacy ratios set by the CBRF is monitored monthly with reports outlining their calculation reviewed and signed by the Bank's Chief Accountant. Other objectives of capital management are evaluated annually.

The following table shows the composition of the Bank's capital position calculated in accordance with the requirements of CBRF as at 31 December 2016 and 2015:

In thousands of Russian Roubles	**2016**	**2015**
Capital		
Charter capital	2 715 315	2 715 315
Retained earnings	10 300 746	9 625 845
Subordinated debt (unamortised portion)	-	
Equity investments	(13)	(11)
Total statutory capital	**13 016 048**	**12 341 149**

27 Contingencies and Commitments

Tax contingencies. Russian tax legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Bank. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be challenged tax authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year when decision about review was made. Under certain circumstances reviews may cover longer periods.

The Russian transfer pricing legislation is generally aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD) but has specific characteristics. This legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm's length. Management has implemented internal controls to be in compliance with this transfer pricing legislation.

As Russian tax legislation does not provide definitive guidance in certain areas, the Bank adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Bank. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that outflow of resources will be required should such tax positions and interpretations be challenged by the tax authorities. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Bank.

Capital expenditure commitments. As at 31 December 2016 and 2015 the Bank had no capital expenditure commitments.

Provision on onerous lease contract. The Bank discontinued the use of the part of its office space held under a non-cancellable operating lease. The space was subleased until the end of the original lease term to a third party at a rate lower than the rates in the original lease agreement. The contract was considered to be an onerous one and a provision was recognised. The provision includes all lease expenses net of any sublease income over the lease term discounted at applicable rates.

27 Contingencies and commitments (Continued)

As at 31 December 2016 the expected cash flows relating to the provision were as follows:

In thousands of Russian Roubles	**Cash inflows**	**Cash outflows**	**Net cash outflows**
Not later than 1 year	75 433	(149 889)	(74 456)
Later than 1 year and not later than 5 years	37 716	(79 945)	(42 229)
Total undiscounted cash flows	113 149	(229 834)	(116 685)
Total discounted cash flows	**106 050**	**(214 373)**	**(108 323)**

As at 31 December 2015 the expected cash flows relating to the provision were as follows:

In thousands of Russian Roubles	**Cash inflows**	**Cash outflows**	**Net cash outflows**
Not later than 1 year	91 082	(187 206)	(96 124)
Later than 1 year and not later than 5 years	136 622	(280 807)	(144 185)
Total undiscounted cash flows	227 704	(468 013)	(240 309)
Total discounted cash flows	**204 614**	**(432 498)**	**(227 884)**

The movements in the carrying amount of the reserve are as follows:

In thousands of Russian Roubles	**Note**	**2016**	**2015**
Carrying amount at 1 January		**227 884**	**406 496**
Interest expense	21	18 879	23 684
Used during the year		(66 189)	(83 307)
Foreign currency revaluation		(81 316)	45 165
Effect of changes in model		9 065	(164 154)
Carrying amount at 31 December		**108 323**	**227 884**

Effect of changes in model relates to revision of the original discounted cash flows to incorporate up-to-date inflation rates applicable for annual lease payment determination.

Operating lease commitments. Where the Bank is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

In thousands of Russian Roubles	**2016**	**2015**
Not later than 1 year	335 535	407 882
Later than 1 year and not later than 5 years	643 672	1 185 058
Total operating lease commitments	**979 207**	**1 592 940**

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and, therefore, carry less risk than a direct borrowing.

27 Contingencies and commitments (Continued)

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments, if the unused amounts were to be drawn down. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit related commitments, because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. Outstanding credit related commitments are as follows:

As at 31 December 2016 the total outstanding contractual amount of issued guarantees and letters of credit amounted to RR 2 887 595 thousand (2015: RR 2 542 300 thousand) and corresponding provision for losses was nil (2015: nil). The currencies of guarantees were as follows: Russian Roubles (RR 1 306 311 thousand) and US Dollars (RR 1 581 284 thousand) as at 31 December 2016 and Russian Roubles (RR 1 351 576 thousand) and US Dollars (RR 1 190 724 thousand) as at 31 December 2015.

Fiduciary assets. The Bank provides custody services to its customers, who are mostly non-related to the Bank, whereby it holds securities on behalf of customers and receives fee income for providing these services. These securities are not assets of the Bank and are not recognised in the statement of financial position. Nominal values disclosed below are normally different from the fair values of respective securities. The fiduciary assets fall into the following categories:

In thousands of Russian Roubles	**2016 Nominal value**	**2015 Nominal value**
Ordinary shares	24 888 949	13 847 783
State bonds	36 461	1 608 825
Privileged shares	766 804	839 634
Corporate bonds	-	200 000

Assets pledged and restricted. As at 31 December 2016 mandatory cash balances with the CBRF in the amount of RR 32 301 thousand (2015: RR 48 272 thousand) represent mandatory reserve deposits which are not available to finance the Bank's day-to-day operations.

The Bank placed a deposit in the amount of RR 749 719 thousand with an affiliated company as cash collateral for non-cleared derivatives transactions. These funds are not available to finance the Bank's day-to-day operations.

28 Fair Value of Financial Instruments

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

28 Fair Value of Financial Instruments (Continued)

For financial instruments carried at fair value, the level in the fair value hierarchy into which the fair values are categorised are as follows:

	2016			2015		
In thousands of Russian Roubles	**Quoted price in an active market (Level 1)**	**Valuation technique with inputs observable in markets (Level 2)**	**Valuation technique with signifi-cant non-observa-ble inputs (Level 3)**	**Quoted price in an active market (Level 1)**	**Valuation technique with inputs observa-ble in markets (Level 2)**	**Valuation technique with significant non-observa-ble inputs (Level 3)**
ASSETS AT FAIR VALUE						
FINANCIAL ASSETS						
Trading instruments						
- Trading securities	10 092	-	-	-	-	-
Investment securities available for sale						
- Corporate shares	18	-	-	18	-	-
Derivative financial instruments						
- Currency spot contracts	-	-	-	-	-	-
- Currency forward contracts	-	722 786	-	-	107 491	-
- KIKO forwards	-	1 425 057	-	-	1 281 646	-
- Currency options	-	84 278	-	-	252 886	-
- Knock-out currency options	-	23 108	-	-	-	-
- Cross-currency interest rate swaps	-	3 408 216	-	-	4 570 956	-
- Single-currency interest rate swaps	-	89 025	-	-	-	-
FINANCIAL LIABILITIES						
Derivative financial instruments						
- Currency spot contracts	6 721	-	-	14 309	-	-
- Currency forward contracts	-	779 005	-	-	106 699	-
- KIKO forwards	-	1 425 057	-	-	1 281 646	-
- Currency options	-	84 278	-	-	252 886	-
- Cross-currency interest rate swaps	-	3 408 216	-	-	-	-
- Cross currency swaps	-	89 025	-	-	4 570 956	-

Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. Significance of a valuation input is assessed against the fair value measurement in its entirety.

There are no differences between the fair values shown in the table above and the carrying amount of the items in the statement of financial position.

28 Fair Value of Financial Instruments (Continued)

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 31 December 2016:

In thousands of Russian Roubles	Fair value	Valuation technique	Inputs used
FINANCIAL ASSETS			
- Trading securities	10 092	Spot pricing	Quoted prices
- Currency spot contracts	-	Spot pricing	Quoted prices
- Currency forward contracts	722 786	Forward pricing	Quoted prices, FX rate and interest rate curves
- KIKO forwards	1 425 057	Stochastic PDE Tree	Quoted prices, volatility
- Currency options	84 278	Stochastic PDE Tree	Quoted prices, volatility
- Knock-out currency options	23 108	Stochastic PDE Tree	Quoted prices, volatility
- Cross-currency interest rate swaps	3 408 216	Discounted cash flow	FX rate and interest rate curves
- Single-currency interest rate swaps	89 025	Discounted cash flow	FX rate and interest rate curves
FINANCIAL LIABILITIES			
Derivative financial instruments			
- Currency spot contracts	6 721	Spot pricing	Quoted prices
- Currency forward contracts	779 005	Forward pricing	Quoted prices, FX rate and interest rate curves
- KIKO forwards	1 425 057	Stochastic PDE Tree	Quoted prices, volatility
- Currency options	84 278	Stochastic PDE Tree	Quoted prices, volatility
- Knock-out currency options	23 108	Stochastic PDE Tree	Quoted prices, volatility
- Cross currency swaps	3 408 216	Discounted cash flow	FX rate and interest rate curves
- Single-currency interest rate swaps	89 025	Discounted cash flow	FX rate and interest rate curves

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 31 December 2015:

In thousands of Russian Roubles	Fair value	Valuation technique	Inputs used
FINANCIAL ASSETS			
- Currency spot contracts	-	Spot pricing	Quoted prices
- Currency forward contracts	107 491	Forward pricing	Quoted prices, FX rate and interest rate curves
- KIKO forwards	1 281 646	Stochastic PDE Tree	Quoted prices, volatility
- Currency options	252 886	Stochastic PDE Tree	Quoted prices, volatility
- Cross-currency interest rate swaps	4 570 956	Discounted cash flow	FX rate and interest rate curves
FINANCIAL LIABILITIES			
Derivative financial instruments			
- Currency spot contracts	14 309	Spot pricing	Quoted prices
- Currency forward contracts	106 699	Forward pricing	Quoted prices, FX rate and interest rate curves
- KIKO forwards	1 281 646	Stochastic PDE Tree	Quoted prices, volatility
- Currency options	252 886	Stochastic PDE Tree	Quoted prices, volatility
- Cross currency swaps	4 570 956	Discounted cash flow	FX rate and interest rate curves

28 Fair Value of Financial Instruments (Continued)

Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value are as follows:

	31 December 2016				31 December 2015			
In thousands of Russian Roubles	Level 1	Level 2	Level 3	Carrying value	Level 1	Level 2	Level 3	Carrying value
ASSETS								
Mandatory cash balances with the Central Bank of the Russian Federation	-	32 301	-	32 301	-	48 272	-	48 272
Other financial assets	-	-	135 398	-	-	-	246 800	246 800
LIABILITIES								
Due to other banks	-	1 055 999	-	1 055 999	-	2 363 179	-	2 363 179
Customer accounts	-	1 875 044	-	1 875 044	-	4 239 574	-	4 239 574
Provision for commitments	-	-	108 323	108 323	-	-	227 884	227 884
Subordinated debt	-	-	-	-	-	2 336 536	-	2 336 536

29 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IAS 39, *Financial Instruments: Recognition and Measurement*, classifies financial assets into the following categories: (a) loans and receivables; (b) available for sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. The following table provides a reconciliation of classes of financial assets with these measurement categories as at 31 December 2016:

In thousands of Russian Roubles	Available for sale	Loans and receivables	Held for trading	Total
Assets				
Cash and cash equivalents	-	16 137 142	-	16 137 142
Mandatory cash balances with the Central Bank of Russian Federation	-	32 301	-	32 301
Trading securities	-	-	10 092	10 092
Investment securities available for sale	18	-	-	18
Derivative financial instruments	-	-	5 752 470	5 752 470
Other financial assets	-	135 398	-	135 398
Total financial assets	**18**	**16 304 841**	**5 762 562**	**22 067 421**

The following table provides a reconciliation of classes of financial assets with these measurement categories as at 31 December 2015:

In thousands of Russian Roubles	Available for sale	Loans and receivables	Held for trading	Total
Assets				
Cash and cash equivalents	-	21 346 855	-	21 346 855
Mandatory cash balances with the Central Bank of Russian Federation	-	48 272	-	48 272
Investment securities available for sale	18	-	-	18
Derivative financial instruments	-	-	6 212 979	6 212 979
Other financial assets	-	246 800	-	246 800
Total financial assets	**18**	**21 641 927**	**6 212 979**	**27 854 924**

29 Presentation of Financial Instruments by Measurement Category (Continued)

As at 31 December 2016 and 2015 all of the Bank's financial liabilities except for derivative financial instruments were carried at amortised cost. Derivative financial instruments belonged to the fair value through profit or loss measurement category.

30 Related Party Transactions

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The Bank is a member of the JPMorgan Chase Group and during 2016 and 2015 performed a number of transactions with entities under common control.

As at 31 December 2016 and 2015 the outstanding balances with related parties of the Bank were as follows:

In thousands of Russian Roubles	**2016**	**2015**
Cash and cash equivalents (contractual rate: 0.55-0.60%; 2015: 0.36-11.25%)	14 985 717	17 182 024
Derivative financial instruments assets (currency spot and forward contracts)	-	84 976
Derivative financial instruments assets (single currency interest rate swaps)	89 025	-
Derivative financial instruments assets (currency options)	-	252 886
Other non-financial assets	-	3 810
Accrued income	119 526	145 248
Due to other banks (contractual interest rate: -%; 2015: -%)	(1 055 999)	(2 363 179)
Subordinated debt (contractual interest rate: 6 months LIBOR)	-	(2 336 536)
Derivative financial instruments liabilities (cross currency interest rate swaps)	(2 617 111)	(4 570 956)
Derivative financial instruments liabilities(currency spot and forward contracts)	(763 800)	(36 431)
Derivative financial instruments liabilities (KIKO currency forwards)	(1 425 057)	(1 281 646)
Derivative financial instruments liabilities (currency options)	(84 278)	-
Derivative financial instruments liabilities (knock-out currency options)	(23 108)	-
Accrued benefit costs for top management	(172 804)	(190 412)
Other liabilities	(10 321)	(2 156)
Guarantees received	30 330 377	36 441 350

The income and expense items with related parties for the year 2016 and 2015 were as follows:

In thousands of Russian Roubles	**2016**	**2015**
Interest income	195 668	160 131
Interest expense	(6 021)	(10 258)
Losses less gains from trading in foreign currencies	3 870 272	(3 580 880)
Foreign exchange translation gains less losses	(2 299)	(5 035 515)
Fee and commission income	1 807 035	1 635 715
Fee and commission expense	(10 055)	(10 144)

In 2016 the remuneration of members of the top management comprised salaries, discretionary bonuses and other short-term benefits totalling to 376 682 RR thousand (2015: RR 352 924 thousand), this includes the amount of accrued benefit costs of the top management totalling to RR 172 804 thousand (2015: RR 190 412 thousand). In 2016 the share based payments to members of the top management amounted to RR 67 712 thousand (2015: RR 106 134 thousand). Refer to Note 20.