

Independent auditor's report
on consolidated financial statements of
Public joint stock company ROSBANK
and its subsidiaries
for 2016

March 2017

ROSBANK GROUP

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ROSBANK GROUP

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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

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

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance;
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with the Russian Federation ("RF") legislation and accounting standards;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the year ended 31 December 2016 were authorized for issue on 15 March 2017 by the Management Board of PJSC ROSBANK.

On behalf of the Board:



**Chairman
of the Management Board**

15 March 2017
Moscow





**Deputy Chairman
of the Management Board**

15 March 2017
Moscow

Independent auditor's report

To the shareholders and Board of Directors of
Public joint stock company ROSBANK

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Public joint stock company ROSBANK (hereinafter, the "Bank") and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for 2016, and a summary of significant accounting policies and other explanatory information.

Audited entity's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Public joint stock company ROSBANK and its subsidiaries as at 31 December 2016, and their financial performance and cash flows for 2016 in accordance with International Financial Reporting Standards.

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

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

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

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

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

The findings from our work are provided below.

Compliance by the banking group, where the Bank is the parent credit institution with the obligatory ratios established by the Bank of Russia

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

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

Conformity of internal control and organization of the risk management systems of the banking group, where the Bank is the parent credit institution with the requirements set forth by the Bank of Russia in respect of such systems

- ▶ We found that, as at 31 December 2016, the organization of risk management was carried out by the parent credit institution of the Banking Group except for credit and operational risks, management of which was carried on an individual basis at the level of each credit institution of the Banking Group. In addition, the risk management of credit and operational risks of the Banking Group was carried out by the Bank's parent company Societe Generale S.A.
- ▶ We found that, in accordance with the legal acts and recommendations issued by the Bank of Russia, as at 31 December 2016 the Bank's internal audit division was subordinated and accountable to the Board of Directors, and the Bank's risk management departments were not subordinated or accountable to the departments that take the relevant risks.
- ▶ We found that the Bank's internal documents effective as at 31 December 2016 that establish the methodologies for detecting and managing market risk, liquidity risk, interest rate risk of banking book, structural currency risk and strategic risk, that are significant to the Banking Group and stress-testing were approved by the Bank's authorized bodies in accordance with the legal acts and recommendations issued by the Bank of Russia. Credit and operational risk methodologies were authorized by relevant bodies on an individual basis at the level of each credit institution of the Banking Group. We also found that, as at 31 December 2016, the Bank had a reporting system pertaining to market risk, liquidity risk, interest rate risk of banking book, structural currency risk and strategic risk that were significant to the Banking Group and pertaining to its capital. Reporting on credit and operational risks was prepared on an individual basis at the level of each credit institution of the Banking Group.
- ▶ We found that the frequency and consistency of reports prepared by the Bank's risk management departments and internal audit division during the year ended 31 December 2016 with regard to the management of market risk, liquidity risk, interest rate risk of banking book, structural currency risk and strategic risk of the Banking Group complied with the Bank's internal documents, and that those reports included observations made by the Bank's risk management departments and internal audit division in respect of the effectiveness of relevant risk management methodologies. Frequency and consistency of reports on credit and operational risks, which were managed on an individual basis at the level of each credit institution complied with Bank's internal documents.



Совершенство бизнеса,
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- ▶ We found that, as at 31 December 2016, the authority of the Board of Directors and executive management bodies of the Bank included control over compliance of the Banking Group with internally established risk limits and capital adequacy requirements. For the purpose of control over the effectiveness and consistency of the risk management procedures applied by the Banking Group during the year ended 31 December 2016, the Board of Directors and executive management bodies of the Bank regularly reviewed the reports prepared by the Bank's risk management departments and internal audit division, except for reports on credit and operational risks which were managed on an individual basis at the level of each credit institution, and also by parent company Societe Generale S.A.

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

A.V. Sorokin
Partner
Ernst & Young LLC

15 March 2017

Details of the audited entity

Name: Public joint stock company ROSBANK
Record made in the State Register of Legal Entities on 25 October 2002, State Registration Number 1027739460737.
Address: 107078, Russia, Moscow, Mashi Poryvaevoy st., 34.

Details of the auditor

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

ROSBANK GROUP

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2016 (in millions of Russian Roubles)

	Notes	31 December 2016	31 December 2015
ASSETS			
Cash and balances with the Central Bank of the Russian Federation	6	48,499	103,225
Financial assets at fair value through profit or loss	7, 9, 33	37,152	56,968
Due from banks	8, 33	86,126	92,867
Loans to customers	10, 33	587,810	634,534
Investments available-for-sale	11, 33	8,237	5,683
Investments held to maturity	12	72,912	79,582
Property and equipment	13	19,675	20,105
Intangible assets	13	2,008	2,144
Current income tax assets		48	435
Deferred income tax assets	30	3,086	3,363
Other assets	14, 33	15,153	12,273
Total assets		880,706	1,011,179
LIABILITIES AND EQUITY			
LIABILITIES			
Financial liabilities at fair value through profit or loss	9, 15, 33	35,982	54,860
Due to the Central Bank of the Russian Federation	16	190	18,861
Due to banks and international financial institutions	17, 33	47,993	68,684
Customer accounts	18, 33	461,893	516,707
Debt securities issued	19	158,133	159,795
Other provisions	24	1,545	1,315
Current income tax liabilities		382	120
Deferred income tax liabilities	30	1,409	1,548
Other liabilities	20, 33	9,749	10,507
Subordinated debt	21, 33	39,872	58,281
Total liabilities		757,148	890,678
EQUITY			
Share capital	22	17,587	17,587
Share premium	22	59,707	59,707
Cumulative translation reserve		1,684	2,771
Property and equipment revaluation reserve		5,952	6,834
Investments available-for-sale fair value reserve		(1,309)	(1,616)
Cash flow hedge		(156)	(889)
Retained earnings		40,093	36,107
Total equity		123,558	120,501
TOTAL LIABILITIES AND EQUITY		880,706	1,011,179

On behalf of the Board:

Chairman
of the Management Board

15 March 2017
Moscow



Deputy Chairman
of the Management Board

15 March 2017
Moscow

The notes on pages 13-97 form an integral part of these consolidated financial statements.

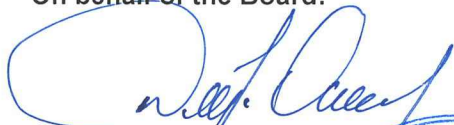
ROSBANK GROUP

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2016

(in millions of Russian Roubles, except for earnings per share which are in Roubles)

	Notes	Year ended 31 December 2016	Year ended 31 December 2015
Interest income	23, 33	86,718	93,459
Interest expense	23, 33	(47,761)	(56,130)
Net interest income before provision for impairment losses on interest bearing assets		38,957	37,329
Provision for impairment losses on interest bearing assets	24, 33	(12,277)	(21,107)
Net interest income		26,680	16,222
Net gain/(loss) on financial assets and liabilities at fair value through profit or loss, except forex swaps and forwards	25, 33	(986)	(1,873)
Net gain/(loss) on foreign exchange operations	26, 33	1,599	1,525
Net gain/(loss) on precious metals operations		107	(152)
Fee and commission income	27, 33	10,794	12,098
Fee and commission expense	27, 33	(2,790)	(2,565)
Other provisions	24, 33	(489)	(791)
Dividend income		595	46
Other income	28	1,083	1,196
Net non-interest income		9,913	9,484
Operating income		36,593	25,706
Operating expenses	29, 33	(32,955)	(35,135)
Other non-operating income		549	229
Profit/(loss) before income tax		4,187	(9,200)
Income tax credit/(expense)	30	(1,083)	(82)
Net profit/(loss) for the year		3,104	(9,282)
Earnings per share			
Basic and diluted (in RUB)	31	2.00	(5.98)

On behalf of the Board:



Chairman
of the Management Board

15 March 2017
Moscow




Deputy Chairman
of the Management Board

15 March 2017
Moscow

The notes on pages 13-97 form an integral part of these consolidated financial statements.

ROSBANK GROUP

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016 (in millions of Russian Rubles)

	Notes	Year ended 31 December 2016	Year ended 31 December 2015
Net profit/(loss) for the year		<u>3,104</u>	<u>(9,282)</u>
Other comprehensive income/(expense)			
Items that will not be reclassified subsequently to profit or loss:			
Net gain/(loss) resulting on revaluation of property		–	(1,248)
Income tax		–	250
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		(690)	789
Income tax on exchange differences on translating foreign operations		(397)	–
Cash flow hedge		911	(276)
Income tax on cash flow hedge		(178)	64
Net profit/(loss) resulting on revaluation of available-for-sale financial assets during the year		142	467
Amounts recycled to profit and loss relating to available-for-sale financial assets		242	233
Income tax on revaluation of available-for-sale financial assets during the year		(77)	(140)
Other comprehensive income/(expense) after income tax		<u>(47)</u>	<u>139</u>
Total comprehensive income/(loss)		<u><u>3,057</u></u>	<u><u>(9,143)</u></u>

On behalf of the Board:


Chairman
of the Management Board

15 March 2017
Moscow




Deputy Chairman
of the Management Board

15 March 2017
Moscow

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ROSBANK GROUP

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

(in millions of Russian Roubles)

	Share capital	Share premium	Cumulative translation reserve	Property and equipment revaluation reserve	Investments available-for-sale fair value reserve	Cash flow hedge	Retained earnings	Total equity
31 December 2014	17,587	59,707	1,982	8,346	(2,176)	(677)	44,875	129,644
Net profit/(loss) for the year	-	-	-	-	-	-	(9,282)	(9,282)
Other comprehensive income/(expense) for the year	-	-	789	(998)	560	(212)	-	139
Total comprehensive income/(expense) for the year	-	-	789	(998)	560	(212)	(9,282)	(9,143)
Property and equipment disposal (net of deferred tax of RUR 129 millions)	-	-	-	(514)	-	-	514	-
31 December 2015	17,587	59,707	2,771	6,834	(1,616)	(889)	36,107	120,501
Net profit/(loss) for the year	-	-	-	-	-	-	3,104	3,104
Other comprehensive income/(expense) for the year	-	-	(1,087)	-	307	733	-	(47)
Total comprehensive income (expense) for the year	-	-	(1,087)	-	307	733	3,104	3,057
Property and equipment disposal (net of deferred tax of RUR 220 millions)	-	-	-	(882)	-	-	882	-
31 December 2016	17,587	59,707	1,684	5,952	(1,309)	(156)	40,093	123,558

On behalf of the Board:


Chairman
of the Management Board

15 March 2017
Moscow




Deputy Chairman
of the Management Board

15 March 2017
Moscow

The notes on pages 13-97 form an integral part of these consolidated financial statements.

ROSBANK GROUP

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016 (in millions of Russian Roubles)

	Notes	Year ended 31 December 2016	Year ended 31 December 2015
Cash flows from operating activities:			
Interest received		88,730	92,736
Interest paid		(48,182)	(58,660)
Fees and commissions received		10,769	12,554
Fees and commissions paid		(2,775)	(2,625)
Receipts from/(payment for) financial assets at fair value through profit or loss		(278)	(3,498)
Receipts from/(payment for) trading in foreign currencies		(1,238)	22,709
Other operating income received		1,039	1,196
Receipts from/(payment for) precious metals operations		41	(99)
Administrative and other operating expenses paid		(31,175)	(30,626)
Income tax received/(paid)		(948)	623
Cash flows from operating activities before changes in operating assets and liabilities		15,983	34,310
Changes in operating assets and liabilities			
Net (increase)/decrease in mandatory cash balances with the Central Bank of the Russian Federation		(970)	1,660
Net (increase)/decrease in financial assets at fair value through profit or loss		1,318	10,818
Net i(increase)/decrease in due from banks		(7,776)	(3,276)
Net (increase)/decrease in loans to customers		8,326	62,292
Net (increase)/decrease in other assets		(2,115)	(2,274)
Net increase/(decrease) in financial liabilities at fair value through profit or loss		(621)	1,366
Net increase/(decrease) in due to the Central Bank of the Russian Federation		(19,452)	(24,248)
Net increase/(decrease) in due to banks and international financial institutions		(17,259)	(74,527)
Net increase/(decrease) in customer accounts		(19,108)	(16,629)
Net increase/(decrease) in debt securities issued, other than bonds issued		(1,280)	(1,138)
Net increase/(decrease) in other liabilities		(645)	(441)
Net increase/(decrease) in other liabilities on law cases		(31)	(15)
Net cash from/(used in) operating activities		(43,630)	(12,102)
Cash flows from investing activities			
Purchase of available for sale financial assets		(3,501)	–
Proceeds from disposal and redemption of available for sale financial assets		898	104
Proceeds from redemption of held to maturity financial assets		10,272	1,381
Purchase of held to maturity financial assets		(12,857)	(5,088)
Purchase of property and equipment		(3,207)	(3,065)
Proceeds from disposal of property and equipment		1,810	817
Proceeds from sale of subsidiaries net of cash disposed		–	(2,550)
Dividend income received		595	46
Net cash from/(used in) investing activities		(5,990)	(8,355)
Cash flows from financing activities			
Redemption of bonds issued by the Group	19	(35,845)	(24,427)
Issue of bonds	19	60,000	42,386
Proceeds from sale of previously bought back bonds issued		6,293	9,525
Buy back of bonds issued		(30,352)	(13,108)
Repayment of subordinated debt		(9,960)	–
Net cash from/(used in) financing activities		(9,864)	14,376
Effect of exchange rate changes on the balance of cash held in foreign currencies		(2,756)	9,538
Net increase/(decrease) in cash and cash equivalents		(62,240)	3,457
CASH AND CASH EQUIVALENTS, beginning of the year	6	175,232	171,775
CASH AND CASH EQUIVALENTS, end of the year	6	112,992	175,232

On behalf of the Board:

Chairman
of the Management Board

15 March 2017
Moscow

The notes on pages 13-97 form an integral part of these consolidated financial statements.



Deputy Chairman
of the Management Board

15 March 2017
Moscow

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1. Organization

ROSBANK (initially named “Nezavisimost”) is a joint stock bank which was incorporated in the Russian Federation in 1993. Over the subsequent five years, ROSBANK customers were mainly comprised of medium-sized trade, finance and technology companies, for which it conducted a variety of activities, including corporate lending, settlement, government bond trading, foreign exchange and money market transactions. In 1998 ROSBANK was acquired by the Interros Group with the initial purpose of providing banking services to Interros Group companies. In 2000 ROSBANK acquired Uneximbank which was merged into ROSBANK and ceased to exist as a legal entity. In 2002 the businesses of ROSBANK and Commercial Bank “MFK Bank”, specializing in investment banking, were consolidated. In 2003 the Interros Group acquired OVK group – one of Russia’s largest retail banking institutions. The integration of OVK with ROSBANK has transformed ROSBANK into a financial institution capable of offering universal services.

Societe Generale became the owner of 20% minus 1 share of Rosbank in 2006. In February 2008 Societe Generale became the owner of Rosbank controlling stock interest by exercising the option for acquisition of 30% stocks. In March 2008 Societe Generale offered to buy the stakes of minority shareholders at 194.09 roubles per share. Having performed the buy-out Societe Generale raised its interest in Rosbank to 57.57%. On 23 March 2009 ROSBANK issued 26,665,928 shares by way of public subscription. The issue was bought by Societe Generale and PHARANCO HOLDINGS CO. LIMITED in the proportion 60.6786% and 39.3214%, respectively. On 27 May 2009 Societe Generale increased its share in Rosbank by 7% after the purchase of this share from PHARANCO HOLDINGS CO. LIMITED.

In February 2010, Societe Generale with the consent of other shareholders of Rosbank Group took the decision to reorganize the legal structure of its Russian subsidiaries in order to build a major financial group.

The first step was achieved in January 2011 with the acquisition of 100% of the share capital of Rusfinance and Delta Credit. The two companies kept acting as separate entities, Rusfinance being mainly dedicated to consumer credit and Delta Credit to mortgages.

The second step was achieved in July 2011 with the merger of the two universal banks ROSBANK and BSGV into a single and unified company ultimately operating under a single brand. Benefiting from their differentiated positioning on both corporate and retail segments, the new structure aims at improving its financial performance by increasing revenues through cross-selling strategy and developing synergies in order to reduce operational costs.

During 2013, Societe Generale further consolidated its positions in Russian market by acquiring in December 2013 an additional 10% stake in ROSBANK equity from VTB Group, increasing it up to 92.4%. As part of the agreement ROSBANK sold to VTB Group certain Russian assets: shares listed on Moscow Exchange as well as some loans and real-estate assets.

In April 2015 Societe Generale acquired further 7% of ROSBANK ‘s share capital from Interros group, raising its stake to 99.4%, in line with its strategy of building up the Group’s stake in ROSBANK.

ROSBANK is regulated by the Central Bank of the Russian Federation (the “CBR”) and conducts its business under license number 2272. ROSBANK is engaged in a full range of banking activities, including commercial and investment banking and custodial services.

The registered office of ROSBANK is located at 34, Masha Poryvaeva Street, Moscow, 107078, Russian Federation.

As of 31 December 2016 and 2015 ROSBANK had 8 and 9 branches respectively operating in the Russian Federation.

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

ROSBANK (“the Group”) is the parent company of a banking group (the “Group”) which consists of the following material enterprises as of 31 December 2016 and 2015:

Name	Country of incorporation	Group’s ownership interest / voting rights, %		Type of operations
		31 December 2016	31 December 2015	
Delta Credit Bank JSC (previous name – Delta Credit Bank CJSC)	Russia	100/100	100/100	Banking
Rusfinance Bank LLC	Russia	100/100	100/100	Banking
Rusfinance LLC	Russia	100/100	100/100	Issue of loans to individuals
Red and Black Prime Russia MBS No. 1 Limited LLC	Ireland	Liquidated	0/100	Issue of notes
BSGV Leasing LLC	Russia	Merged	Merged	Leasing
RB Factoring LLC	Russia	100/100	100/100	Factoring
Rosbank (Switzerland) SA	Switzerland	100/100	100/100	Banking
Processing Company NICKEL LLC	Russia	Liquidated	Liquidated	Processing of card operations
RosInvest SA	Luxembourg	Liquidated	Liquidated	Reorganization of UNEXIM Finance Company
RB LEASING LLC	Russia	100/100	100/100	Leasing
INKAHRAN JSC (previous name – INKAHRAN OJSC)	Russia	Sold	Sold	Cash collection services
ORS JSC (previous name – ORS OJSC)	Russia	100/100	100/100	Processing
AVTO LLC	Russia	Liquidated	100/100	Transportation services
RB Specialized Depository LLC (previous name – RB Securities LLC)	Russia	100/100	100/100	Operations with securities
Inkahran Service LLC	Russia	Sold	Sold	Transportation services
Valmont LLC	Russia	100/100	100/100	Asset holding company
RB Service LLC (previous name – RBS Avto LLC)	Russia	100/100	100/100	Financial services
Telsikom CJSC	Russia	100/100	100/100	Telecommunication services

On 14 July 2010 the Group took decision to close its foreign subsidiary in Switzerland – Rosbank (Switzerland) SA. The liquidation process is subject to authorisation by Swiss banking authorities. The Group does not anticipate any substantial impact on its financial results nor its financial position as a result of the aforementioned liquidation.

In February 2016 Red and Black Prime Russia MBS No. 1 Limited LLC was liquidated.

In November 2015, the Group lost control over its subsidiaries INKAHRAN OJSC and Inkahran Service LLC as a result of sale of its investments in these companies to an unrelated third party. Financial result from this transaction was not significant.

In December 2015 BSGV Leasing LLC was merged with the Group’s subsidiary RB LEASING LLC.

In July 2015 RosInvest SA was liquidated.

In December 2015 Processing Company NICKEL LLC was liquidated.

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As of 31 December 2016 and 2015, the following shareholders owned the issued shares of ROSBANK:

<i>Shareholder</i>	31 December 2016 %	31 December 2015 %
Societe Generale S.A.	99.49	99.49
Others	0.51	0.51
Total	100.00	100.00

These consolidated financial statements were authorized for issue on 15 March 2017 by the Management Board of ROSBANK.

2. Going concern

These consolidated financial statements have been prepared on the going concern basis. The Group has no intention or need to reduce substantially its business operations.

The management and shareholders have the intention to further develop the business of the Group in the Russian Federation both in corporate and retail segments. Management believes that the going concern assumption is appropriate for the Group due to its sufficient capital adequacy ratio and based on historical experience that short-term obligations will be refinanced in the normal course of business.

3. Basis of presentation

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

Other basis of presentation criteria

These consolidated financial statements have been prepared assuming that the Group is a going concern and will continue operation for the foreseeable future.

These consolidated financial statements are presented in millions of Russian Roubles ("mRUB"), unless otherwise indicated.

These consolidated financial statements have been prepared under the historical cost basis, except for certain financial instruments that are measured at fair values, and certain land and buildings that are measured at revalued amounts according to International Accounting Standard 16 *Property, Plant and Equipment* ("IAS 16"). Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (ie an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

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In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The Group and its consolidated companies, registered in the Russian Federation, maintain their accounting records in accordance with Russian Accounting Standards (RAS), foreign consolidated companies of the Group maintain their accounting records in accordance with the law of the countries, in which they operate. These consolidated financial statements have been prepared from the statutory accounting records and have been adjusted to conform to IFRS.

Functional currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the parent of the Group is the Russian rouble (RUB). The presentation currency of the consolidated financial statements of the Group is the RUB. All values are rounded to the nearest million RUB, except when otherwise indicated.

Offset of financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a currently legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or to realize the asset and settle the liability simultaneously. Income and expense is not offset in the consolidated statement of profit or loss unless required or permitted by any accounting standard or interpretation permitted by any IFRS, and as specifically disclosed in the accounting policies of the Group.

4. Significant accounting policies

Basis of consolidation

These consolidated financial statements incorporate the financial statements of ROSBANK and entities controlled by ROSBANK (its subsidiaries). Control is achieved when the Bank:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Bank has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:

- The size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Bank, other vote holders or other parties;

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- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and consolidated statement of comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Bank and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Group and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All significant intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

In translating the financial statements of a foreign subsidiary into the presentation currency for incorporation in the consolidated financial statements, the Group follows a translation policy in accordance with IAS 21 *The Effects of Changes in Foreign Exchange Rates* ("IAS 21"), in particular, performs the following procedures:

- Assets and liabilities, both monetary and non-monetary, of the foreign entity are translated at closing rate;
- Income and expense items of the foreign entity are translated at exchange rates at the dates of transactions;
- Equity items of the foreign entity are translated at exchange rates at the dates of transactions;
- All resulting exchange differences are classified as equity until the disposal of the investment;
- On disposal of the investment in the foreign entity related exchange differences are recognized in the consolidated statement of profit or loss.

Business combinations involving entities or businesses under common control

For the purpose of accounting of business combinations involving entities or businesses under common control (excluded from the scope of IFRS 3 *Business Combinations*) the Group considers pooling of interest as the most appropriate method to be used. A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and the control is not transitory.

The pooling of interest method assumed the following rules:

- Assets and liabilities of the combined entities are stated at their net book value;
- No new goodwill is recorded as a result of the business combination, but is adjusted against equity;
- The income statement is drawn up from the date of the business combination;
- Comparative data is not restated.

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Non-controlling interests

Non-controlling interests represent the portion of profit or loss and net assets of subsidiaries not owned, directly or indirectly, by the Group.

Non-controlling interests are presented separately in the consolidated statement of profit or loss and consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from parent shareholders' equity.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Group.

When the Group loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under International Accounting Standard ("IAS") 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Recognition of income and expense

Recognition of interest income and expense

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

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Once a financial asset or a group of similar financial assets has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

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

Recognition of income on repurchase and reverse repurchase agreements

Gain/loss on the sale of the above instruments is recognized as interest income or expense in the income statement based on the difference between the repurchase price accreted to date using the effective interest method and the sale price when such instruments are sold to third parties. When the reverse repo/repo is fulfilled on its original terms, the effective yield/interest between the sale and repurchase price negotiated under the original contract is recognized using the effective interest method.

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Recognition of income – other

Recognition of fee and commission income

Loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in the consolidated statement of profit or loss over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in the consolidated statement of profit or loss on expiry. Loan servicing fees are recognized as revenue as the services are provided. Loan syndication fees are recognized in the consolidated statement of profit or loss when the syndication has been completed. All other commissions are recognized when services are provided.

Recognition of dividend income

Dividend income from investments is recognized when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

Recognition of rental income

The Group's policy for recognition of income as a lessor is set out in the "leases" section of this footnote.

Recognition of trustee (fiduciary) services income

Income is recognized as services are provided.

Recognition and measurement of financial instruments

The Group recognizes financial assets and liabilities on its consolidated statement of financial position when it becomes a party to the contractual obligations of the instrument. Regular way purchases and sales of financial assets and liabilities are recognized using settlement date accounting. Regular way purchases of financial instruments that will be subsequently measured at fair value between trade date and settlement date are accounted for in the same way as for acquired instruments. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' (HTM) investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at fair value through profit or loss are initially recorded and subsequently measured at fair value. The Group uses quoted market prices to determine fair value for financial assets at fair value through profit or loss. The fair value adjustment on financial assets at fair value through profit or loss is recognized in the consolidated statement of profit or loss for the period. The net gain or loss recognised in profit or loss incorporates any dividend and interest earned on the financial asset and is included in the 'other gains and losses' and 'interest income' line item, respectively, in the statement of profit or loss. The Group does not reclassify financial instruments in or out of this category while they are held (except the cases of reclassification in accordance with amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial instruments: Disclosure*).

The Group enters into derivative financial instruments to manage currency and liquidity risks and for trading purposes. These instruments include forwards on foreign currency, precious metals and securities.

Financial derivatives and hedge accounting

All financial derivatives are recognized at fair value in the consolidated statement of financial position as financial assets or financial liabilities. Changes in the fair value of financial derivatives, except those designated as cash flow hedges (see below), are recognized in the consolidated statement of profit or loss for the period.

Financial derivatives are divided into two categories:

- *Trading financial derivatives*

Derivative instruments are considered to be trading financial derivatives by default, unless they are designated as hedging instruments for accounting purposes. They are booked in the consolidated statement of financial position under *Financial Assets or Liabilities at Fair Value through Profit or Loss*. Changes in fair value are recorded in the consolidated statement of profit or loss under *Net Gains and Losses on Financial Instruments at Fair Value through Profit or Loss*, except changes in fair value of forex forwards and swaps which are recorded in the consolidated statement of profit or loss under *Net Gains and Losses on Foreign Exchange Operations*.

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Changes in the fair value of financial derivatives involving counterparties which subsequently went into default are recorded under *Net Gains and Losses on Financial Instruments at Fair Value through Profit or Loss* until the termination date of these instruments. At this termination date, receivables and debts on these counterparties are recognized at fair value in the consolidated statement of financial position. Any further impairment on these receivables is recognized under *Provision for Impairment Losses* in the consolidated statement of profit or loss.

- *Derivative hedging instruments*

To designate an instrument as a derivative hedging instrument, the Group must document the hedging relationship at the inception of the hedge. This documentation specifies the asset, liability, or future transaction hedged, the risk to be hedged, the type of financial derivative used and the valuation method applied to measure its effectiveness. The derivative designated as a hedging instrument must be highly effective in offsetting the change in fair value or cash flows arising from the hedged risk, both when the hedge is first set up and throughout its life. Derivative hedging instruments are recognized in the consolidated statement of financial position under *Hedging Instruments*.

Depending on the risk hedged, the Group designates the derivative as a fair value hedge, or a cash flow hedge.

Fair value hedge

In a fair value hedge, the carrying value of the hedged item is adjusted for gains and losses attributable to the hedged risk, which are reported under *Net Gains and Losses on Financial Instruments at Fair Value through Profit or Loss*. As the hedging is highly effective, changes in the fair value of the hedged item are faithfully reflected in the fair value of the derivative hedging instrument. As regards interest rate derivatives, accrued interest income or expenses are booked in the consolidated statement of profit or loss under *Interest Income and Expense – Hedging Derivatives* at the same time as the interest income or expense related to the hedged item.

If it becomes apparent that the derivative has ceased to meet the effectiveness criteria for hedge accounting or if it is sold, hedge accounting is discontinued prospectively. Thereafter, the carrying amount of the hedged asset or liability ceases to be adjusted for changes in fair value and the cumulative adjustments previously recognized under hedge accounting are amortised over its remaining life. Hedge accounting is discontinued automatically if the hedged item is sold before maturity or redeemed early.

Cash flow hedge

In a cash flow hedge, the effective portion of the changes in fair value of the hedging derivative instrument is recognized in a specific equity account, while the ineffective portion is recognized in the consolidated statement of profit or loss under *Net Gains and Losses on Financial Instruments at Fair Value through Profit or Loss*.

Amounts directly recognized in equity under the cash flow hedge accounting are reclassified in *Interest Income and Expenses* in the consolidated statement of profit or loss at the same time as the cash flows being hedged. Accrued interest income or expense on hedging derivatives is booked to the consolidated statement of profit or loss under *Interest Income and Expenses – Hedging Derivatives* at the same time as the interest income or expense related to the hedged item.

Whenever the hedging derivative ceases to meet the effectiveness criteria for hedge accounting or is terminated or sold, hedge accounting is discontinued prospectively. Amounts previously recognized directly in equity are reclassified under *Interest Income and Expenses* in the consolidated statement of profit or loss over the periods where the interest margin is affected by cash flows arising from the hedged item.

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If the forecast transaction is no longer expected to occur, unrealized gains and losses booked to other comprehensive income from the period when the hedge was effective are immediately reclassified from equity to profit or loss. A forecast transaction that is no longer highly probable may still be expected to occur.

If the hedging instrument expires or is sold, terminated or exercised, the cumulative gain or loss on the hedging instrument that has been recognised in other comprehensive income from the period when the hedge was effective remains separately in equity until the forecast transaction occurs.

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

Held to maturity investments

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates and quoted in an active market that the Group has the positive intent and ability to hold to maturity. Held to maturity investments are measured at amortised cost using the effective interest method less any impairment.

If the Group were to sell or reclassify more than an insignificant amount of held to maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Group would be prohibited from classifying any financial asset as held to maturity during the current financial year and following two financial years.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held to maturity investments or (c) financial assets at fair value through profit or loss.

Listed shares and listed redeemable notes held by the Group that are traded in an active market are classified as AFS and are stated at fair value. The Group also has investments in unlisted shares that are not traded in an active market but that are also classified as AFS financial assets and stated at fair value (because the Group management considers that fair value can be reliably measured). The Group uses quoted market prices to determine the fair value for the Group's investments available-for-sale. If the market for investments is not active, the Group establishes fair value by using valuation techniques. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Group uses that technique.

Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments revaluation reserve, with the exception of other-than-temporary impairment losses, interest calculated using the effective interest method, dividend income and foreign exchange gains and losses on monetary assets, which are recognised in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

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AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market (including balances with the Central Bank of the Russian Federation, due from banks, loans to customers and other financial assets) are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Loans to customers granted by the Group are initially recognized at fair value plus related transaction costs that directly relate to acquisition or creation of such financial assets. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan and included in the consolidated statement of profit or loss according to nature of the losses.

Government grants

The Group is running the car loan program using financing from RF Government, under which RF Government is financing interest income on car loans in the amount of 2/3 of CBR key rate.

The Group also participates in the RF Government program for mortgage lending support, under which the Group originated loans at decreased interest rate and RF Government subsidises the estimated interest income receivable due to the excess of the government interest rate over the contractual interest rate.

The difference between the fair value at initial recognition and the carrying value of the loan issued under these government programs is accounted in accordance with IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance within Loans* and advances to customers. Government grants are recognized in the consolidated statement of profit or loss within Interest income on a systematic basis over the periods in which the Group recognizes interest income on loans the grants are intended to compensate.

Securities repurchase and reverse repurchase agreements and lending transactions

In the normal course of business, the Group enters into sale and purchase back agreements ("repos") and purchase and sale back agreements ("reverse repos"). Repos and reverse repos are utilized by the Group as an element of its treasury management.

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. These agreements are accounted for as financing transactions. Financial assets sold under repo are retained in the consolidated financial statements and consideration received under these agreements is recorded as collateralized deposit received within balances due to banks and international financial institutions/customer accounts.

Assets purchased under reverse repos are recorded in the consolidated financial statements as cash placed on deposit collateralized by securities and other assets and are classified within balances due from banks/loans to customers.

In the event that assets purchased under reverse repo are sold to third parties, the results are recorded with the gain or loss included in net gains/(losses) on respective assets. Any related income or expense arising from the pricing difference between purchase and sale of the underlying assets is recognized as interest income or expense in the consolidated statement of profit or loss.

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The Group enters into securities repurchase agreements and securities lending transactions under which it receives or transfers collateral in accordance with normal market practice. Under standard terms for repurchase transactions in the Russian Federation ("RF") and other CIS states, the recipient of collateral has the right to sell or repledge the collateral, subject to returning equivalent securities on settlement of the transaction, only if the counterparty fails to meet its obligations per the agreement on the lending transaction.

The transfer of securities to counterparties is only reflected on the statement of financial position if the risks and rewards of ownership are also transferred.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

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

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as default or delinquency in interest or principal payments
- Default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- Disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as loans and receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of loans and receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

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

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans and receivables, where the carrying amount is reduced through the use of an allowance account. When a loan or a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortized cost, 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 recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

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In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve.

In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

It should be noted that the evaluation of losses includes a subjective factor. The management of the Group believes that the amount of recorded impairment is sufficient to cover losses incurred on assets subject to risks at the reporting date, although it is not improbable that in certain periods the Group can incur losses greater compared to recorded impairment.

Renegotiated loans

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

The accounting treatment of such restructuring is as follows:

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

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

Write off of loans and advances

Loans and advances are written off against the allowance for impairment losses when deemed uncollectible. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Group and after the Group has sold all available collateral. Subsequent recoveries of amounts previously written off are reflected as an offset to the charge for impairment of financial assets in the consolidated statement of profit or loss in the period of recovery.

Reclassification of financial assets

The Group has reclassified certain non-derivative financial assets out of AFS to HTM financial assets. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortized cost. Reclassification is at the election of management, and is determined on an instrument by instrument basis.

Any gain or loss previously booked as equity in respect of the securities transferred is amortised on the statement of profit or loss over the residual term to maturity, as an adjustment to the yield similar to the amortization of a premium.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Financial liabilities and equity instruments issued

Classification as debt or equity

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

Equity instruments

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

Repurchase of the Group's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- It has been incurred principally for the purpose of repurchasing it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

ROSBANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at fair value through profit or loss are initially recorded and subsequently measured at fair value. The Group uses quoted market prices to determine fair value for financial liabilities at fair value through profit or loss. The fair value adjustment on financial liabilities at fair value through profit or loss is recognized in the consolidated statement of profit or loss for the period. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'interest expenses' line item in the statement of profit or loss.

Other financial liabilities

Other financial liabilities (including depository instruments with the Central Bank of the Russian Federation, deposits by banks and customers, repurchase agreements, debt securities issued, other borrowed funds, subordinated debt and other financial liabilities) are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Financial guarantee contracts issued and letters of credit

Financial guarantee contracts and letters of credit issued by the Group provide for specified payments to be made in order to reimburse the holder for a loss incurred such that payments are made when a specified debtor fails to make payment when due under the original or modified terms of a debt instrument. Such financial guarantee contracts and letters of credit issued are initially recognized at fair value. Subsequently they are measured at the higher of (a) the amount recognized as a provision in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (b) the amount initially recognized less, where appropriate, cumulative amortization of initial premium revenue received over the financial guarantee contracts or letter of credit issued.

Derecognition of financial liabilities

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

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Leases

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

The Group as lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances on correspondent and term deposit accounts with the Central Bank of the Russian Federation and amounts due from credit institutions with original maturity within 90 days, which are free from contractual encumbrances.

Minimum reserve deposits with the Central Bank of the Russian Federation

Minimum reserve deposits with the Central Bank of the Russian Federation represent the amount of obligatory reserves deposited with the Central Bank of the Russian Federation in accordance with requirements established by the Central Bank of the Russian Federation, which subject to restrictions on their availability. In view of the above the amount of the minimum reserve deposit required by the Central Bank of the Russian Federation is not included as a cash equivalent.

Due from banks

In the normal course of business, the Group maintains advances and deposits for various periods of time with other banks. Due from banks are initially recognized at fair value. Due from banks are subsequently measured at amortized cost using the effective interest method. Amounts due from credit institutions are carried net of any allowance for impairment losses.

Repossessed assets

In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. Repossessed assets may be accounted by the Group under IAS 2 *Inventories*, IAS 40 *Investment Property*, IAS 16 *Property, Plant and Equipment*, IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* or other applicable standard depending on the nature and intended use of such assets.

Inventory

Inventories are stated at the lower of cost and net realisable value. The cost of inventories is determined using the first-in, first-out (FIFO) method. Net realisable value is the estimated selling price in the ordinary course of business less applicable variable selling expenses.

Property and equipment

Property and equipment, except land and buildings, acquired after 1 January 2003 are carried at historical cost less accumulated depreciation and any recognized impairment loss, if any. Property and equipment and intangible assets, acquired before 1 January 2003 are carried at historical cost restated for inflation less accumulated depreciation and any recognized impairment loss, if any. Leasehold improvements are amortized over the life of the related leased asset. Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalization.

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Land and buildings held for use in supply of services, or for administrative purposes, are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation, determined from market-based evidence by appraisal undertaken by professional independent appraisers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date.

Any revaluation increase arising on the revaluation of such land and buildings is credited to the property and equipment revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognized as an expense, in which case the increase is credited to the consolidated statement of profit or loss to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such land and buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the property and equipment revaluation reserve relating to a previous revaluation of that asset.

Market value of property is assessed using three methods:

- The comparable sales method which involves analysis of market sales prices for similar real estate property;
- The income-based method which assumes a direct relationship between revenues generated by the property and its market value;
- The costs method which presumes the value of property to be equal to its recoverable amount less any depreciation charges.

Depreciation on revalued buildings is charged to the consolidated statement of profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the property and equipment revaluation reserve is transferred directly to retained earnings.

Freehold land is not depreciated.

Depreciation is recognised so as to write off the cost or valuation of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis at the following annual rates:

Buildings	2%
Equipment	20%
Others	Over useful life of 3-10 years

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Derecognition of intangible assets

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

Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

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

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

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

Precious metals

Assets and liabilities denominated in precious metals are translated at the current rate computed based on the second fixing of the London Metal Exchange rates, using the RUB/USD exchange rate effective at the date. Changes in the bid prices are recorded in net loss on operations with precious metals operations.

Taxation

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

Current tax

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

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred income tax assets and deferred income tax liabilities are offset and reported net on the statement of financial position if:

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

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Operating taxes

Countries where the Group operates also have various other taxes, which are assessed on the Group's activities. These taxes are included as a component of operating expenses in the consolidated statement of profit or loss.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Contingencies

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

Fiduciary activities

The Group provides trustee services to its customers. The Group also provides depositary services to its customers which include transactions with securities on their depositary accounts. Assets accepted and liabilities incurred under the fiduciary activities are not included in the Group's financial statements. The Group accepts the operational risk on these activities, but the Group's customers bear the credit and market risks associated with such operations. Revenue for provision of trustee services is recognized as services are provided.

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Share capital, share premium and treasury shares

Contributions to share capital made before 1 January 2003 are recognized at their cost restated for inflation. Contributions to share capital made after 1 January 2003 are recognized at cost. Share premium represents the excess of contributions over the nominal value of the shares issued.

Costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes.

Treasury shares are deducted directly from the Group's equity.

Dividends on ordinary shares are recognized in equity as a reduction in the period in which they are declared. Dividends that are declared after the reporting date are treated as a subsequent event under IAS 10 *Events after the Reporting Period* ("IAS 10") and disclosed accordingly.

Retirement and other benefit obligations

The Group does not have any pension arrangements separate from the State pension system of the Russian Federation and other countries, which require current contributions by the Group calculated as a percentage of current gross salary payments. Such expense is charged in the period the related salaries are earned. Upon retirement all retirement benefit payments are made by state pension fund. In addition, the Group has no post-retirement benefits or other significant compensated benefits requiring accrual.

Share based payments

For cash settled share based payments (compensation indexed on Societe Generale shares), the fair value of the amounts payable is booked to Operational expenses as an expense against a corresponding liability entry booked in the balance sheet under Other liabilities. This payables item is then remeasured at fair value against income until settled. For hedging derivatives, the effective portion of the change in their fair value is booked through profit or loss.

In April 2016, Rosbank Group adopted a share equivalent plan (the "Share Plan"), granting 60 185 Societe Generale Performance Shares equivalent ("the Performance Shares") to employees of Rosbank Group, subject to conditions of presence and performance. The beneficiaries are executive corporate officers who are part of Rosbank Group as of the date the Share Plan is adopted. The payment conditions are as follows:

1. Scheduler of payments:

Series	Payment period
Series 1	October 2016
Series 2	October 2018
Series 3	October 2019

2. Conditions of payment:

The effective vesting of Performance Shares is subject to a continued employment condition as well as to performance conditions. The satisfaction of the continued employment and performance conditions will be reviewed and officially acknowledged at the end of each of the payment periods.

The fair value of the payable amount is booked as operating expenses over the vesting period against a corresponding liability booked under other liabilities. As of 31 December 2016, the total carrying amount of the corresponding liabilities amounted to RUB 71 million. As of 31 December 2015, the total carrying amount of the corresponding liabilities under share based payments amounted to RUB 971 million.

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Accounting for the effects of hyperinflation

Russia

In accordance with IAS 29, economy of the Russian Federation was treated as hyperinflationary till the end of 2002. Since 1 January 2003 economy of the Russian Federation ceased to be hyperinflationary, and the costs of non-monetary assets, liabilities and equity, calculated as at 31 December 2002, were used to form the beginning balances as at 1 January 2003.

Foreign currency translation

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates.

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- Exchange differences on transactions entered into in order to hedge certain foreign currency risks (see above for hedge accounting); and
- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations, whose functional currency is not the currency of hyperinflationary economy, are translated into RUB using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Group are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that includes a foreign operation that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

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Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

Rates of exchange and commodity prices

The exchange rates and commodity prices at period-end used by the Group in the preparation of the consolidated financial statements are as follows:

	31 December 2016	31 December 2015
RUB/1 US Dollar	60.6569	72.8827
RUB/1 Euro	63.8111	79.6972
RUB/Gold (1 ounce)	70,307.41	77,419.65
RUB/Platinum (1 ounce)	55,015.81	63,553.71
RUB/Palladium (1 ounce)	41,004.06	39,866.84
RUB/Silver (1 ounce)	985.07	1,007.24

Collateral

The Group obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Group a claim on these assets for both existing and future customer liabilities.

Equity reserves

The reserves recorded in equity (other comprehensive income) on the Group's statement of financial position include:

- 'Available-for-sale reserve' which comprises changes in fair value of available-for-sale investments;
- 'Cash flow hedge reserve' which comprises the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge;
- 'Foreign currency translation reserve' which is used to record exchange differences arising from the translation of the net investment in foreign operations, net of the effects of hedging;
- 'Revaluation reserve' which comprises effect of revaluation of property and equipment.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

Segment reporting

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

The Group measures information about reportable segments in accordance with IFRS. Information about reportable operating segment meets any one of the following quantitative thresholds:

- Its reported revenue, from both external customers and intersegment sales or transfers, is 10 per cent or more of the combined revenue, internal and external, of all operating segments; or
- The absolute measure of its reported profit or loss is 10 per cent or more of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss; or
- Its assets are 10 per cent or more of the combined assets of all operating segments.

If the total external revenue reported by operating segments constitutes less than 75 per cent of the entity's revenue, additional operating segments are identified as reportable segments (even if they do not meet the quantitative thresholds set out above) until at least 75 per cent of the Group's revenue is included in reportable segments.

Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies the Group management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the Group management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Held to maturity financial assets

The Group management has reviewed the Group's held to maturity financial assets in the light of its capital maintenance and liquidity requirements and has confirmed the Group's positive intention and ability to hold those assets to maturity. Details of these assets are set out in Note 13.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

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Impairment of loans and receivables

The Group regularly reviews its loans and receivables to assess for impairment. The Group's loan impairment provisions are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Group considers accounting estimates related to allowance for impairment of loans and receivables a key source of estimation uncertainty because (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired loans and receivables are based on recent performance experience, and (ii) any significant difference between the Group's estimated losses and actual losses would require the Group to record provisions which could have a material impact on its financial statements in future periods.

The Group uses management's judgment to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on past performance, past customer behavior, observable data indicating an adverse change in the payment status of borrowers in a group, and national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans. The Group uses management's judgment to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data.

The allowances for impairment of financial assets in the consolidated financial statements have been determined on the basis of existing economic and political conditions. The Group is not in a position to predict what changes in conditions will take place in RF and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

Valuation of financial instruments

Financial instruments that are classified at fair value through profit or loss or available for sale, and all derivatives, are stated at fair value. The fair value of such financial instruments is the estimated amount at which the instrument could be exchanged between willing parties, other than in a forced or liquidation sale. If a quoted market price is available for an instrument, the fair value is calculated based on the market price. When valuation parameters are not observable in the market or cannot be derived from observable market prices, the fair value is derived through analysis of other observable market data appropriate for each product and pricing models which use a mathematical methodology based on accepted financial theories. Pricing models take into account the contract terms of the securities as well as market-based valuation parameters, such as interest rates, volatility, exchange rates and the credit rating of the counterparty. Where market-based valuation parameters are missed, management will make a judgment as to its best estimate of that parameter in order to determine a reasonable reflection of how the market would be expected to price the instrument. In exercising this judgment, a variety of tools are used including proxy observable data, historical data, and extrapolation techniques. The best evidence of fair value of a financial instrument at initial recognition is the transaction price unless the instrument is evidenced by comparison with data from observable markets. Any difference between the transaction price and the value based on a valuation technique is not recognized in the consolidated statement of profit or loss on initial recognition. Subsequent gains or losses are only recognized to the extent that it arises from a change in a factor that market participants would consider in setting a price.

The Group considers that the accounting estimate related to valuation of financial instruments where quoted markets prices are not available is a key source of estimation uncertainty because: (i) it is highly susceptible to change from period to period because it requires management to make assumptions about interest rates, volatility, exchange rates, the credit rating of the counterparty, valuation adjustments and specific feature of the transactions and (ii) the impact that recognizing a change in the valuations would have on the assets reported on its statement of financial position as well as its profit/(loss) could be material.

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Had management used different assumptions regarding the interest rates, volatility, exchange rates, the credit rating of the counterparty and valuation adjustments, a larger or smaller change in the valuation of financial instruments where quoted market prices are not available would have resulted that could have had a material impact on the Group's reported net income.

Property and equipment carried at revalued amounts

Certain buildings are measured at revalued amounts. The date of the latest appraisal was 31 December 2015. The next revaluation is preliminary scheduled as of 31 December 2017.

Recoverability of deferred tax assets

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Changes in accounting policies

The Group has adopted the following amended IFRS which are effective for annual periods beginning on or after 1 January 2016:

Amendments to IAS 1 Disclosure Initiative

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

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

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

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

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

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

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

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Annual Improvements 2012-2014 Cycle

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

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

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

IFRS 7 Financial Instruments: Disclosures

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

5. Application of new and revised International Financial Reporting Standards (IFRS)

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

IFRS 9 Financial Instruments

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

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

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

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

IFRS 15 Revenue from Contracts with Customers

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

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

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

IFRS 16 Leases

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

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

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

Amendments to IAS 12 Income Taxes

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

Amendments to IAS 7 Statement of Cash Flows

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

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Amendments to IFRS 2

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

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

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

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

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

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

6. Cash and balances with the Central Bank of the Russian Federation

	31 December 2016 mRUB	31 December 2015 mRUB
Cash	20,057	26,942
Balances with the Central Bank of the Russian Federation	<u>28,442</u>	<u>76,283</u>
Total cash and balances with the Central Bank of the Russian Federation	<u>48,499</u>	<u>103,225</u>

As of 31 December 2016 and 2015 included in the balances with the Central Bank of the Russian Federation are RUB 4,869 million and RUB 3,899 million, respectively, which represent the minimum reserve deposits calculated as a percentage of customers accounts balance required by the Central Bank of the Russian Federation. The Group is required to maintain the reserve balances with Central Bank of the Russian Federation at all times.

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Cash and cash equivalents for the purposes of the consolidated statement of cash flows are comprised of the following:

	31 December 2016 mRUB	31 December 2015 mRUB
Cash and balances with the Central Bank of the Russian Federation	48,499	103,225
Due from banks with original maturity within 90 days	69,362	75,906
	<u>117,861</u>	<u>179,131</u>
Less minimum reserve deposits	(4,869)	(3,899)
Total cash and cash equivalents	<u>112,992</u>	<u>175,232</u>

7. Financial assets at fair value through profit or loss

	31 December 2016 mRUB	31 December 2015 mRUB
Debt securities	1,589	3,528
Financial assets at fair value through profit or loss pledged under repurchases agreements	470	–
Derivative financial instruments (Note 9)	35,093	53,440
	<u>37,152</u>	<u>56,968</u>
Total financial assets at fair value through profit or loss	<u>37,152</u>	<u>56,968</u>

The debt securities included in financial assets at fair value through profit or loss relate entirely to financial assets held-for-trading.

	31 December 2016		31 December 2015	
	Nominal interest rate %	Amount mRUB	Nominal interest rate %	Amount mRUB
Debt securities:				
Debt securities of Russian banks	–	–	11,3-11,9%	64
Debt securities of the Russian Federation	4.75-8.5%	1,343	6,0-14,42%	1,738
Debt securities of Russian companies	3.8-10.25%	716	11,6-12,5%	653
Debt securities of foreign central governments	–	–	0,50-1,25%	1,073
		<u>2,059</u>		<u>3,528</u>

8. Due from banks

	31 December 2016 mRUB	31 December 2015 mRUB
Demand deposits in banks	28,631	19,218
Term deposits in banks	32,628	65,396
Loans under reverse repurchase agreements	24,867	8,253
	<u>86,126</u>	<u>92,867</u>
Total due from banks	<u>86,126</u>	<u>92,867</u>

As of 31 December 2016 the Group had loans and advances to two banks totaling RUB 30,744 million, which individually exceeded 10% of the Group's equity. As of 31 December 2015 the Group had loans and advances to two banks totaling RUB 39,636 million which individually exceeded 10% of the Group's equity.

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Fair value of assets pledged and carrying value of loans under the reverse repurchase agreements as at 31 December 2016 and 2015 comprise:

	31 December 2016 mRUB		31 December 2015 mRUB	
	Carrying value of loan	Fair value of collateral	Carrying value of loan	Fair value of collateral
Bonds of Russian companies	13,528	16,683	6,165	8,685
Bonds of the Russian Federation	4,582	5,549	2,088	2,359
bonds of the Russian banks	3,336	4,038	–	–
Shares of Russian companies	3,421	5,246	–	–
Total loans under reverse repurchase agreements	24,867	31,516	8,253	11,044

9. Derivative financial instruments

Derivative financial instruments comprise:

	Nominal value	31 December 2016 Fair value mRUB		Nominal value	31 December 2015 Fair value mRUB	
		Assets	Liabilities		Assets	Liabilities
Derivative financial instruments:						
Foreign exchange contracts						
Swaps	74,541	1,029	(4,164)	22,041	3,349	(3,391)
Forwards	24,046	2,166	(72)	13,558	354	(1,137)
IRS/CIRS	314,988	30,138	(29,652)	386,919	44,338	(43,648)
Cash flow and NIFE hedge	2,984	304	–	6,554	22	(179)
Fair value hedge	2,450	95	–	2,450	239	–
Foreign exchange options	12	–	–	45,874	1,108	(1,109)
Total foreign exchange contracts		33,732	(33,888)		49,410	(49,464)
Contracts on precious metals and commodities						
Forwards	4,783	365	(365)	3,956	339	(339)
Swaps	507	12	–	612	1	(1)
Options	43,992	984	(984)	85,148	3,690	(3,690)
Total contracts on precious metals and commodities		1,361	(1,349)		4,030	(4,030)
Total		35,093	(35,237)		53,440	(53,494)

Cash Flow Hedge and Hedge of Net Investment in Foreign Entity (NIFE)

As of 31 December 2016 the Group's cash flow hedge was related to its exposure to the variability in the anticipated future cash flows on its financial liabilities related to Société Générale Group share-based payment program announced in April 2016 for the total amount equivalent to 60,185 shares to be paid during 2016-2019 subject to the satisfaction of certain underlying conditions.

As of 31 December 2015 the Group's cash flow hedge was related to its exposure to the variability in the anticipated future cash flows on its financial liabilities related to Société Générale Group share-based payment program for the total amount equivalent to 203,009 shares to be paid during 2016 subject to the satisfaction of certain underlying conditions. As of 31 December 2016 financial liabilities of the Group under this program were settled in full.

The Group measures the fair value of its derivative financial instruments based on quoted prices or valuations derived from observable market prices.

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To hedge against the variability in the cash flows on financial liabilities due to the share price risk, as of 31 December 2016 the Group used forward contracts at a fixed price of EUR 32.9154 per share (as of 31 December 2015 – 42.1 per share). As such the Group minimizes the effect of changes in market prices for SG shares on its future cash flows.

Another part of the Cash flow hedge is related to the swap (hedging instrument), which enables the Group to protect itself against negative variations in future cash flows on the variable-rate loans to customers due to a fall in interest rates. This part of the Group's cash flow hedge is related to variable-rate loans to customers for the principal as at 31 December 2016 and 31 December 2015 of RUB 393 million and RUB 2,932 million, respectively.

The Group's hedge of Net Investment in Foreign Entity is related to the variability of the net assets of its subsidiary (Rosbank (Switzerland) SA) nominated in CHF.

Fair Value Hedge

The Group's fair value hedge is related to its exposure to the variability in changes of fair value of available-for-sale securities for the nominal amount as of 31 December 2016 and 31 December 2015 of RUB 2,500 million and RUB 2,500 million, respectively.

The Group measures the fair value of its derivative financial instruments based on quoted prices or valuations derived from observable market prices.

Embedded derivatives

The Group issued structural bonds with embedded derivatives included in financial assets at fair value through profit and loss in amount RUB 269 million as at 31 December 2016 and RUB 1,010 million as at 31 December 2015, respectively. Simultaneously the Group entered into interest rate swap contracts to compensate future cash flows to be paid on structural bonds issued. The fair value of interest rate swaps included in financial liabilities at fair value through profit and loss amounted to RUB 205 million as at 31 December 2016 and RUB 1,803 million as at 31 December 2015, respectively.

10. Loans to customers

	31 December 2016 mRUB	31 December 2015 mRUB
Loans to legal entities	244,399	266,338
Loans to individuals	380,757	418,100
Net investments in finance lease	13,047	11,699
Account receivable from RF Government on financed car loans	3,344	1,885
Total loans to customers before impairment	641,547	698,022
Less allowance for impairment losses	(53,737)	(63,488)
Total loans to customers	587,810	634,534

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

	Total mRUB
31 December 2014	57,223
Net allocations	20,006
Forex effect on provision revaluation	2,108
Sales and write-offs of loans	(15,849)
31 December 2015	63,488
Net allocations	10,841
Forex effect on provision revaluation	(1,346)
Sales and write-offs of loans	(19,246)
31 December 2016	53,737

The analyses by sector of loans to customers is follow:

	31 December 2016 mRUB	31 December 2015 mRUB
Analysis by sector:		
Individuals	380,757	418,100
Trade	72,459	45,040
Manufacturing and engineering	67,304	78,060
Oil and gas	25,144	26,199
Energy industry	19,681	21,268
Precious metals and diamond extraction and manufacturing	18,485	26,455
Transport	10,276	12,752
Real estate and construction	8,907	15,987
Finance	8,724	5,921
Metallurgy	8,075	14,194
Government	7,737	6,568
Telecommunications, media and information technology	4,140	4,288
Defence industry	1,347	11,383
Other	8,511	11,807
	641,547	698,022
Less allowance for impairment losses	(53,737)	(63,488)
Total loans to customers	587,810	634,534

As of 31 December 2016 the Group had loans to two groups of customers which individually exceeded 10% of the Group's equity.

As of 31 December 2015 the Group had loans to two groups of customers which individually exceeded 10% of the Group's equity.

As of 31 December 2016 the amount receivable from RF Government on the financed car loan program amounted to RUB 3,206 million (as of 31 December 2015 – to RUB 1,745 million).

As of 31 December 2016 the amount receivable from RF Government on the financed mortgage program amounted to RUB 139 million (as of 31 December 2015 – to RUB 140 million).

As of 31 December 2016 and 2015 a substantial amount of loans is granted to companies operating in the Russian Federation, which represents a significant geographical concentration in one region.

During the years ended 31 December 2016 and 2015 the Group received non-financial assets as a repayment on loans. As at 31 December 2016 and 2015 such assets in the amount of RUB 6,485 million and RUB 4,495 million, respectively are included in other assets (Note 14).

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Loans to individuals comprise the following products:

	Gross amount mRUB	Less allowance for impairment losses mRUB	31 December 2016 Net amount mRUB
Mortgage loans	181,641	(4,631)	177,010
Car loans	93,951	(16,384)	77,567
Consumer loans	77,317	(10,794)	66,523
Overdraft	15,218	(3,271)	11,947
Express-loans	8,834	(1,915)	6,919
Loans to VIP clients and employees	1,670	(514)	1,156
Loans to Individual entrepreneurs	2,126	(1,604)	522
	380,757	(39,113)	341,644
	Gross amount mRUB	Less allowance for impairment losses mRUB	31 December 2015 Net amount mRUB
Mortgage loans	188,204	(3,016)	185,188
Car loans	113,079	(16,462)	96,617
Consumer loans	79,859	(14,966)	64,893
Overdraft	18,906	(3,928)	14,978
Express-loans	9,488	(2,565)	6,923
Loans to VIP clients and employees	3,588	(2,005)	1,583
Loans to Individual entrepreneurs	4,976	(2,204)	2,772
	418,100	(45,146)	372,954

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

	31 December 2016 mRUB			31 December 2015 mRUB		
	Original carrying amount	Impair- ment allowance	Carrying amount	Original carrying amount	Impair- ment allowance	Carrying amount
Loans to customers individually determined to be impaired	11,944	(11,648)	296	34,134	(17,414)	16,720
Loans to customers individually determined to be unimpaired	232,509	–	232,509	231,393	–	231,393
Loans to customers collectively assessed for impairment, including:						
-loans assessed to be impaired	53,187	(42,089)	11,098	77,944	(46,074)	31,870
-loans assessed to be unimpaired	343,907	–	343,907	354,551	–	354,551
Total	641,547	(53,737)	587,810	698,022	(63,488)	634,534

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The components of net investment in finance lease as of 31 December 2016 and 2015 are as follows:

	31 December 2016 mRUB	31 December 2015 mRUB
Not later than one year	4,675	4,779
Later than 1 year	<u>15,238</u>	<u>12,368</u>
Minimum lease payments	19,913	17,147
Less: unearned finance income	<u>(6,866)</u>	<u>(5,448)</u>
Net investment in finance lease	<u>13,047</u>	<u>11,699</u>
Current portion	3,048	3,038
Long-term portion	<u>9,999</u>	<u>8,661</u>
Net investment in finance lease	<u>13,047</u>	<u>11,699</u>

11. Investments available-for-sale

	31 December 2016 mRUB	31 December 2015 mRUB
Debt securities	8,033	5,551
Equity investments	<u>204</u>	<u>132</u>
Total investments available-for-sale	<u>8,237</u>	<u>5,683</u>

	31 December 2016		31 December 2015	
	Nominal interest rate %	Amount mRUB	Nominal interest rate %	Amount mRUB
Debt securities:				
Bonds of the Russian Federation	6.5-7.5%	5,790	6,5-7,5%	5,551
Bonds of Russian companies	3.15-6.7%	<u>2,243</u>	-	<u>-</u>
		<u>8,033</u>		<u>5,551</u>

	31 December 2016 Amount mRUB	31 December 2015 Amount mRUB
Equity investments:		
Shares of Russian companies	203	131
Shares of international clearing companies	<u>1</u>	<u>1</u>
	<u>204</u>	<u>132</u>

12. Investments held to maturity

	31 December 2016		31 December 2015	
	Nominal annual interest rate	Amount mRUB	Nominal annual interest rate	Amount mRUB
Eurobonds of the Russian Federation	3.5-11.0%	42,741	4,5-7,5%	46,194
Bonds of the Russian Federation	7.0-7.6%	22,966	6,9-7,6%	30,259
Eurobonds of Russian companies	3.37-9.13%	<u>7,205</u>	3,4-8,3%	<u>3,129</u>
Total investments held to maturity		<u>72,912</u>		<u>79,582</u>

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13. Property and equipment and intangible assets

	<u>Land and buildings</u>	<u>Equipment</u>	<u>Intangible assets</u>	<u>Capital expenditure</u>	<u>Total</u>
At cost/restated cost/ revalued amount					
31 December 2014	19,922	9,597	3,739	1,100	34,358
Additions	–	373	1,326	1,366	3,065
Disposals	(673)	(770)	(226)	(159)	(1,828)
Revaluation	(2,482)	–	–	–	(2,482)
Disposals of subsidiaries	(195)	(777)	(2)	–	(974)
Transfer	98	1,466	176	(1,740)	–
31 December 2015	16,670	9,889	5,013	567	32,139
Additions	49	496	494	2,168	3,207
Disposals	(1,004)	(911)	(874)	(109)	(2,898)
Transfer	7	1,040	314	(1,361)	–
31 December 2016	15,722	10,514	4,947	1,265	32,448
Accumulated depreciation and impairment					
31 December 2014	583	6,139	2,334	–	9,056
Charge for the period	462	1,332	733	–	2,527
Disposals	(17)	(574)	(197)	–	(788)
Revaluation	(1,024)	–	–	–	(1,024)
Impairment loss	–	621	–	–	621
Recovery of impairment	–	(46)	–	–	(46)
Disposals of subsidiaries	(4)	(451)	(1)	–	(456)
31 December 2015	–	7,021	2,869	–	9,890
Charge for the period	408	1,212	756	–	2,376
Disposals	(13)	(840)	(686)	–	(1,539)
Impairment loss	28	10	–	–	38
31 December 2016	423	7,403	2,939	–	10,765
Net book value					
31 December 2016	15,299	3,111	2,008	1,265	21,683
31 December 2015	16,670	2,868	2,144	567	22,249

As at 31 December 2016 and 2015 property and equipment included fully depreciated equipment amounting to RUB 3,112 million and RUB 2,725 million, respectively.

During 2015 the Group performed a regular valuation of its land and buildings and booked revaluation impairment in other comprehensive income of RUB 1,248 million, and impairment loss of RUB 211 million and recovery of previously booked impairment loss of RUB 1 million.

During 2016 the Group not performed a valuation of its land and buildings because of stable situation at the real estate market in Russian Federation.

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If buildings were stated at the historical cost, the amounts would be as follows:

	31 December 2016 mRUB	31 December 2015 mRUB
Cost	9,657	11,356
Accumulated depreciation	<u>(1,505)</u>	<u>(1,258)</u>
Net book value	<u>8,152</u>	<u>10,098</u>

14. Other assets

	31 December 2016 mRUB	31 December 2015 mRUB
Other financial assets:		
Miscellaneous receivables	3,167	1,898
Agency operations	<u>266</u>	<u>223</u>
	3,433	2,121
Less allowance for impairment losses	<u>(19)</u>	<u>(20)</u>
Total other financial assets	<u>3,414</u>	<u>2,101</u>
Other non-financial assets:		
Inventory	8,690	5,764
Due from suppliers and other contractors	2,569	2,865
Taxes, other than income tax, recoverable	846	1,048
Accrued commission receivable	411	411
Settlements on plastic card operations	400	952
Advances to employees	19	17
Other	<u>707</u>	<u>1,183</u>
	13,642	12,240
Less allowance for impairment losses	<u>(1,903)</u>	<u>(2,068)</u>
Total other non-financial assets	<u>11,739</u>	<u>10,172</u>
Total other assets	<u>15,153</u>	<u>12,273</u>

As at 31 December 2016 and 2015 miscellaneous receivables mainly consist of due from clients for banking services.

Movement of allowance for impairment losses on other assets for the years ended 31 December 2016 and 2015 is disclosed in Note 24.

As at 31 December 2016 and 2015 inventory includes the repossessed collateral in amount:

	31 December 2016 mRUB	31 December 2015 mRUB
Buildings	3,303	2,483
Land	2,126	590
Vehicles	514	-
Other	<u>542</u>	<u>1,423</u>
Total repossessed collateral	<u>6,485</u>	<u>4,496</u>

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15. Financial liabilities at fair value through profit or loss

	31 December 2016 mRUB	31 December 2015 mRUB
Derivative financial instruments	35,237	53,494
Short position on securities purchased	745	1,366
Total financial liabilities at fair value through profit or loss	<u>35,982</u>	<u>54,860</u>

Derivative financial instruments are disclosed in Note 9.

16. Due to the Central Bank of the Russian Federation

As of 31 December 2016 and 2015 due to the Central Bank of the Russian Federation consisted of the following:

	31 December 2016 mRUB	31 December 2015 mRUB
Term deposits	190	18,861
Total due to the Central Bank of the Russian Federation	<u>190</u>	<u>18,861</u>

As of 31 December 2016 and 2015 included in term deposits are RUB 190 million and RUB 500 million, respectively, secured with guarantees from Russian banks.

17. Due to banks and international financial institutions

	31 December 2016 mRUB	31 December 2015 mRUB
Time deposits	14,119	33,760
Demand accounts	30,102	33,980
Loans under repurchase agreements	3,772	944
Total due to banks and international financial institutions	<u>47,993</u>	<u>68,684</u>

The Group is obligated to comply with financial covenants in relation to certain balances deposits by banks disclosed above. These covenants include various financial performance ratios. As of 31 December 2016 and 2015 the Group has not breached any of these covenants.

As at 31 December 2016 and 2015 included in due to banks and international financial institutions are RUB 13,610 million and RUB 24,248 million (11% and 20% of total balances due to banks and international financial institutions), respectively, that were due to three and two banks respectively, which represents a significant concentration.

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Fair value of assets pledged and carrying value of loans under repurchase agreements as at 31 December 2016 comprise:

	31 December 2016		31 December 2015	
	Carrying value of loans	Fair value of collateral	Carrying value of loans	Fair value of collateral
Bonds of the Russian Federation	469	470	–	–
Bonds of the Russian Federation purchased by reverse repurchases agreements	3,303	3,440	944	953
Total	3,772	3,910	944	953

18. Customer accounts

	31 December 2016 mRUB	31 December 2015 mRUB
Corporate		
Time deposits	165,315	175,804
Repayable on demand	87,171	140,454
Total corporate	252,486	316,258
Individuals		
Time deposits	144,321	157,078
Repayable on demand	65,086	43,371
Total individuals	209,407	200,449
Total customer accounts	461,893	516,707

As of 31 December 2016 and 2015 customer accounts amounting to RUB 82 million and RUB 229 million, respectively, were held as security against letters of credit issued and other transaction related contingent obligations. As of 31 December 2016 and 2015 customer accounts amounting to RUB 86 million and RUB 77 million, respectively, were held as security against guarantees issued (Note 32).

Analysis by economic sector/customer type:	31 December 2016 mRUB	31 December 2015 mRUB
Individuals	209,407	200,449
Finance	70,073	114,832
Precious metals and diamond extraction and manufacturing	35,400	28,699
Trade	32,028	20,144
Manufacturing and engineering	27,354	41,685
Services	27,123	14,529
Oil and gas	10,131	31,688
Real estate and construction	10,075	17,231
Transport	8,538	8,885
Telecommunications, media and information technology	7,456	10,256
Metallurgy	6,300	14,766
Energy industry	1,393	1,426
Defence industry	751	214
Other	15,864	11,903
Total customer accounts	461,893	516,707

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19. Debt securities issued

	Annual coupon rates %	31 December 2016	Annual coupon rates %	31 December 2015
Bonds of Delta Credit Bank due in 2016-2027	8.00%-12.50%	71,230	8.40%-12.50%	73,454
Bonds of Rosbank due in 2016-2026	9.35%-11.60%	38,008	8.55%-11.80%	40,988
Bonds of Rusfinance Bank due in 2018-2026	9.95%-13.90%	36,295	8.30%-13.90%	29,193
Exchange structural bonds of Rosbank due in 2016-2025	9.31%-14.32%	11,450	9.31%-14.32%	13,750
Discount bearing promissory notes	0.00%-8.37%	1,150	0.00%-11.89%	2,394
Other instruments	—	—	—	16
Total debt securities issued		158,133		159,795

During the period January-December 2016 new bonds were issued:

Issuer	Issue date	Maturity date	Debt volume, mRUB	Annual coupon rate, %
Delta Credit Bank	30.03.2016	30.03.2019	5,000	10.57
Rusfinance Bank	26.02.2016	26.02.2021	5,000	11.65
Delta Credit Bank	18.05.2016	18.05.2026	5,000	11.00
Rosbank	27.05.2016	27.05.2026	10,000	10.40
Delta Credit Bank	21.07.2016	21.07.2026	7,000	10.30
Rusfinance Bank	12.08.2016	12.08.2026	4,000	10.00
Delta Credit Bank	29.09.2016	29.09.2026	7,000	9.85
Delta Credit Bank	24.11.2016	24.11.2021	7,000	10.29
Rosbank	20.12.2016	20.12.2026	5,000	9.80
Rosbank	20.12.2016	20.12.2026	5,000	9.80

During the period January-December 2016 the following bonds were redeemed:

Issuer	Issue date	Maturity date	Debt volume, mRUB	Annual coupon rate, %
Rosbank	15.01.2013	15.01.2016	1,300	10.16
Rosbank	30.01.2013	30.01.2016	4,918	8.80
Rosbank	31.01.2013	31.01.2016	4,987	8.80
Rosbank	01.03.2013	01.03.2016	9,975	8.55
Delta Credit Bank	02.04.2013	02.04.2016	5,000	8.50
Rosbank	04.04.2013	04.04.2016	1,000	9.42
Delta Credit Bank	22.06.2011	15.06.2016	5,000	9.90
Delta Credit Bank	09.11.2011	02.11.2016	3,665	11.75

Changes in the balances for the year ended 31 December 2016, were also due to a partly buyback of the bonds and operations with the bonds issued by its subsidiaries.

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20. Other liabilities

	31 December 2016 mRUB	31 December 2015 mRUB
Other financial liabilities:		
Accrued bonuses and salary	2,807	3,683
Accrued vacation payable	1,392	1,131
Suspense amounts	50	14
Settlements on other operations	2,990	3,679
Total other financial liabilities	7,239	8,507
Other non-financial liabilities:		
Advances received from clients	889	272
Taxes, other than income tax, payable	487	775
Deposit insurance charge liability	223	178
Creditors on other operations	288	558
Other	623	217
Total other non-financial liabilities	2,510	2,000
Total other liabilities	9,749	10,507

21. Subordinated debt

	Interest Rate %	31 December 2016	Interest Rate, %	31 December 2015
Currency				
Societe Generale S.A. due in 2020-2023	USD	36,207	6.5-9.3%	43,409
Societe Generale S.A. due in 2016-2017	RUB	3,665	8.0-11.3%	4,927
GENEBANQUE S.A. due in 2022	USD	–	6.6%	5,957
Societe Generale S.A. due in 2020	EUR	–	8%	3,988
Total subordinated debt		39,872		58,281

In May 2016 the Group redeemed subordinated debt in amount RUB 1,250 million received from Societe Generale S.A.

In November 2016 the Group early redeemed subordinated debt in amount RUB 3,449 million (EUR 50 million) received from Societe Generale S.A. and RUB 5,261 million (USD 81.5 million) received from GENEANQUE S.A.

In the event of bankruptcy or liquidation of the Group, repayment of this debt is subordinate to the repayments of the Group's liabilities to all other creditors.

22. Share capital

As of 31 December 2016 and 2015 the nominal share capital totaling RUB 17,587 million issued and fully paid comprised 1,551,401,853 ordinary shares with par value of RUB 10 each. All shares are ranked equally and carry one vote. The hyperinflation effect has been recorded in the amount of RUB 2,073 million.

As of 31 December 2016 and 2015 share premium totaling RUB 59,707 million represents an excess of contributions received in share capital over the nominal value of shares issued.

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As at 31 December 2016 and 2015 the Group's share capital comprised the following number of shares of RUB 10 each:

	Share capital authorized	Share capital authorized but not issued	Share capital repurchased	Share capital issued and paid in
Number of ordinary shares	1,846,461,466	295,059,613	–	1,551,401,853

23. Net interest income before provision for impairment losses on interest bearing assets

	Year ended 31 December 2016 mRUB	Year ended 31 December 2015 mRUB
Interest income comprises:		
Interest income on financial assets recorded at amortized cost	85,773	92,319
Interest income on financial assets recorded at fair value	945	1,140
Total interest income	86,718	93,459
Interest income on financial assets recorded at amortized cost comprises:		
- interest income on unimpaired financial assets	84,869	90,816
- interest income on impaired financial assets	904	1,503
Total interest income on financial assets recorded at amortized cost	85,773	92,319
Interest income on financial assets recorded at amortized cost comprises:		
Interest on loans to individuals	53,891	61,547
Interest on loans to corporate customers	23,975	21,632
Interest on due from banks	3,617	5,151
Interest on investments held to maturity	4,290	3,989
Total interest income on financial assets recorded at amortized cost	85,773	92,319
Interest income on financial assets recorded at fair value comprises:		
Interest income on investments available-for-sale	476	444
Interest income on financial assets at fair value through profit and loss	469	696
Total interest income on financial assets recorded at fair value	945	1,140
Interest expense comprises:		
Interest on financial liabilities recorded at amortized cost	47,761	56,130
Total interest expense	47,761	56,130
Interest expense on financial liabilities recorded at amortized cost comprise:		
Interest on corporate customer accounts	14,526	20,039
Interest on debt securities issued	15,003	13,590
Interest on deposits from individuals	10,605	11,156
Interest on deposits from banks	3,204	5,292
Interest on subordinated debt	4,015	3,789
Interest on deposits of the Central Bank of the Russian Federation	408	2,264
Total interest expense on financial liabilities recorded at amortized cost	47,761	56,130
Net interest income before provision for impairment losses on interest bearing assets	38,957	37,329

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24. Allowance for impairment losses and other provisions

As of 31 December 2016 and 2015 the amount of provision for impairment losses on interest bearing assets in the consolidated statement of profit or loss comprises:

	Year ended 31 December	
	2016	mRUB 2015
Net allocations	10,841	20,006
Recoveries of loans written off	(150)	(2)
Write offs not covered by provisions	1,586	1,103
Provision for impairment losses on interest bearing assets	12,277	21,107

Write-offs not covered by provision in the amount of RUB 1,586 million and RUB 1,103 million as at 31 December 2016 and as at 31 December 2015, respectively, represent losses incurred by the Group from refinancing program at a decreased interest rate the difference between the fair value at initial recognition of new loan and the carrying value of the previous loan is recognized as a loss from refinancing of US dollar denominated mortgage loans to individuals in the consolidated statement of profit or loss.

As of 31 December 2016 and 2015 the amount of other provision comprises:

	Year ended 31 December	
	2016	mRUB 2015
Net allocations	506	791
Recoveries of debtors receivables previously written off	(139)	–
Write offs not covered by provisions	122	–
Other provisions	489	791

The movements in other provisions were as follows:

	Other assets mRUB	Provisions for financial guarantees issued, claims and other commitments mRUB	Total mRUB
31 December 2014	2,333	1,289	3,622
Provision	750	41	791
Write-offs	(995)	(49)	(1,044)
Forex effect on provision revaluation	–	34	34
31 December 2015	2,088	1,315	3,403
Provision	143	363	506
Write-offs	(309)	(31)	(340)
Forex effect on provision revaluation	–	(102)	(102)
31 December 2016	1,922	1,545	3,467

The information about other provision of the Group disclosed in Note 32.

Allowance for impairment losses on assets are deducted from the respective assets. Allowance for impairment losses on financial guarantees issued, claims and other commitments are presented in liabilities.

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25. Net (loss)/gain on financial assets and liabilities at fair value through profit or loss, except forex swaps and forwards

Net loss on financial assets and liabilities at fair value through profit or loss, except forex swaps and forwards comprises:

	Year ended 31 December 2016 mRUB	Year ended 31 December 2015 mRUB
Net (loss)/gain on operations with financial assets and liabilities held-for-trading comprise:		
Realized gain/(loss) on trading operations	183	(290)
Unrealized revaluation of securities at fair value through profit or loss	–	337
Net (loss)/gain on operations with derivative financial instruments, except forex swaps and forwards	<u>(1,169)</u>	<u>(1,920)</u>
Total net (loss)/gain on operations with financial assets and liabilities at fair value through profit or loss, except forex swaps and forwards	<u>(986)</u>	<u>(1,873)</u>

26. Net gain/(loss) on foreign exchange operations

	Year ended 31 December 2016 mRUB	Year ended 31 December 2015 mRUB
Net gain on foreign exchange operations	2,909	3,972
Exchange differences	(63)	241
Effect of foreign currency swap instruments	<u>(1,247)</u>	<u>(2,688)</u>
Total net gain/(loss) on foreign exchange operations	<u>1,599</u>	<u>1,525</u>

During years 2016 and 2015, the Group used foreign currency swaps to manage its liquidity between currencies.

27. Fee and commission income and expense

	Year ended 31 December 2016 mRUB	Year ended 31 December 2015 mRUB
Fee and commission income:		
Plastic cards operations	3,179	3,688
Cash operations	873	2,484
Settlements	2,247	2,118
Agency operations	2,290	1,767
Documentary operations	1,023	822
Other operations	<u>1,182</u>	<u>1,219</u>
Total fee and commission income	<u>10,794</u>	<u>12,098</u>
Fee and commission expense:		
Plastic cards operations	1,367	1,174
Settlements	397	639
Documentary operations	139	234
Cash operations	500	137
Agency operations	97	118
Other operations	<u>290</u>	<u>263</u>
Total fee and commission expense	<u>2,790</u>	<u>2,565</u>

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28. Other income

	Year ended 31 December 2016 mRUB	Year ended 31 December 2015 mRUB
Gain on sale of other assets	424	415
Rental income	271	295
Income from factoring operations	–	33
Debts written off	44	52
Other	344	401
Total other income	1,083	1,196

29. Operating expenses

	Year ended 31 December 2016 mRUB	Year ended 31 December 2015 mRUB
Salary and bonuses	15,586	15,875
Unified social tax contribution	3,579	3,693
Operating lease expense	2,554	2,821
Depreciation charge on property and equipment	2,376	2,527
Repairs and maintenance expense	2,317	1,682
Professional services	901	1,415
Security	292	463
Communications	828	903
Transportation expenses	210	975
Deposit insurance charge	847	736
Advertising and marketing expenses	669	612
Other	2,796	3,433
Total operating expenses	32,955	35,135

30. Income tax

The Group measures and records its current income tax payable in its assets and liabilities in accordance with the tax regulations of RF and countries where the Group and its subsidiaries operate, which may differ from IFRS.

The Group is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and certain income being treated as non-taxable for tax purposes.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as of 31 December 2016 and 31 December 2015 relate mostly to different methods/timing of income and expense recognition as well as to temporary differences generated by tax – book bases' differences for certain assets.

The tax rate used for the reconciliations below is the corporate tax rate of 20% payable by corporate entities in the RF on taxable profits (as defined) under tax law in that jurisdiction.

Based on semi-annual tax business planning exercise, the Group believes that it will generate sufficient taxable profits to recover the deferred tax assets recognized as of 31 December 2016 in the horizon of 10 years from the date the loss was recorded.

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Temporary differences as of 31 December 2016 comprise:

	Year ended 31 December 2015 mRUB	Origination and reversal of temporary differences		Year ended 31 December 2016 mRUB
		In the statement of profit or loss	In other comprehen- sive income	
Deferred tax assets in relation to:				
Loans and advances from banks and loans to customers	2,790	(496)	–	2,294
Other assets	761	(31)	–	730
Fair value through profit or loss financial assets	366	40	(176)	230
Available-for-sale financial assets	469	52	(70)	451
Other liabilities	1,193	16	–	1,209
Tax losses carried forward	7,221	(2,410)	–	4,811
Deferred tax assets	12,800	(2,829)	(246)	9,725
Deferred tax liabilities in relation to:				
Loans and advances from banks and loans to customers	(1,995)	483	–	(1,512)
Other assets	(45)	11	–	(34)
Fair value through profit or loss financial assets	(467)	(74)	(2)	(543)
Available-for-sale financial assets	(201)	71	(7)	(137)
Debt securities issued	(44)	(9)	–	(53)
Investments held to maturity	(5,519)	2,353	–	(3,166)
Property and equipment	(1,934)	85	–	(1,849)
Other liabilities	(217)	205	(397)	(409)
Deferred tax liabilities	(10,422)	3,125	(406)	(7,703)
Net deferred tax assets/(liabilities)	2,378	296	(652)	2,022
Deferred tax asset not recognized	(563)	218	–	(345)
Deferred tax assets/(liabilities)	1,815	514	(652)	1,677

Temporary differences as of 31 December 2015 comprise:

	Year ended 31 December 2014 mRUB	Origination and reversal of temporary differences			Year ended 31 December 2015 mRUB
		In the statement of profit or loss	In other comprehen- sive income	Disposal of a subsidiary	
Deferred tax assets in relation to:					
Loans and advances from banks and loans to customers	3,333	(543)	–	–	2,790
Other assets	1,043	(282)	–	–	761
Fair value through profit or loss financial assets	267	32	67	–	366
Available-for-sale financial assets	649	–	(180)	–	469
Other liabilities	1,052	141	–	–	1,193
Tax losses carried forward	7,312	(91)	–	–	7,221
Deferred tax assets	13,656	(743)	(113)	–	12,800
Deferred tax liabilities in relation to:					
Loans and advances from banks and loans to customers	(1,918)	(77)	–	–	(1,995)
Other assets	(100)	55	–	–	(45)
Fair value through profit or loss financial assets	(3,679)	3,215	(3)	–	(467)
Available-for-sale financial assets	(310)	69	40	–	(201)
Debt securities issued	(48)	4	–	–	(44)
Investments held to maturity	(4,170)	(1,349)	–	–	(5,519)
Property and equipment	(2,167)	(72)	250	55	(1,934)
Other liabilities	(91)	(126)	–	–	(217)
Deferred tax liabilities	(12,483)	1,719	287	55	(10,422)
Net deferred tax assets/(liabilities)	1,173	976	174	55	2,378
Deferred tax asset not recognized	–	(563)	–	–	(563)
Deferred tax assets/(liabilities)	1,173	413	174	55	1,815

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The amount of tax losses carried forward as of 31 December 2016 and 2015 relates to the loss of the following fiscal years:

	31 December 2016 mRUB	31 December 2015 mRUB
Year ended 31 December 2010	–	–
Year ended 31 December 2011	–	–
Year ended 31 December 2012	–	–
Year ended 31 December 2013	–	–
Year ended 31 December 2014	24,055	36,105
Year ended 31 December 2015	–	–
Year ended 31 December 2016	–	–
Tax loss carried forward	24,055	36,105

At 31 December 2016 and 31 December 2015, the aggregate amount of temporary differences associated with investments in subsidiaries and associates for which deferred tax liability has not been recognized was RUB 1,761 million and RUB 2,525 million, respectively.

Relationships between tax expenses and accounting profit for the years ended 31 December 2016 and 2015 are explained as follows:

	Year ended 31 December 2016 mRUB	Year ended 31 December 2015 mRUB
(Loss)/profit before income tax	4,187	(9,200)
Tax at the statutory tax rate (20%)	838	(1,840)
Change in deferred tax asset not recognized	(218)	563
Tax effect due to different tax rates	(244)	(115)
Tax effect of permanent differences	484	1,271
Other effects	223	203
Income tax expense	1,083	82
Current income tax expense	1,597	495
Deferred tax benefit	(514)	(413)
Income tax expense	1,083	82
Deferred tax assets – beginning of the period	3,363	2,092
Deferred tax liabilities – beginning of the period	(1,548)	(919)
Changes in deferred income tax balances recognized in other comprehensive income and directly in equity	(652)	174
Deferred income tax liabilities/assets of subsidiaries sold/acquired	–	55
Changes in deferred income tax balances recognized in consolidated profit or loss	514	413
Deferred tax assets – end of the period	3,086	3,363
Deferred tax liabilities – end of the period	(1,409)	(1,548)

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31. Earnings per share attributable to equity holders of the parent

	Year ended 31 December 2016	Year ended 31 December 2015
(Loss)/profit		
Net (loss)/profit attributable to equity holders of the parent for the period (mRUB)	3,104	(9,282)
Weighted average number of ordinary shares		
For basic and diluted earnings per share	1,551,401,853	1,551,401,853
Earnings per share – basic and diluted (RUB)	2.00	(5.98)

32. Commitments and contingencies

In the normal course of business, the Group is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the statement of financial position.

The Group's maximum exposure to credit risk under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

The Group uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations. Extension of loans to customers within credit line limits is approved by the Group on a case-by-case basis and depends on borrowers' financial performance, debt service and other conditions.

	31 December 2016 mRUB	31 December 2015 mRUB
Litigations and other provisions	387	675
Provision for losses on letters of credit and guarantees	1,158	640
Total other provisions	1,545	1,315

As of 31 December 2016 and 2015, letters of credit and other transactions related to contingent obligations covered by cash on customers' accounts amounted to RUB 82 million and RUB 273 million, respectively and guarantees issued covered by cash amounted to RUB 86 million and RUB 109 million, respectively.

As of 31 December 2016 and 2015, the nominal or contract amounts were:

	31 December 2016 Nominal amount mRUB	31 December 2015 Nominal amount mRUB
Contingent liabilities and credit commitments		
Guarantees issued and similar commitments	97,847	89,439
Letters of credit and other transaction related contingent obligations	9,542	8,723
Commitments on loans and unused credit lines	98,534	72,482
Total contingent liabilities and credit commitments	205,923	170,644

The Group has commitments to provide funds under credit lines facilities. However, the Group has a right not to exercise such commitments due to certain conditions.

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Commitments on lease activities – As of 31 December 2016 and 2015 the Group has commitments for capital expenditure on finance lease outstanding amounting to RUB 193 million and RUB 238 million, respectively.

Operating lease commitments – Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases of buildings and equipment are as follows:

	31 December 2016 mRUB	31 December 2015 mRUB
Not later than 1 year	2,153	2,000
Later than 1 year and not later than 5 years	3,232	2,574
Later than 5 years	2,517	2,132
Total operating lease commitments	7,902	6,706

Legal proceedings – From time to time and in the normal course of business, claims against the Group are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred.

Taxation – The Russian laws and regulations affecting business continue to change rapidly. The implementation of Russian tax laws and regulations is often unclear or inconsistent. Historically, the system of tax collection in Russia has been relatively ineffective, resulting in the continual changes to the tax legislation, some of which apply retroactively and occur with little notice, as well as in interpretation of the existing laws and regulations by various authorities. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. Recent events suggest that the Russian tax authorities are taking a more assertive position in their interpretation of the legislation and, as a result, transactions and activities that have not been challenged in the past may be challenged in future tax audits.

Russian transfer pricing rules introduced additional reporting and documentation requirements. The Russian tax authorities may assess additional tax charges in respect of all controlled transactions (both domestic and cross-border), including but not limited to transactions with related parties, if they consider transactions to be priced not at arm's length. Special transfer pricing rules apply to transactions with securities and derivatives.

In light of the uncertainty and absence of extensive practice of application of the Russian transfer pricing legislation it cannot be fully excluded that the Russian tax authorities may try to challenge the level of prices applied by the Group under the "controlled" transactions and accrue additional tax liabilities unless the Group is able to demonstrate the use of market prices with respect to the "controlled" transactions, and that there has been proper reporting to the Russian tax authorities, supported by appropriate available transfer pricing documentation. The impact of the potential challenge of the Group's transfer pricing positions by the tax authorities cannot be reliably estimated. However, taking into account that loans represent one of the major parts of transactions between the companies of the Group, the Management believes that the existing safe harbor rules on interest income and expenses significantly reduce the impact of the potential challenge of the Group's transfer pricing positions on loans.

Starting from January 1, 2015, new rules on taxation of controlled foreign companies were introduced into the Russian tax legislation, as well as the concept of tax residency for legal entities and the beneficial ownership concept. The adoption of this law generally leads to an increase in the administrative and, in some cases, tax burden on Russian taxpayers engaged in transactions with foreign companies. In 2016, the Group applied a procedure of obtaining from its clients "beneficial ownership" confirmations in writing. The Group did not have foreign subsidiaries, in respect of which the Group could have significant tax liabilities in accordance with the rules on taxation of controlled foreign companies. Management believes that the Group's application of the above new rules does not have a significant effect on the Group's tax liabilities.

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The introduction of these laws, as well as the interpretation of certain provisions of the Russian tax legislation in combination with the latest trends in law enforcement indicate the potential possibility of increasing of the amount of taxes paid and the amount of penalties, including due to the fact that the Russian tax authorities and courts may be taking a more assertive position in their application of the legislation and assessments. At the same time the potential impact cannot be reliably estimated, as well as the probability of an unfavorable outcome in the case of claims of the Russian tax authorities. Tax inspections may cover three calendar years immediately preceding the year of review. The longer periods may be reviewed under certain conditions. As such, additional taxes, penalties and late payment interest may be assessed by the relevant authorities.

Management believes that as at 31 December 2016 the provisions of the tax laws applicable to the Group, interpreted them correctly.

Operating environment – Emerging markets such as Russian Federation are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russian Federation continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russian Federation is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because Russian Federation produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market, which decreased significantly during 2015 and showed high volatility over the course of 2016. Management is unable to reliably estimate the effects of any further price fluctuations on the Group's financial position.

Starting from March 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies. Ratings of Russia's sovereign debt from Moody's and S&P agencies remain at a below investment-grade level following a series of downgrades over 2014-2015. At the same time, the US Federal Reserve System is giving clear signals of readiness to increase interest rates which should affect flows of capital to/from emerging economies such as Russian Federation. These developments may result in reduced access of the Russian businesses to international capital and export markets, capital flight, weakening of the Russian Rouble and other negative economic consequences.

The impact of further political and economic developments in Russian Federation on future operations and financial position of the Group is at this stage difficult to determine.

Share-based payments – The Group engages in cash settled share-based payment transactions in respect of services received from certain employees. The fair value of the services received is measured by reference to the fair value of the shares initially on the date of the grant and then subsequently at each reporting date. The cost of the employee services received in respect of the shares granted is recognized in the consolidated statement of profit or loss within administrative expenses, over the period that the services are received, which is the vesting period. A liability equal to the portion of the goods and services received is recognized at the current fair value determined at each balance sheet date for cash settled payments.

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33. Transactions with related parties

Transactions between the Group and its subsidiaries, which are related parties of the Group, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below:

	31 December 2016		31 December 2015	
	Related party transactions	Total category as per financial statement caption	Related party transactions	Total category as per financial statement caption
Financial assets at fair value through profit or loss		mRUB		mRUB
- shareholders	16,914	37,152	35,129	56,968
	16,914	–	35,129	–
Due from banks	20,565	86,126	45,953	92,867
- shareholders	17,686	–	16,999	–
- related parties under common control with the Group	2,879	–	28,954	–
Loans to customers, gross	1,913	641,547	2,770	698,022
- key management personnel of the Group	11	–	50	–
- related parties under common control with the Group	1,902	–	2,720	–
Allowance for impairment losses on loans to customers	–	(53,737)	(51)	(63,488)
- related parties under common control with the Group	–	–	(51)	–
Investments available-for-sale	79	8,237	117	5,683
- related parties under common control with the Group	79	–	117	–
Other assets	46	15,153	231	12,273
- shareholders	13	–	212	–
- related parties under common control with the Group	33	–	19	–
Financial liabilities at fair value through profit or loss	21,022	35,982	27,947	54,860
- shareholders	21,022	–	27,947	–
Due to banks and international financial institutions	8,580	47,993	6,003	68,684
- shareholders	6,591	–	5,017	–
- related parties under common control with the Group	1,989	–	986	–
Customer accounts	3,741	461,893	5,616	516,707
- shareholders	–	–	–	–
- key management personnel of the Group	284	–	195	–
- related parties under common control with the Group	3,457	–	5,421	–
Other liabilities	378	9,749	868	10,507
- shareholders	378	–	868	–
Subordinated debt	39,872	39,872	58,281	58,281
- shareholders	39,872	–	52,324	–
- related parties under common control with the Group	–	–	5,957	–
Guarantees issued and similar commitments	1,301	97,847	2,020	89,439
- shareholders	1,297	–	2,015	–
- key management personnel of the Group	–	–	–	–

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	31 December 2016 mRUB		31 December 2015 mRUB	
	Related party transactions	Total category as per financial statement caption	Related party transactions	Total category as per financial statement caption
- related parties under common control with the Group	4	–	5	–
Commitments on loans and unused credit lines	13,507	98,534	7,819	72,482
- shareholders	3,976	–	5,000	–
- key management personnel of the Group	9	–	1	–
- related parties under common control with the Group	9,522	–	2,818	–
Guarantees received	17,720	242,804	12,618	303,883
- shareholders	17,249	–	12,308	–
- related parties under common control with the Group	471	–	310	–

Included in the consolidated statements of profit or loss for the year ended 31 December 2016 and 2015 are the following amounts which arose due to transactions with related parties:

	Year ended 31 December 2016 mRUB		Year ended 31 December 2015 mRUB	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Interest income	321	86,718	3,085	93,459
- shareholders	238	–	2,903	–
- key management personnel of the Group	2	–	5	–
- related parties controlled by, or under common control with the Group	81	–	177	–
Interest expense	(4,806)	(47,761)	(5,497)	(56,130)
- shareholders	(4,267)	–	(4,824)	–
- key management personnel of the Group	(9)	–	(7)	–
- related parties under common control with the Group	(530)	–	(666)	–
Provision for impairment losses on interest bearing assets	51	(12,277)	(51)	(21,107)
- related parties under common control with the Group	51	–	(51)	–
Net (loss)/gain on financial assets and liabilities at fair value through profit or loss, except forex swaps and forwards	(822)	(986)	2,237	(1,873)
- shareholders	(822)	–	2,237	–
Net gain/(loss) on foreign exchange operations and on precious metals operations	(296)	1,706	(11,874)	1,373
- shareholders	(283)	–	(11,887)	–
- key management personnel of the Group	–	–	–	–
- related parties under common control with the Group	(13)	–	13	–

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	Year ended 31 December 2016 mRUB		Year ended 31 December 2015 mRUB	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Fee and commission income	1,644	10,794	1,023	12,098
- shareholders	280	–	225	–
- key management personnel of the Group	–	–	7	–
- related parties under common control with the Group	1,364	–	791	–
Fee and commission expense	(150)	(2,790)	(250)	(2,565)
- shareholders	(147)	–	(246)	–
- related parties under common control with the Group	(3)	–	(4)	–
Operating expense (other than compensation)	106	(13,790)	(428)	(15,567)
- shareholders	123	–	(412)	–
- related parties under common control with the Group	(17)	–	(16)	–
Other income	59	1,083	50	1,196
- shareholders	26	–	18	–
- related parties under common control with the Group	33	–	32	–
Salary, bonuses and social security contribution	(806)	(19,165)	(633)	(19,568)
- key management personnel	(806)	–	(633)	–
Share-based payment	(90)	–	(35)	–
- short-term employee benefits	(90)	–	(35)	–

34. Fair value of financial instruments

Estimated fair value disclosures of financial instruments are made in accordance with the requirements of IFRS 13 *Fair Value Measurement*. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (ie an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

The fair values of financial assets and financial liabilities are determined as follows.

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).
- Unquoted equities and debt securities classified as available-for-sale are valued using models that use both observable and unobservable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.
- For financial assets and liabilities that have a short term maturity (less than 3 months), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without a maturity.
- For loans and advances to banks and customers and deposits by banks and customers and promissory notes issued at variable rates management believes that carrying rate may be assumed to be fair value.

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- For loans and advances to banks and customers and deposits by banks and customers and promissory notes issued at fixed rates fair value has been estimated by reference to the market rates available at the balance sheet date for similar instruments of maturity equal to the remaining fixed period.
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.
- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

The fair value of financial assets and liabilities compared with the corresponding carrying amount in the consolidated statement of financial position of the Group is presented below:

	31 December 2016		31 December 2015	
	Carrying value, mRUB	Fair value, mRUB	Carrying value, mRUB	Fair value, mRUB
Cash and balances with the Central Bank of the Russian Federation	48,499	48,499	103,225	103,225
Financial assets at fair value through profit or loss				
- <i>Derivative financial instruments</i>	35,093	35,093	53,440	53,440
- <i>Debt securities</i>	2,059	2,059	3,528	3,528
Due from banks	86,126	86,225	92,867	92,867
Loans to customers	587,810	591,567	634,534	607,663
Investments available-for-sale	8,237	8,237	5,683	5,683
Investments held to maturity	72,912	75,988	79,582	80,687
Other financial assets	3,414	3,414	2,101	2,101
Financial liabilities at fair value through profit or loss	35,982	35,982	54,860	54,860
Due to the Central Bank of the Russian Federation	190	190	18,861	18,861
Due to banks and international financial institutions	47,993	49,540	68,684	69,501
Customer accounts	461,893	462,073	516,707	518,336
Debt securities issued	158,133	161,712	159,795	159,621
Other financial liabilities	7,239	7,239	8,507	8,507
Subordinated debt	39,872	39,383	58,281	57,833

Assets and liabilities for which fair value approximates carrying value

For financial assets and liabilities that have a short term maturity (less than 3 months), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts.

Fair value measurements recognised in the consolidated statement of financial position

For the purpose of fair value hierarchy disclosure as at 31 December 2016 and 2015, the Group has categorized classes of assets and liabilities at fair value into Level 1 to 3 based on the degree to which their fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

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- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Balance sheet Category	31 December 2016, mRUB			31 December 2015, mRUB		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Cash and balances with the Central Bank of the Russian Federation	–	48,499	–	–	103,225	–
Financial assets at fair value through profit or loss						
- <i>Derivative financial instruments</i>	–	35,093	–	–	53,440	–
- <i>Debt securities</i>	2,059	–	–	3,528	–	–
Due from banks	–	24,867	61,358	–	8,253	84,614
Loans to customers	–	–	591,567	–	–	607,663
Investments available-for-sale	8,033	204	–	5,551	132	–
Investments held to maturity	75,988	–	–	80,687	–	–
Property and equipment	–	–	15,299	–	–	16,667
Financial liabilities at fair value through profit or loss	745	35,237	–	1,366	53,494	–
Due to the Central Bank of the Russian Federation	–	190	–	–	18,861	–
Due to banks and international financial institutions	–	3,772	45,768	–	944	68,557
Customer accounts	–	–	462,073	–	–	518,336
Debt securities issued	160,562	1,150	–	157,211	2,410	–
Subordinated debt	–	–	39,383	–	–	57,833

Possibility of transfer from Level 1 to Level 2 category is assessed as low, as liquidity control is performed by Market Risk Department. Control period of liquidity assessment is 90 days from position opening. Market risk department performs liquidity analysis using position turnover, volumes of exchange trades, availability of exchange and brokers quotations. In case of position assessment as insufficient liquid the necessary actions to close position are taken.

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

Level 3 fair values of land and office buildings have been generally derived using the adjusted sales comparison approach, the income-based approach and the costs method. Unobservable inputs included in the calculations for sales comparison approach represent various adjustments considered to account for the difference between the compared properties in terms of size, location, bargain prices to which sellers are willing to go (ranging from 0% to -15%). The unobservable inputs included in the income-based approach calculations represent mainly the adjustments considered to account for the discounting rates (ranging from 10 % to 12%) and capitalization rates (from 9% to 12.5%).

The sensitivity of the fair value measurement to changes in those unobservable inputs indicated above does not result in a significantly higher or lower fair value measurement.

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35. Offsetting financial assets and liabilities

	Impact of offsetting on the statement of financial position		Net amount presented in the statement of financial position	Financial instruments recognised in the statement of financial position	Impact of Master Netting Agreements and similar agreements		
	Gross amount	Amounts offset			Cash collateral received	Financial instruments received as collateral	Net amount
Assets subject to offsetting							
Derivative financial instruments	35,093	–	35,093	23,449	–	–	11,645
Due from banks under reverse repurchase agreements	24,867	–	24,867	–	–	190	24,677
Total assets subject to offsetting	59,960	–	59,960	23,449	–	190	36,322
Liabilities subject to offsetting							
Derivative financial instruments	35,237	–	35,237	23,449	–	–	11,788
Due to banks under repurchase agreements	3,772	–	3,772	–	190	–	3,582
Total liabilities subject to offsetting	39,009	–	39,009	23,449	190	–	15,370

	Impact of offsetting on the statement of financial position		Net amount presented in the statement of financial position	Financial instruments recognised in the statement of financial position	Impact of Master Netting Agreements and similar agreements		
	Gross amount	Amounts offset			Cash collateral received	Financial instruments received as collateral	Net amount
Assets subject to offsetting							
Derivative financial instruments	53,440	–	53,440	36,166	–	–	17,274
Due from banks under reverse repurchase agreements	8,253	–	8,253	–	–	–	8,253
Total assets subject to offsetting	61,693	–	61,693	36,166	–	–	25,527
Liabilities subject to offsetting							
Derivative financial instruments	53,494	–	53,494	36,166	–	–	17,328
Due to banks under repurchase agreements	944	–	944	–	–	–	944
Total liabilities subject to offsetting	54,438	–	54,438	36,166	–	–	18,272

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36. Regulatory matters

Quantitative measures established by regulation to ensure capital adequacy require the Group to maintain minimum amounts and ratios of total (8%) and tier 1 capital (4%) to risk weighted assets.

The ratio was calculated according to the principles Basel II employed by the Basel Committee.

The following table analyzes the Group's regulatory capital resources for capital adequacy purposes in accordance with the principles employed by the Basel Committee.

	31 December 2016 mRUB	31 December 2015 mRUB
Tier 1 capital	117,607	113,668
Tier 2 capital	37,234	56,545
Total capital	154,841	170,213

As at 31 December 2016 and 2015 the Group included in the computation of Total capital for Capital adequacy purposes the subordinated debt received, limited to 50% of Tier 1 capital. In the event of bankruptcy or liquidation of the Group, repayment of this debt is subordinate to the repayments of the Group's liabilities to all other creditors.

As at 31 December 2016 the Group's total capital amount for Capital Adequacy purposes was RUB 154,841 million and Tier 1 capital amount was RUB 117,607 million with ratios of 20.90% and 15.80%, respectively.

As at 31 December 2015 the Group's total capital amount for Capital Adequacy purposes was RUB 170,213 million and Tier 1 capital amount was RUB 113,668 million with ratios of 20.60% and 13.80%, respectively.

37. Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The Group is obliged to comply with CBR capital adequacy requirements.

The capital structure of the Group consists of debt, which includes subordinated debt disclosed in Note 21, and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in consolidated statement of changes in equity.

The Management Board reviews the capital structure on a semi-annual basis. As a part of this review, the Board considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the Board, the Group balances its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

The Group's overall capital risk management policy remains unchanged from 2015.

38. Segment reporting

The Group discloses information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates. This matter is regulated by IFRS 8 *Operating Segments* and other standards that require special disclosures in the form of segmental reporting.

IFRS 8 defines an operating segment as follows. An operating segment is a component of an entity:

- That engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
- Whose operating results are reviewed regularly by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and
- For which discrete financial information is available.

Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on types of services delivered or provided. The Group's reportable segments under IFRS 8 are therefore as follows:

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.
- Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products.
- Treasury and Financial institutions – representing all trading financial instruments recognized and measured at fair value through profit and loss as well as loans and borrowings initiated through interbank transactions.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. Transactions between the operating segments consist only of reallocating of funds. Funds are ordinarily reallocated between segments, resulting in funding cost transfers disclosed in operating income. Interest charged for these funds is based on the Group's marginal funding price. There are no other material items of income or expense between the business segments. Segment assets and liabilities comprise operating assets and liabilities. Internal charges and transfer pricing adjustments have been reflected in the performance of each business.

The main business activity of the Group is concentrated in RF, thus no geographical segmentation is reported.

During 2016 the Group has changed methodology on segments report:

- The amount of Fund transfer pricing costs on Retail is being calculated based on loan portfolio net of provisions.
- New allocation methodology of unallocated amounts has been applied.

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Segment information about these businesses is presented below.

	Retail banking	Corporate banking	Treasury and Financial institutions	Unallocated	Year ended 31 December 2016
Net interest margin	26,880	8,252	1,805	2,020	38,957
Provisions for impairment losses on interest bearing assets	(12,722)	445	–	–	(12,277)
Net gain/(loss) on financial transactions	139	1	1,640	(1,060)	720
Net fee and commission income	5,746	2,063	402	(207)	8,004
Other provisions	24	(800)	(4)	291	(489)
Dividend income	276	221	98	–	595
Other income	300	46	48	689	1,083
Expense)/income from other segments	1,089	959	(315)	(1,733)	–
Total operating income	21,732	11,187	3,674	(0)	36,593
Operating expenses	(27,688)	(3,644)	(1,829)	206	(32,955)
(Expense)/income from other segments	106	79	21	(206)	–
Other non-operating income	254	204	91	–	549
Profit before income tax	(5,596)	7,826	1,957	(0)	4,187
Income tax expense	(502)	(402)	(179)	–	(1 083)
Net profit	(6,098)	7,424	1,778	–	3,104
Segment assets	419,060	313,323	132,375	15,948	880,706
Segment liabilities	372,295	308,278	65,986	10,589	757,148
Other segment items					
Depreciation charge on property and equipment	(1,239)	(909)	(228)	–	(2,376)
Cash and balances with the Central Bank of the Russian Federation	24,654	16,497	7,348	–	48,499
Financial assets at fair value through profit or loss	149	119	36,884	–	37,152
Due from banks	425	11,873	73,828	–	86,126
Loans to customers	345,945	241,865	–	–	587,810
Investments available-for-sale	3,814	3,060	1,363	–	8,237
Investments held to maturity	30,427	31,613	10,872	–	72,912
Property and equipment	10,261	7,526	1,888	–	19,675
Intangible assets	1,046	769	193	–	2,008
Other assets	2,340	–	–	15,947	18,287
Financial liabilities at fair value through profit or loss	352	283	35,347	–	35,982
Due to the Central Bank of the Russian Federation	–	190	–	–	190
Due to banks and international financial institutions	10,615	21,709	15,669	–	47,993
Customer accounts	209,407	252,486	–	–	461,893
Debt securities issued	130,961	18,799	8,373	–	158,133
Subordinated debt	18,464	14,811	6,597	–	39,872
Other liabilities	2,495	–	–	10,590	13,085
Capital expenditure	1,672	1,227	308	–	3,207

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Segment information as at 31 December 2015 after restatement is presented below.

	Retail banking	Corporate banking	Treasury and Financial institutions	Unallocated	Year ended 31 December 2015 (revised)
Net interest margin	32,709	10,372	2,250	(8,001)	37,329
Provisions for impairment losses on interest bearing assets	(21,247)	44	(4)	100	(21,107)
Net gain/(loss) on financial transactions	589	–	2,718	(3,807)	(500)
Net fee and commission income	5,585	3,856	376	(284)	9,533
Other provisions	(47)	(108)	–	(636)	(791)
Dividend income	21	17	8	0	46
Other income	260	32	69	836	1,197
Expense)/income from other segments	(5,426)	(4,504)	(1,862)	11,792	–
Total operating income	12,444	9,708	3,554	(0)	25,706
Operating expenses	(27,001)	(6,029)	(1,507)	(598)	(35,135)
(Expense)/income from other segments	(312)	(229)	(57)	598	–
Other non-operating income	106	85	38		229
Profit before income tax	(14,762)	3,536	2,027	(0)	(9,200)
Income tax expense	(38)	(31)	(14)	–	(82)
Net profit	(14,800)	3,505	2,013	(0)	(9,282)
Segment assets	485,786	350,480	160,752	14,162	1,011,179
Segment liabilities	391,101	402,680	87,687	9,209	890,678
Other segment items					
Depreciation charge on property and equipment	(1,318)	(967)	(242)	–	(2,527)
Cash and balances with the Central Bank of the Russian Federation	54,991	33,370	14,863	–	103,225
Financial assets at fair value through profit or loss	585	469	55,914	–	56,968
Due from banks	3,792	14,824	74,251	–	92,867
Loans to customers	374,868	259,666	–	–	634,534
Investments available-for-sale	2,632	2,111	940	–	5,683
Investments held to maturity	35,404	31,529	12,650	–	79,582
Property and equipment	10,484	7,692	1,929	–	20,105
Intangible assets	1,118	820	206	–	2,144
Other assets	1,912			14,162	16,073
Financial liabilities at fair value through profit or loss	520	417	53,923	–	54,860
Due to the Central Bank of the Russian Federation	9,003	6,820	3,038	–	18,861
Due to banks and international financial institutions	20,748	36,309	11,628	–	68,684
Customer accounts	200,450	316,257	–	–	516,707
Debt securities issued	129,111	21,228	9,455	–	159,795
Subordinated debt	26,989	21,649	9,643	–	58,281
Other liabilities	4,280			9,209	13,489
Capital expenditure	1,598	1,173	294	–	3,065

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Segment information as at 31 December 2015 before restatement is presented below.

	Retail banking	Corporate banking	Treasury and Financial institutions	Unallocated	Year ended 31 December 2015
Net interest margin	28,850	10,220	2,250	(3,991)	37,329
Provisions for impairment losses on interest bearing assets	(21,247)	44	(4)	100	(21,107)
Net gain/(loss) on financial transactions	574	(49)	2,781	(3,806)	(500)
Net fee and commission income	5,596	3,854	375	(292)	9,533
Other provisions	(47)	(108)	–	(636)	(791)
Dividend income	–	–	–	46	46
Other income	272	37	71	816	1,196
Total operating income	13,998	13,998	5,473	(7,763)	25,706
Operating expenses	(26,969)	(6,004)	(1,499)	(663)	(35,135)
Other non-operating income	–	–	–	229	229
Profit before income tax	(12,971)	7,994	3,974	(8,197)	(9,200)
Income tax expense	–	–	–	(82)	(82)
Net profit	(12,971)	7,994	3,974	(8,279)	(9,282)
Segment assets	403,880	261,251	146,147	199,901	1,011,179
Segment liabilities	328,624	316,257	178,307	67,490	890,678
Other segment items					
Depreciation charge on property and equipment	(1,127)	(180)	(12)	(1,208)	(2,527)
Cash and balances with the Central Bank of the Russian Federation	13,391	–	–	89,834	103,225
Financial assets at fair value through profit or loss	–	–	56,968	–	56,968
Due from banks	3,792	–	89,075	–	92,867
Loans to customers	374,868	259,666	–	–	634,534
Investments available-for-sale	–	–	–	5,683	5,683
Investments held to maturity	–	–	–	79,582	79,582
Property and equipment	8,963	1,432	95	9,615	20,105
Intangible assets	956	153	10	1,025	2,144
Financial liabilities at fair value through profit or loss	–	–	54,860	–	54,860
Due to the Central Bank of the Russian Federation	–	–	18,861	–	18,861
Due to banks and international financial institutions	21,246	–	47,438	–	68,684
Customer accounts	200,449	316,258	–	–	516,707
Debt securities issued	102,647	–	57,148	–	159,795
Subordinated debt	–	–	–	58,281	58,281
Capital expenditure	1,366	218	15	1,466	3,065

For the purpose of the segment reporting disclosure the category “Net gain/(loss) on financial transactions” includes the following categories:

- Net (loss)/gain on financial assets and liabilities at fair value through profit or loss, except forex swaps and forwards;
- Net gain/(loss) on foreign exchange operations;
- Net gain/(loss) on precious metals operations.

39. Risk management policies

The risk management process is fundamental to the Grouping business and is an integral part of an overall risk and capital management strategy within the Group's internal capital adequacy assessment processes (ICAAP).

The whole ICAAP cycle takes a year and is composed by the following steps:

- Starts with the significant risk identification procedure and Risk Map report based on budget and forecast figures approved in the current year;
- Regular significant risks assessment of the Group;
- Assessment of internal available capital adequacy of the Group under normal and stressed conditions taking into account budget and forecast figures approved in the current year;
- Risk-appetite framework enhanced by stressed figures and set in line with the Group's Development Strategy;
- Incorporating of ICAAP into the operating Bank's risk and capital management function via capital allocation and limits setting;
- Embedding in the budgeting process the ICAAP figures for the next year;
- Monitoring and reporting of the plan-fact analysis of allocated capital utilization during the whole year;
- ICAAP self-assessment;
- ICAAP results report preparation.

The procedure for the identification of significant risks arising from the Group's activities in connection with business models existing in the Group is performed on a yearly basis and entails the following steps:

- Listing a comprehensive inventory of risks (all risks that the Group is or could be exposed to);
- Determining the inherent risk level based on the information available with regards to the Group's Development Strategy, current risk exposures and the professional judgment of its risk experts, expressed in terms of a combination of impact and likelihood;
- Identification and documentation of the existing risk controls implemented by the Group which reduce the inherent risk level (e.g. existence of dedicated risk management policies, KRIs, risk measures and limits, regular monitoring and reporting processes and other if the case);
- Prioritization of risk depending on the Group's risk-appetite;
- Determination the residual risk level of significant risks in terms of both likelihood and impact (after the consideration and analysis of the risk management and controls used by the Group).

Within its regular risk assessment process the Group takes into account the changes in the current risk profile, the emergence of new types of risks, significant changes in the organizational structure of the Group as well as from launching of new types of activities.

The Group takes into account the results of the significant risks identification procedure in the strategic planning process, in particular in the development of the target risk structure and risk appetite.

Considering the diversity and changes in the Group, the Parent Bank of the Group assesses and develops approaches to the management of all risks that were recognized as significant for 2016:

- Credit risk (including concentration risk and counterparty credit risk);
- Operational risk;
- Market risk;
- Liquidity risk (including concentration risk);

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- Structural interest rate risk;
- Structural foreign exchange risk (including concentration risk);
- Strategic risk.

For all risks that have been identified as significant for the Group, parent Bank of the Group and subsidiaries develop appropriate risk management policies and procedures, as well as establish a limit control system of these risks, develop risk data measurement methodology and evaluation of the relevant capital requirements.

Decision making process for a transaction takes place only after the complex assessment of risks related to such transaction. All transactions are conducted in accordance with the internal regulations and set limits. In case of new transactions, subject to significant risks without corresponding internal document and/or or the relevant decision of the Management regulating such transactions, are not allowed.

Methods for assessment of significant risks as well as risk management procedures have not changed significantly during the reporting year.

The main changes in risk management policy during 2016 year were connected with expanding common practice of the Bank to its subsidiaries by implementation Internal procedure of capital adequacy assessment and foundation the basis of consolidation and centralization of internal significant risks management on the Group's level. In 2016 year complex stress-testing of impact risk to capital of the Group was taken, risk-appetite was established and capital was divided on types of significant risks and business lines on the Group's level.

The description of the Group's general risk management principles is provided below.

Credit risk

Credit activities in Group are conducted in accordance with the regulatory framework set by the Central Bank of the Russian Federation as well as criteria and guidelines set by the Group's major shareholder (Societe Generale). Credit Policy of the Group is defined by the parent Bank's of the Group Management Board.

Bank as the Parent company sets approaches to credit risk management at group level (the group standards) so that subsidiaries exposed to credit risk could develop its local risk management system in line with the group standard, and perform regular control of the credit risk value at Group level and its maintenance within required limits.

Credit risk is managed for each client segment, including Factoring and Leasing, using the dedicated tools, including credit portfolio diversification, sound credit application assessment procedures, credit portfolio / loan quality monitoring systems, etc. Qualitative and quantitative credit risk management techniques for each segment are defined in corresponding credit policies.

The Group distinguishes the following client segments in its portfolio of credit risk-bearing products:

- Corporate clients
- Retail clients
- Financial institutions.

The parent Bank of the Group distinguishes multiple client segments in its portfolio of credit risk-bearing products. Other subsidiaries have exposures primarily in the retail client segment.

The methods of credit risk management in the Group including concentration risk are designed to minimize and control credit risk of risk-associated transactions, and includes the following main areas:

- Maintenance of diversified structure of the Credit Product Portfolio by industry, region, currency, product types, maturity of Credit Products, and type of collateral;
- Setting risk limits on clients/ related-client groups/portfolios, etc;

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- Definition of industry strategies and qualitative criteria to manage credit risk per industry;
- Application of differentiated, multilevel, complex approach to evaluation of credit applications of clients;
- Usage centralized multilevel decision-making system during offering credit products;
- Monitoring the established limits and decisions.

Obligatory continuous monitoring the quality of Credit Product Portfolio and risk-associated credits/transactions.

Creation of allowances for possible losses on loans and other similar debts, allowances on transactions with offshore residents according to the procedure set by regulatory documents of the Group of Russia, and provisioning under the International Financial Reporting Standards. All loans issued by the parent Bank of the Group and subsidiaries are evaluated in terms of credit risk by the way of continuous complex analysis of the Clients' transactions, their financial standing, debt quality service, and collateral, based on all information available in the Group. When identifying any signs of loan impairment (i.e. loss of credit cost arising from a borrower's default or improper credit performance under terms and conditions of any agreement or any threat of default), the parent Bank of the Group and subsidiaries create loan loss provisions.

A valuable tool to reduce the negative impact of credit risk realization on the financial results of the Group's is collateral management.

Collateral can consist of physical assets in form of property, commodities or precious metals, as well as financial instruments such as cash, high-quality investments, securities and insurance policies. Appropriate haircuts are applied to the value of collateral, depending on their quality and liquidity.

In addition to physical and financial collateral listed above the Group uses the standard instruments for credit risk mitigation such as non-financial covenants and guarantees as well as financial covenants being applied on individual basis depending on the transaction.

Internal and external ratings

The Group's rating system makes a key distinction between retail customers and corporate, bank and sovereign clients: for retail customer portfolios, internal models are used to measure credit risks. The Group uses calculated borrower's probability of default (PD) within one year and the percentage loss if the counterparty defaults (Loss Given Default, LGD) for credit risk assessment.

In both cases a set of procedures defines the rules and roles relating to ratings (scope, frequency of rating review, rating approval procedure, etc.), split between Rosbank and SG respectively. Among other things, these procedures facilitate human judgement, which provides a critical view of the results and is an essential complement to the models for these portfolios. The Group's internal models thus enable a quantitative assessment of credit risks based on the probability of default of the counterparty and the loss given default. The final Obligor rating is included in the credit applications and incorporated in credit limit delegation policy. Thus, Obligor ratings are one of the criteria for determining the approval limits granted to operational staff and the risk function.

The Group's risks estimates are not excessively sensitive to changes in the economic environment, while being able to detect any deterioration of risks. The PD modelling for large corporates has also been calibrated against long-term default statistics obtained from an external rating agency.

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The criteria for determining internal rating category are as follows:

SG OG category	Criteria
1-2	High level of creditworthiness. Financial position is assessed as good and stable in the long term.
3	High level of creditworthiness. Financial position is assessed as good and stable in the long term. Some financial indicators are below 2 nd category.
4	Relatively high level of creditworthiness. Financial position is assessed as satisfactory and stable in the long term.
5	Average level of creditworthiness. Financial position is assessed as satisfactory and stable in the short term.
6	Creditworthiness below average. Key financial indicators are assessed as satisfactory and stable in the short term.
7	Creditworthiness below average. Key financial indicators are assessed as satisfactory, but their stability is doubtful.
8	Significant deterioration in the counterparty's financial situation with or without unpaid amount.
9	At least one default on payment has been recorded and a recovery procedure has been initiated.
10	The counterparty is the subject of a legal procedure.

Financial assets are graded according to the current credit rating they have been issued by an internationally regarded agency. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classed as speculative grade.

The following table details the credit ratings of financial assets (except loans to customers) that are neither past due nor impaired held by the Group:

	AAA	AA	A	BBB	<BBB	Not rated	31 December 2016 Total mRUB
Financial assets at fair value through profit or loss	–	–	17,875	150	18,043	1,084	37,152
Due from banks	–	173	31,407	1,171	48,040	5,335	86,126
Investments available-for-sale	–	–	–	–	8,033	–	8,033
Investments held to maturity	–	–	–	–	72,912	–	72,912

	AAA	AA	A	BBB	<BBB	Not rated	31 December 2015 Total mRUB
Financial assets at fair value through profit or loss	1,073	–	37,689	–	17,435	771	56,968
Due from banks	–	712	51,963	11,424	13,680	15,088	92,867
Investments available-for-sale	–	–	–	–	5,551	–	5,551
Investments held to maturity	–	–	–	–	78,408	1,174	79,582

As of 31 December 2016 and 2015 the Balances with the Central Bank of the Russian Federation amounted to RUB 28,442 million and RUB 76,283 million, respectively. As of 31 December 2016 and 2015 the credit rating of the Russian Federation according to the international rating agencies corresponded to investment level BBB- and BBB-, respectively.

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As of 31 December 2016 and 2015 unimpaired loans to customers comprise:

Category	Neither past due nor impaired	Past due up to 1 month	Past due 1-3 months	Past due 3-6 months	Past due but not impaired 6 months and over	Total past due but not impaired	31 December 2016 Total not impaired mRUB
Loans to individuals	325,696	11,143	2,033	–	–	13,176	338,872
Loans to legal entities	237,544	–	–	–	–	–	237,544
Total loans to customers not impaired	563,240	11,143	2,033	–	–	13,176	576,416

Category	Neither past due nor impaired	Past due up to 1 month	Past due 1-3 months	Past due 3-6 months	Past due but not impaired 6 months and over	Total past due but not impaired	31 December 2015 Total not impaired mRUB
Loans to individuals	346,903	7,297	–	–	–	7,297	354,200
Loans to legal entities	231,529	190	–	–	25	215	231,744
Total loans to customers not impaired	578,432	7,487	–	–	25	7,512	585,944

As of 31 December 2016 and 2015 the credit quality of loans to corporate customers that are neither past due nor impaired is presented below:

Internal rating category	31 December 2016 mRUB	31 December 2015 mRUB
1-2	8,418	3,643
3	2,812	9,249
4	35,368	44,095
5	137,149	133,511
6	55,770	39,237
7-10	751	1,794
Total	240,268	231,529

In respect to loans to individuals, the management of the Group bases its judgement for decision-making purposes on information on overdue periods for those loans.

The Grouping industry is generally exposed to credit risk through its financial assets. Credit risk exposure of the Group is concentrated within the Russian Federation. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Group's risk management policy are not breached.

Collateral management

Collateral can consist of physical assets in the form of property, commodities or precious metals, as well as financial instruments such as cash, high-quality investments and securities and also insurance policies. Appropriate haircuts are applied to the value of collateral, reflecting its quality and liquidity.

The Group proactively manages its risks by diversifying guarantees: physical collateral, personal guarantees and others. In addition, the Group has strengthened its policies relating to the acceptance and management of guarantees and collateral as well as their valuation (data collection on guarantees and collateral, deployment of operational procedures).

During the credit approval process, an assessment of the value of guarantees and collateral, their legal enforceability and the guarantor's ability to meet its obligations is undertaken.

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The Credit Risk Department is responsible for validating the operating procedures established by the business divisions for the regular valuation of guarantees and collateral, either automatically or based on an expert opinion, both during the approval phase for a new loan or upon the annual renewal of the credit application.

Renegotiated loans and advances

Loans and advances are generally renegotiated either as part of an ongoing customer relationship or in response to an adverse change in the circumstances of the borrower. In the latter case, renegotiation can result in an extension of the due date of payment or repayment plans under which the Group offers a concessionary rate of interest to genuinely distressed borrowers. This will result in the asset continuing to be overdue and will be individually impaired where the renegotiated payments of interest and principal will not recover the original carrying amount of the asset. In other cases, renegotiation will lead to a new agreement, which is treated as a new loan.

The Grouping industry is generally exposed to credit risk through its loans to customers and inter bank deposits. With regard to the loans to customers this risk exposure is concentrated within the Russian Federation. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Group's risk management policy are not breached.

Operational risk

Operational risk is defined as the risk of loss due to unreliability of the internal procedures of the Group, negligence of the employees, failure of information systems or due to the influence of external events on the activities of the Group. Legal risk is a part of operational risk.

Bank and all the subsidiaries accept operational risk in their activities.

The Group cannot eliminate all operational risks, but it endeavors to manage these risks. Policies and procedures governing operational risk management are developed and implemented in the Group. The Group use an operational risk assessment method established by the Central Bank of Russia Regulation dated 3 November 2009 № 346-P *Operational risk amount calculating Procedure*, Regulation № 509-P dated 3 December 2015 *On the calculation of own funds (capital), mandatory ratios and open currency positions (limits) of the Grouping groups* (hereinafter – Regulation № 509-P), procedures for risk monitoring, and also the measures for its limitation are developed and implemented.

The Group use the following identification and assessment instruments of operational risk: KRI, collect data on internal and external losses, implement scenario analysis, conduct an annual risk and control procedures (RCSA) self-assessment. The Group have developed business continuity plans and (or) restoration of activities and action plans in crisis situations. Despite all the measures taken, the operational risk remains a significant one due to its characteristic features to affect the realization of other risks.

Controls measures include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes.

Bank as a Parent company approves approaches to operational risk management of subsidiaries and performs regular control of the operational risk value at Group level.

Market risk

Banking group is exposed to market risk due to impact of market indicators changes on the fair-value of instruments in portfolio. Interest and FX risks are the most noticeable among others.

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For management purposes the Group recognizes next types of market risk in trading book:

- Interest rate risk – risk of getting financial losses from change of market instruments fair-value in trading portfolio due to changes of market interest rates;
- FX risk – risk of getting financial losses from change of market instruments fair-value in trading portfolio due to changes of market FX rates;
- Commodity risk – risk of getting financial losses from change of market instruments fair-value in trading portfolio due to changes of market commodity prices (including precious metals);
- Fund risk- risk of getting financial losses from change of market instruments fair-value in trading portfolio due to changes of market shares prices and derivatives on the shares and indices;

Banking Group has conservative policy in the management of market risk. Risk management units are independent from business-lines which take risk.

Market risk management system includes analysis of risk exposure, calculation of risk metrics, limits on risk metrics and their control and preparation of reporting to Management of the Group on daily basis. All financial instruments at the beginning before trade are implemented via New Product approval procedure that includes risk exposure assessment, completeness of active limits system and capacity of used IT-systems to process financial instrument. Limit system covers all risk market risk types that Group is exposed to. Business-lines take market risk in the frame of approved limits.

For management of Interest Rate risk sensitivity and stress-test risk metrics to general risk and basis risks are used with the most accurate methodology of calculation via full repricing.

For management of FX and fund risks position limits and stress-test limits are used.

Limits utilization is calculated for all financial instruments exposed to market risk.

To test the accuracy of calculation methods Group performs historical tests of models and methodologies on the market data samples and financial results from market operations. IFRS principles are used for fair-value definition of financial instruments.

Approved limit on stress-test for market risk less than 3% of Bank's capital.

Structural interest rate risk

Structural interest rate risk – it is the risk of potential losses, income or asset value decrease as a result of changes in market interest rates.

Banking Group implements conservative interest rate risk management policy, aimed to reduce negative impact of market conditions on financial performance of the Group, including minimization of the Group's interest result reduction possibility due to a sharp change in interest rates and also on the compliance with regulatory requirements.

The main indicator of the evaluation and structural interest rate risk management system is the sensitivity of economic value of capital to interest rate changes. The economic value of capital when calculating the value of the interest rate risk is determined by the present value of future cash flows of the Bank. As the sensitivity measure of the economic value of capital to changes in interest rates the change in NPV of cash flows of each of the Group's member is used. It is calculated on a given time horizon and in a given currency in case of the interest change scenario realization. NPV is calculated by discounting cash flows at the risk-free curve. As the discount factors specific curves are used, constructed on the basis of the interest rate swap and money market data. In case of the basic scenario realization an instantaneous parallel shift of the yield curve by + 1% is used. The data on the contractual terms, terms of rates revision are used in the interest rate risk indicator construction process as well as statistical behavioral models in case of their applicability.

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Banking Group accepts an interest rate risk within the limits according to risk-appetite. The limit of possible risk level is set as maximum value of future cash flows sensitivity to the interest rate change.

The interest rate limits are set for each of the banking group participants and as a sum for the whole Group; for each of the significant currency and in total for all currencies; by periods of maturity.

Additional to the interest rate limits, possible thresholds (within the current limits) are set. Achieving thresholds means the need for implementing balance sheet structure adjusting and risk reduction measures.

Structural interest rate risk control and management are carried out on a monthly basis.

Structural risk exposure should not exceed the determined value of 3% of the capital.

During (the reporting period) the Group's interest rate risk was within the established limits and thresholds.

Sensitivity to interest rate variations of the Group is presented below:

	Year ended 31 December 2016	Year ended 31 December 2015
Short term	(67)	488
Medium term	(1,102)	(1,497)
Long term	1,209	1,029
Total sensitivity to interest rate risk	40	20

Sensitivity calculation of net interest margin to interest rate variations of the Group for the one year horizon is presented below:

	Year ended 31 December 2016	Interest rates fluctuation			
		Down -2%	Down -1%	Up 1%	Up 2%
Due from banks	114,568	(729)	(485)	606	1,212
Loans to customers	587,810	(3,625)	(1,360)	3,169	5,434
Debt securities	83,004	(69)	(34)	35	69
Total interest bearing assets	785,382	(4,423)	(1,880)	3,810	6,716
Due to banks and international financial institutions	47,993	(565)	(301)	376	755
Customer accounts	461,893	(2,882)	(1,574)	2,046	4,092
Debt securities issued	158,133	(421)	(190)	272	503
Total interest bearing liabilities	668,019	(3,868)	(2,065)	2,694	5,350
	Year ended 31 December 2015	Interest rates fluctuation			
		Down -2%	Down -1%	Up 1%	Up 2%
Due from banks	168,773	(853)	(625)	785	1,571
Loans to customers	634,534	(3,694)	(1,258)	3,644	6,103
Debt securities	88,661	(91)	(46)	46	91
Total interest bearing assets	892,100	(4,638)	(1,928)	4,475	7,764
Due to banks and international financial institutions	68,684	(772)	(403)	663	1,324
Customer accounts	516,707	(4,254)	(2,423)	2,572	5,110
Debt securities issued	159,795	(978)	(451)	615	1,154
Total interest bearing liabilities	745,186	(6,004)	(3,277)	3,850	7,588

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Structural currency risk

Structural currency risk arises due to adverse changing in exchange rates on the positions opened by the Group in foreign currencies of structural book.

Certain Group's subsidiaries accept structural currency risk in their activities.

The parent Bank of the Group assesses structural currency risk of the Group by calculating open currency position in different currencies.

In accordance with structural currency risk management strategy the Group aims to close open currency positions based on IFRS. Due to differences between RAS and IFRS the Group could have open currency positions based on RAS. For this purpose the parent Bank of the Group establishes the limits for open currency position for structural currency risk of the Group in each currency.

The Group's exposure to foreign currency exchange rate risk is presented in the table below:

	RUB	USD 1 USD = 60.6569 RUB	EUR 1 EUR = 63.8111 RUB	Precious metals	Other currency	31 December 2016 Total
Assets						
Cash and balances with the Central Bank of the Russian Federation	45,483	1,409	1,321	–	286	48,499
Financial assets at fair value through profit or loss	18,644	2,632	910	–	14,966	37,152
Due from banks	29,016	36,984	16,866	–	3,260	86,126
Loans to customers	481,202	99,109	7,499	–	–	587,810
Investments available-for-sale	5,993	1,804	440	–	–	8,237
Investments held to maturity	22,966	48,999	947	–	–	72,912
Other financial assets	1,789	1,624	1	–	–	3,414
TOTAL FINANCIAL ASSETS	605,093	192,561	27,984	–	18,512	844,150
Property and equipment	19,675	–	–	–	–	19,675
Intangible assets	2,008	–	–	–	–	2,008
Current income tax assets	48	–	–	–	–	48
Deferred income tax asset	3,086	–	–	–	–	3,086
Other non-financial assets	10,941	396	375	–	27	11,739
Total non-financial assets	35,758	396	375	–	27	36,556
Total assets	640,851	192,957	28,359	–	18,539	880,706
Liabilities						
Financial liabilities at fair value through profit or loss	18,242	1,897	877	–	14,966	35,982
Due to CBR	190	–	–	–	–	190
Due to banks and international financial institutions	33,349	12,609	2,019	–	16	47,993
Customer accounts	307,523	127,715	25,285	519	851	461,893
Debt securities issued	158,125	8	–	–	–	158,133
Other provisions	1,097	246	202	–	–	1,545
Other financial liabilities	6,402	89	747	–	1	7,239
Subordinated debt	3,664	36,208	–	–	–	39,872
Total financial liabilities	528,592	178,772	29,130	519	15,834	752,847
Current income tax liabilities	382	–	–	–	–	382
Deferred income tax liabilities	1,409	–	–	–	–	1,409
Other non-financial liabilities	1,978	298	38	–	196	2,510
Total non-financial liabilities	3,769	298	38	–	196	4,301
Total liabilities	532,361	179,070	29,168	519	16,030	757,148
Open balance sheet position	108,490	13,887	(809)	(519)	2,509	

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The fair value of derivative financial instruments and spot contracts are included in the currency analysis presented above and the following table presents a further analysis of currency risk by types of derivative financial instruments and spot contracts as of 31 December 2016:

	RUB	USD 1 USD = 60.6569 RUB	EUR 1 EUR = 63.8111 RUB	Precious metals	Other currency	31 December 2016 Total
Receivables on spot and derivative contracts	131,555	240,713	29,565	519	105,441	507,793
Payables on spot and derivative contracts	(114,954)	(256,569)	(28,339)	–	(107,931)	(507,793)
Net position on spot and derivative contracts	16,601	(15,856)	1,226	519	(2,490)	
Total open position	125,091	(1,969)	417	–	19	

	RUB	USD 1 USD = 72.8827 RUB	EUR 1 EUR = 79.6972 RUB	Precious metals	Other currency	31 December 2015 Total
Assets						
Cash and balances with the Central Bank of the Russian Federation	98,186	3,106	1,723	–	210	103,225
Financial assets at fair value through profit or loss	32,361	5,831	1,724	–	17,052	56,968
Due from banks	20,480	62,422	6,188	–	3,777	92,867
Loans to customers	469,848	153,318	11,368	–	–	634,534
Investments available-for-sale	5,682	–	1	–	–	5,683
Investments held to maturity	30,259	48,163	1,160	–	–	79,582
Other financial assets	1,386	23	692	–	–	2,101
Total financial assets	658,202	272,863	22,856	–	21,039	974,960
Property and equipment	20,105	–	–	–	–	20,105
Intangible assets	2,144	–	–	–	–	2,144
Current income tax assets	435	–	–	–	–	435
Deferred income tax asset	3,363	–	–	–	–	3,363
Other non-financial assets	9,382	286	481	–	23	10,172
Total non-financial assets	35,429	286	481	–	23	36,219
Total assets	693,631	273,149	23,337	–	21,062	1,011,179
Liabilities						
Financial liabilities at fair value through profit or loss	31,446	4,859	1,503	–	17,052	54,860
Due to CBR	18,861	–	–	–	–	18,861
Due to banks and international financial institutions	38,870	25,225	4,585	–	4	68,684
Customer accounts	311,859	171,123	28,960	607	4,158	516,707
Debt securities issued	159,774	21	–	–	–	159,795
Other provisions	994	213	101	–	7	1,315
Other financial liabilities	6,397	115	1,995	–	–	8,507
Subordinated debt	4,927	49,366	3,988	–	–	58,281
Total financial liabilities	573,128	250,922	41,132	607	21,221	887,010
Current income tax liabilities	120	–	–	–	–	120
Deferred income tax liabilities	1,548	–	–	–	–	1,548
Other non-financial liabilities	1,444	303	89	–	164	2,000
Total non-financial liabilities	3,112	303	89	–	164	3,668
Total liabilities	576,240	251,225	41,221	607	21,385	890,678
Open balance sheet position	117,391	21,924	(17,884)	(607)	(323)	

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The fair value of derivative financial instruments and spot contracts are included in the currency analysis presented above and the following table presents a further analysis of currency risk by types of derivative financial instruments and spot contracts as of 31 December 2015:

	RUB	USD 1 USD = 72.8827 RUB	EUR 1 EUR = 79.6972 RUB	Precious metals	Other currency	31 December 2015 Total
Receivables on spot and derivative contracts	122,130	241,554	58,766	612	165,904	588,966
Payables on spot and derivative contracts	(118,470)	(264,375)	(40,850)	–	(165,271)	(588,966)
Net position on spot and derivative contracts	3,660	(22,821)	17,916	612	633	
Total open position	121,051	(897)	32	5	310	

Currency risk sensitivity

The following table details the Group's sensitivity to a 30% increase and decrease in the RUB against the relevant foreign currencies (2015: 30%). The sensitivity analysis includes only outstanding foreign currency denominated monetary items and their translation at the period end is adjusted for a 30% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations with the Group where the denomination of the loan is in a currency other than the functional currency of the lender or the borrower.

	2016	USD impact 2015	2016	EUR impact 2015
Profit before tax				
CCY rate up 30%	(591)	(269)	125	10
CCY rate down 30%	591	269	(125)	(10)
Other equity				
CCY rate up 30%	(473)	(215)	100	8
CCY rate down 30%	473	215	(100)	(8)

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the Group's assets and liabilities are actively managed. Additionally, the financial position of the Group may vary at the time that any actual market movement occurs. For example, the Group's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value in the statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in shareholder equity.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Group's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

Liquidity risk

Liquidity risk is the risk of non-fulfillment or untimely settlements with customers and counterparties due to the Group's inability to attract resources of the required volume and period. This inability can be expressed in the form of direct constraint of available sources of liquidity, or in a high cost of refinancing liquidity in sufficient amounts, which may have a negative impact on the Group's financial strategy.

The Group has a conservative policy aimed at maintaining sufficient liquidity to meet its obligations in a timely and complete manner.

The main elements of the liquidity risk assessment and management system are the following risk parameters: the value of the forecast amount of mandatory liquidity ratios established by the Central Bank of the Russian Federation, the size of liquidity gaps and cumulative liquidity gaps (these figures represent an analog of the CBR's recommended ratios representing liquidity deficit/excess); the value of a short-term liquidity stress test.

To manage the risk of instant liquidity and manage the cashflow position, the Group uses a set of financial indicators: internal (in particular, the current payment position for Nostro accounts); statistical (in particular, the average amount of funds received to the Group's account opened with the CBR, per day) and forecasted (in particular, the level of interest rates on the market). This aggregated information is sent to the Central Bank of the Russian Federation on a weekly basis.

The Group sets limits on cumulative liquidity gaps and as well as thresholds for cumulative liquidity gaps, which serve as a warning indicator and involves the implementation of measures to restore the required level of liquidity in accordance with the contingency liquidity plan in the event of a crisis situation and mandatory standards established by the Central Bank of Russian Federation. The approved threshold values correspond to the no-deficit level.

The Group conducts stress testing of liquidity and ensures a constant availability of funds – a buffer sufficient to fully and promptly meet the cash settlements with customers, counterparties and ensure the normal operation of the Group on the established survival horizon.

Early detection of systemic and specific crises is carried out through regular monitoring of both quantitative indicators and qualitative indicators. Regular monitoring of early warning indicators allows the Group to recognize the crisis at an early stage. Exceeding the threshold of at least one of the indicators is a sufficient reason for initiating the Contingency Funding Plan. For the purpose of early detection, three quantitative indicators are used: liquidity gap for terms up to 1 year; liquidity stress test on the established survival horizon and the forecast of liquidity standards. As an indicator, the forecast values of regulatory liquidity ratios are used at the horizon of 3 months.

In accordance with the expected increase in liquidity requirements, the contingency funding plan has three levels: warning, preventive and crisis, characterized by a amount of violations of regulations, limits and indicators. For each level, a list of measures to restore liquidity has been developed. The measures include: an increase in the base rates for deposits, issuance of bonds, an increase in the volume of REPO transactions with a liquidity buffer, the sale of securities, and the introduction of restrictions on business activity.

The Group manages its liquidity risk by analyzing the term structure of cash flows and controlling the execution of limits on individual and cumulative liquidity gaps. Analysis of the Group's liquidity gaps is aggregated across all currencies and for each currency separately. Positive values of liquidity gap indicate the excess liquidity of the Group, negative values - about the liquidity deficit of the Group.

The limits of liquidity gaps in the Group are set at values not exceeding 5% of the balance sheet volume.

At the end 2016 both for the Group as a whole and for each Bank separately, all regulatory and internal liquidity ratios at all times were met without violations.

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The stress test indicators were within the established threshold values.

The analysis of liquidity risk is presented in the following table:

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2016 mRUB Total
Assets							
Cash and balances with the Central Bank of the Russian Federation	43,630	–	–	–	–	4,869	48,499
Financial assets at fair value through profit or loss	37,152	–	–	–	–	–	37,152
Due from banks	69,148	4,793	9,271	2,914	–	–	86,126
Loans to customers	53,956	73,870	172,456	234,812	52,716	–	587,810
Investments available-for-sale	5,795	997	1,250	37	46	112	8,237
Investments held to maturity	65,754	14	45	7,099	–	–	72,912
Property and equipment	226	337	1,513	8,017	9,582	–	19,675
Intangible assets	19	41	181	855	912	–	2,008
Current income tax asset	48	–	–	–	–	–	48
Deferred income tax asset	54	108	484	1,085	1,355	–	3,086
Other assets	8,388	607	1,559	3,930	669	–	15,153
Total assets	284,170	80,767	186,759	258,749	65,280	4,981	880,706
Liabilities							
Financial liabilities at fair value through profit or loss	35,982	–	–	–	–	–	35,982
Due to the Central Bank of the Russian Federation	0	–	128	62	–	–	190
Due to banks and international financial institutions	38,329	243	3,379	5,304	738	–	47,993
Customer accounts	144,103	42,387	146,038	94,418	34,947	–	461,893
Debt securities issued	6,894	11,383	26,365	97,141	16,350	–	158,133
Other provisions	1,545	–	–	–	–	–	1,545
Current income tax liabilities	382	–	–	–	–	–	382
Deferred income tax liabilities	12	23	106	564	704	–	1,409
Other liabilities	5,061	2,093	2,310	285	–	–	9,749
Subordinated debt	3,005	329	750	9,099	26,689	–	39,872
Total liabilities	235,313	56,458	179,076	206,873	79,428	–	757,148
Liquidity gap	48,857	24,309	7,683	51,876	(14,148)	4,981	
Cumulative liquidity gap	48,857	73,166	80,849	132,725	118,577	123,558	

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	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2015 mRUB Total
Assets							
Cash and balances with the Central Bank of the Russian Federation	99,326	–	–	–	–	3,899	103,225
Financial assets at fair value through profit or loss	4,709	3,147	8,592	23,736	16,784	–	56,968
Due from banks	75,743	1,739	15,385	–	–	–	92,867
Loans to customers	46,651	84,639	181,489	262,793	58,962	–	634,534
Investments available-for-sale	5,551	–	13	52	65	2	5,683
Investments held to maturity	76,474	–	1,975	–	1,133	–	79,582
Property and equipment	263	366	1,618	8,152	9,706	–	20,105
Intangible assets	36	71	321	1,716	–	–	2,144
Current income tax asset	435	–	–	–	–	–	435
Deferred income tax asset	28	56	252	1,345	1,682	–	3,363
Other assets	8,349	626	633	2,665	–	–	12,273
Total assets	317,565	90,644	210,278	300,459	88,332	3,901	1,011,179
Liabilities							
Financial liabilities at fair value through profit or loss	4,066	1,186	9,996	21,483	18,129	–	54,860
Due to the Central Bank of the Russian Federation	61	15,000	500	3,300	–	–	18,861
Due to banks and international financial institutions	47,177	1,380	4,369	13,334	2,424	–	68,684
Customer accounts	154,943	52,226	169,145	109,435	30,958	–	516,707
Debt securities issued	12,714	11,417	41,012	46,742	47,910	–	159,795
Other provisions	1,315	–	–	–	–	–	1,315
Current income tax liabilities	120	–	–	–	–	–	120
Deferred income tax liabilities	13	26	116	619	774	–	1,548
Other liabilities	4,181	4,325	1,995	6	–	–	10,507
Subordinated debt	163	383	1,397	19,261	37,077	–	58,281
Total liabilities	224,753	85,943	250,130	221,396	108,456	–	890,678
Liquidity gap	92,812	4,701	(39,852)	79,063	(20,124)	3,901	
Cumulative liquidity gap	92,812	97,513	57,661	136,724	116,600	120,501	

Asset and liability maturity periods and the ability to replace interest bearing liabilities at an acceptance cost when they mature are crucial in determining the Group's liquidity and its fluctuation of interest and exchange rates.

The maturity of time deposits of individuals is based on contractual terms. However, time deposits can be withdrawn by individuals on demand.

The equity investments available-for-sale and the equity investments at fair value through profit or loss have no contractual maturity and are classified based on management's intentions.

Currently, a considerable part of customer deposits are repayable on demand. However, the fact that these deposits are diversified by the number and type of customers and the Group's previous experience indicate that deposits are a stable and long-term source of financing for the Group.

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The table below presents the cash flow payable by the Group under financial liabilities by remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows of all financial liabilities (i.e. nominal values), whereas the Group manages the inherent liquidity risk based on discounted expected cash inflows.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2016 mRUB Total
Liabilities						
Gross settled derivative financial liabilities at fair value through profit or loss						
-inflow	(17,702)	(25,821)	(14,655)	(51,435)	–	(109,613)
-outflow	18,756	26,873	16,287	66,648	–	128,564
Net settled financial liabilities at fair value through profit or loss (liabilities)	601	1,329	234	406	18,484	21,054
Due to the Central Bank of the Russian Federation	1	2	136	66	–	205
Due to banks and international financial institutions	37,429	1,793	3,655	5,683	723	49,283
Customer accounts	259,132	39,358	131,660	41,983	382	472,515
Debt securities issued	6,978	11,827	36,158	117,115	17,441	189,519
Other provisions	1,545	–	–	–	–	1,545
Other financial liabilities	1,442	2,990	2,807	–	–	7,239
Subordinated debt	3,106	728	2,690	19,184	29,206	54,914
Contingent liabilities and credit commitments	27,964	11,324	111,384	57,607	1,845	210,124
Total financial liabilities and commitments	339,252	70,403	290,356	257,257	68,081	1,025,349
	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2015 mRUB Total
Liabilities						
Gross settled derivative financial liabilities at fair value through profit or loss						
-inflow	(7,890)	(30,507)	(18,535)	(43,220)	–	(100,152)
-outflow	10,532	31,607	24,779	61,972	–	128,890
Net settled financial liabilities at fair value through profit or loss (liabilities)	549	75	3,118	3,089	24,884	31,715
Due to the Central Bank of the Russian Federation	182	15,311	783	3,337	–	19,613
Due to banks and international financial institutions	47,723	1,804	5,139	16,507	2,784	73,957
Customer accounts	155,240	52,924	176,655	114,187	30,959	529,965
Debt securities issued	13,143	12,576	70,743	63,805	21,050	181,317
Other provisions	1,315	–	–	–	–	1,315
Other financial liabilities	1,145	3,679	3,683	–	–	8,507
Subordinated debt	176	848	3,533	35,258	43,984	83,799
Contingent liabilities and credit commitments	21,673	27,070	55,841	58,900	6,934	170,418
Total financial liabilities and commitments	243,788	115,387	325,739	313,835	130,595	1,129,344

As at 31 December 2016 and 2015 contingent liabilities and credit commitments included financial guarantee contracts in the amount of RUB 97,847 million and RUB 89,439 million, respectively. These are the maximum amounts the Group could be forced to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable under the arrangement, excluding provisioned contingent commitments in the amount of RUB 1,156 million as at 31 December 2016 and 540 million as at December 2015. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantees which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

Strategic risk

Strategic risk emerges in the Group as a result of errors (failures) in the processes of decision-making, defining the strategy of activities and development for the Group (strategic management), improper execution of the decisions and inability of the Group management bodies to take into account changes in external factors.

In the process of its activity the parent Bank of the Group follows Development Strategy for a three-year period approved by the Board of Directors of the Group which shows its main long-term objectives, in accordance with the shareholders' and management's point of view; the main competitive advantages of the Group in key market segments, and also a program for achieving these objectives; qualitative and quantitative benchmarks of the Group economic development.

Tasks and goals defined in the Development Strategy are taken into account in decision-making process at all levels of corporate management and in the current activity of the parent Bank of the Group.

To minimize strategic risk the parent Bank of the Group monitors the implementation of Development Strategy, macroeconomic and market conditions that were taken into account in the Development Strategy, and analyzes all the current trends. Achieving strategic objectives is embedded in the KPI system and thus is taken into account in Management assessment.

Management and control of this risk is indirectly carried out in the frames of other risks management, which realization directly affects the realization of strategic risk.

Identification of concentration risk

Within significant risks identification process the assessment procedure of the materiality of the Group inherent concentrations is carried out on an annual basis in accordance with the Policy for Determination of Significant Risks of PJSC ROSBANK with support of responsible departments of Risk Management Service (hereinafter – RMS). This assessment is based on the results of the identification and comprehensive analysis of the concentration factors. By default the Group does not determine concentration risk as a separate type of risk and considers it under corresponding significant risk management.

To ensure a complex analysis of Bank's susceptibility to concentration risk, the process of identification of other significant concentrations covers all Bank's activities and all types of assets and liabilities exposed to risks.

The scope of inherent concentration is reviewed and taken into consideration when Risk Map is developed/updated as well as in case of a new product/business line launch in order to identify all potentially material and significant concentrations and ensure that corresponding management procedures are in place.

Credit risk concentration

To identify the credit risk concentration the responsible departments of RMS within their operational activity in accordance with Methodology on counterparty credit risk assessment and definition of risk limits per one borrower (group of related borrowers), risk limits by industry types, carry out an analysis of the asset structure of the Group, as well as per individual business lines, on the following concentration factors:

- Granting large loans to an individual borrower or group of related borrowers;
- Exposure concentration in certain segments of economy, industries, portfolios or geographical regions outside Russia, etc.;
- Concentration of investments in securities issued by issuers belonging to the particular sectors or geographic regions outside Russia;
- The existence of other assets and commitments that are vulnerable to the same economic factors;
- Exposure concentration by one type of product etc.

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The responsible departments of RMS perform subsequent analysis at portfolio level and assess materiality and significance level of identified concentrations in accordance with Policy for Determination of significant risks of PJSC ROSBANK, and then reflect the results in Risk Map of the Group for further planning and development of corresponding management tools.

Liquidity risk concentration

Liquidity risk concentration risk is caused by the likelihood of a significant deterioration of physical or regulatory liquidity due to imbalances in the structure of assets and liabilities.

Factors that increase liquidity risk are dependence on borrowing from a limited number of funding sources.

The procedures for identification liquidity risk concentration are based on the analysis of the assets and liabilities structure of the Group as well as off-balance accounts.

Business units and responsible departments of RMS within their operational activity perform analysis of the Group's assets and liabilities for the purpose of identification of:

- The largest sources of funding (per product/instrument, maturity and currency);
- Significant volumes of cash flows from one counterparty or group of connected counterparties (per product/instrument, maturity and currency);
- Diversification level of high-liquid assets portfolio (per product/instrument, maturity and currency) etc.

The responsible departments of RMS perform subsequent analysis at portfolio level and assess materiality and significance level of identified concentrations in accordance with Policy for Determination of significant risks of PJSC ROSBANK, and then reflect the results in Risk Map of the Group for further planning and development of corresponding management tools.

Structural currency risk concentration

To identify structural currency risk concentration business units and responsible departments of RMS within their operational activity perform analysis of assets and liabilities of the Group on the existence of significant open positions in one currency.

The responsible departments of RMS perform subsequent analysis at portfolio level and assess materiality and significance level of identified concentrations in accordance with Policy for Determination of significant risks of PJSC ROSBANK and ROSBANK Group, and then reflect the results in Risk Map of the Group for further planning and development of corresponding management tools.

Other concentration

To disclose other concentrations the responsible department of RMS jointly with the parent Bank's of the Group units involved in significant risks identification procedure identifies other important concentration factors within Bank's assets and liabilities structure including the following areas:

- Types/subtypes of risks;
- Business lines, up to the level of the individual Manager;
- Products;
- Regions, etc.

Decision to assign identified concentration to significant risk in Risk Map and initiate further development of corresponding management techniques is made depending on the materiality and significance level of the identified concentration factors as well as their link with significant risks.

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Geographical concentration

The geographical concentration of assets and liabilities is set out below:

	Russia	Other CIS countries	OECD countries	Other non-OECD countries	31 December 2016 Total
Assets					
Cash and balances with the Central Bank of the Russian Federation	48,499	–	–	–	48,499
Financial assets at fair value through profit or loss	19,248	–	17,904	–	37,152
Due from banks	54,075	1,236	30,815	–	86,126
Loans to customers	560,060	–	15,081	12,669	587,810
Investments available-for-sale	8,236	–	1	–	8,237
Investments held to maturity	72,912	–	–	–	72,912
Other financial assets	1,818	–	1,596	–	3,414
Total financial assets	764,848	1,236	65,397	12,669	844,150
Property and equipment	19,675	–	–	–	19,675
Intangible assets	2,008	–	–	–	2,008
Current income tax assets	48	–	–	–	48
Deferred income tax asset	3,086	–	–	–	3,086
Other non-financial assets	11,711	–	28	–	11,739
Total non-financial assets	36,528	–	28	–	36,556
Total assets	801,376	1,236	65,425	12,669	880,706
Liabilities					
Financial liabilities at fair value through profit or loss	14,447	–	21,535	–	35,982
Due to the Central Bank of the Russian Federation	190	–	–	–	190
Due to banks and international financial institutions	25,961	412	20,938	682	47,993
Customer accounts	451,825	1	2,161	7,906	461,893
Debt securities issued	158,133	–	–	–	158,133
Other provisions	1,545	–	–	–	1,545
Other financial liabilities	6,900	–	339	–	7,239
Subordinated debt	–	–	39,872	–	39,872
Total financial liabilities	659,001	413	84,845	8,588	752,847
Current income tax liabilities	382	–	–	–	382
Deferred income tax liabilities	1,409	–	–	–	1,409
Other non-financial liabilities	2,302	–	208	–	2,510
Total non-financial liabilities	4,093	–	208	–	4,301
Total liabilities	663,094	413	85,053	8,588	757,148
Net position	138,282	823	(19,628)	4,081	

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	Russia	Other CIS countries	OECD countries	Other non-OECD countries	31 December 2015 Total
Assets					
Cash and balances with the Central Bank of the Russian Federation	103,225	–	–	–	103,225
Financial assets at fair value through profit or loss	18,211	–	38,757	–	56,968
Due from banks	39,222	22	28,059	25,564	92,867
Loans to customers	615,944	–	5	18,585	634,534
Investments available-for-sale	5,682	–	1	–	5,683
Investments held to maturity	76,453	–	3,129	–	79,582
Other financial assets	2,101	–	–	–	2,101
Total financial assets	860,838	22	69,951	44,149	974,960
Property and equipment	20,105	–	–	–	20,105
Intangible assets	2,144	–	–	–	2,144
Current income tax assets	435	–	–	–	435
Deferred income tax asset	3,363	–	–	–	3,363
Other non-financial assets	10,150	–	22	–	10,172
Total non-financial assets	36,197	–	22	–	36,219
Total assets	897,035	22	69,973	44,149	1,011,179
Liabilities					
Financial liabilities at fair value through profit or loss	26,409	–	28,451	–	54,860
Due to the Central Bank of the Russian Federation	18,861	–	–	–	18,861
Due to banks and international financial institutions	37,383	264	30,669	368	68,684
Customer accounts	487,606	110	2,551	26,440	516,707
Debt securities issued	159,795	–	–	–	159,795
Other provisions	1,315	–	–	–	1,315
Other financial liabilities	7,706	–	801	–	8,507
Subordinated debt	–	–	58,281	–	58,281
Total financial liabilities	739,075	374	120,753	26,808	887,010
Current income tax liabilities	120	–	–	–	120
Deferred income tax liabilities	1,548	–	–	–	1,548
Other non-financial liabilities	1,841	–	159	–	2,000
Total non-financial liabilities	3,509	–	159	–	3,668
Total liabilities	742,584	374	120,912	26,808	890,678
Net position	154,451	(352)	(50,939)	17,341	

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Information on capital requirements

Risk aggregation and diversification

The Group applies a conservative approach and does not include diversification: for calculation purposes it is assumed that all significant risks of the Group are perfectly correlated and realization of one significant risk will cause the realization of other significant risks. To avoid double counting of the same risk realization under different risks types Bank may apply some adjustments to the calculated values of certain risks types in their aggregation.

Stress-testing

Stress-testing is a key risk management technique used to evaluate the potential effects on an institution's financial condition of an exceptional but likely event due to changes in macroeconomic parameters.

Available internal capital adequacy under enterprise-wide stress is estimated at least once a year during the ICAAP cycle to assess the budget forward-looking internal capital figures as well as by request of the Management Board or Regulator In case 80% of stress-scenarios is realized the Group recalculates stress-test.

Enterprise-wide stress-testing consists of stress tests of certain types of significant risks of the Group. The final output of EWST is evaluation of Risk-Taking Capacity by comparison stressed required Internal capital and stressed available internal capital.

In the context of internal capital adequacy assessment, stress-testing is considered:

- As a diagnostic tool to improve the Group's Management understanding of its risk profile and capital adequacy level at Group level.
- As a forward-looking tool within the ICAAP: stress-testing is used to assess the adequacy of internal capital of the Group and to compare the outcome of the stress-testing against the Development Strategy and take the necessary measures considering these results.
- To set risk-appetite thresholds of the Group.

Target risk structure

Risk-Taking Capacity metric is used for purpose of risk and capital management and fixed through the risk-appetite framework:

- On a yearly basis during the ICAAP cycle of the Group in parallel to the budgeting process a responsible unit of RMS jointly with Finance defines the levels of Risk-Appetite (Bank, subsidiaries, Group), proposes the metrics (for example capital adequacy, business lines, significant risks, etc) and values of the thresholds based on stress-test figures of internal and available capital (derived from stressed capital adequacy ratio) and RTC through the surplus/deficit (residual difference between required and available internal capital) for further approval by the Management Board.

Developed and approved threshold levels are fixed in risk-appetite framework of the Group for upcoming year and submit to the Board of Directors for further approval.

RTC analysis provides a better outstanding about imbalances between risk types, their concentrations and capital coverage as well as points out where changes in the Group's actual risk structure are necessary.

The set level of Risk-Taking Capacity can be maintained if risks will be within their thresholds. Therefore, on a yearly basis the parent Bank of the Group and subsidiaries develop/review its target risk structure through the limits setting in line with the planned business goals and capital structure.

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Principles of capital allocation through the limit setting

Once the thresholds indicators for the Group risk appetite are approved, proposals for risk-appetite at the the parent Bank of the Group and subsidiaries levels are generated and being cascaded down to the corresponding limits on operational level.

Thresholds should ensure a safety margin for the parent Bank of the Group and subsidiaries taking into account new operations, potential fluctuations in balance sheet, the volatility in the financial markets and the forecast of Group's equity.

The Group follows the principles below when designing the Group limit system:

- Utilization of unified definition for the available internal capital;
- Assignment of limit or qualitative limitation to each significant risk;
- Limits on the risks have to be set up wherever they arise;
- Limits should reflect the appropriate risk level of the transaction and/or portfolio;
- If the limit cannot be obviously set considering the risk level, alternative approaches should be applied (for example, qualitative limitations for concentration risks can be designed).

The Group should follow the principle "as much as necessary" in relation to setting up of limits in order to ensure an appropriate level of hedging and at the same time to optimize the applicable tools for risks management.

A certain portion of internal available capital remains not allocated at the Group's level due to the following reasons:

- To ensure the availability of the required buffer for risks that can not be assessed by quantitative methods;
- To ensure the required level of Bank's flexibility in case of changes in internal and external conditions;
- To ensure the possibility for utilization most of the available limits, if it is required to achieve the desired level of profitability.

A limit system which is cascaded to the Group's business-lines allows maintaining Risk-Taking Capacity at the specified level and is subject of regular monitoring. It indicates when the appropriate countermeasures should be taken once risks begin to approach to their defined limits.

Internal capital adequacy monitoring

After the limit system is developed a follow-up control takes a place. Risk-Taking Capacity control should ensure the coverage of required internal capital at all times. For this purpose, internal capital adequacy is monitored regularly within Group's ICAAP, in particular via comparison of the Group's target and actual risk and capital structures. In case of significant unexpected losses, the internal capital adequacy is subject to analysis regardless the regular schedule. While target/actual structure comparisons provide monitoring of established limits and are related mostly to quantitative risks, in case of other risks process-related requirements and other qualitative indicators are analyzed.

Information on the content and frequency of risks reporting of the credit institution. The Group regularly prepares risks reporting within ICCAP. Risk reporting includes the following information:

- ICAAP execution report including compliance of capital adequacy, planned capital structure and target risk profile;
- Stress testing results;
- Significant risks;
- Compliance with CBR requirements on the parent Bank of the Group and subsidiaries' obligatory ratios.

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The processes of preparation of ICAAP reporting are based on the following principles:

- ICCAP reporting is carried out by units independent from risk-taking divisions. Units can be considered as independent if they have different reporting manager, except Chief Executive Officer. ICCAP reporting is prepared by units, whose activity does not involve the assumption of risk.
- Contribution of relevant information by involved departments of the Group. Responsible departments of the Group provide with necessary data for ICAAP reporting preparation by the required deadlines and adhere to established requirements to data.
- Compliance with established data quality requirements. Within ICAAP reporting preparation all involved departments adhere to the established data quality standards.
- Correspondence of frequency of preparation of ICAAP reporting to the recipient's needs and the content of reports. Frequency of preparation of ICAAP reporting is defined considering recipients' requests to the required information and to the content of reports.
- Reporting format standardization. ICAAP reporting follows standardized format to enable the aggregation of information on significant risks and subsidiaries for comprehensive analysis of the consolidated risk profile of the Group, assessment of current and expected capital adequacy and timely information of the management bodies of the Group about the capital adequacy level.

ICCAP reporting is prepared by responsible units of RMS. ICCAP reports results are submitted to the Board of Directors and the Management Board of the parent Bank of the Group and subsidiaries annually.

Report on Significant risks of the Group includes the following information:

- An aggregated values of significant risks taken by the parent Bank of the Group and subsidiaries, as well as the values of each type of significant risk, significant risks dynamics and the impact of these changes on capital adequacy;
- Limits utilizations by structural units;
- Violation of established limits by structural units of the Group, as well as the measures to be taken to eliminate the violations.

Reports on aggregated values of significant risks of the parent Bank of the Group and subsidiaries, regulatory ratios compliance report and capital adequacy assessment report are submitted to the Board of Directors of the parent Bank of the Group and subsidiaries on a quarterly basis, the Management Board– on a monthly basis. Stress-testing results reports are submitted to the Board of Directors of the parent Bank of the Group and subsidiaries and the Management Board – on a yearly basis. Information on approaching/violation of established triggers / limits is brought down to the Board of Directors of the parent Bank of the Group and subsidiaries and the Management Board as soon as it was discovered.

Information on the structure and work organization of units engaged in risk management

Risk management in the Group is carried out by the Management Board of the parent Bank under the supervision of the Board of Directors of the parent Bank of the Group and subsidiaries' management bodies. The Board of Directors of the parent Bank of the Group defines the principles and approaches to risk management and internal control system, examines and approves strategies and policies for capital and risk management, as well as carries the control out their application, while the Management Board is responsible for their implementation into the operational and current economic activities of the Group.

Within the framework of risk management and internal control systems organization of the Parent Bank of the Group Risk Management Service (RMS) and committees under the Board of Directors and the Management Board of the Parent Bank of the Group are acted, including the the Risk committee, the Audit Committee, the Employees and Remuneration Committee, Assets and Liabilities Committee, Credit committees system and other committees.

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Risk management function within the RMS is organized taking into account the requirements on the absence of conflict of interests and the separation of roles and responsibilities between the Management, units and responsible employees in decision making and risk management.

Parts of RMS functions can also be delegated to other structural units of the Parent Bank of the Group. Distribution of the functions among structural units of the Parent Bank of the Group is set in internal documents of the Parent Bank of the Group.

The Risk Management Service is responsible for:

- The organization of the risk management;
- The organization of the development and implementation of risk analysis methodology;
- Coordination of measures to minimize the impact of risks on economic activity and business reputation of the Group;
- Development of training programs and ensuring the employees training on the management of different types of risks;
- Implementation of procedures for the identification, analysis, evaluation and management of all significant risks;
- Creation of regulatory framework for significant risks management, proposals for its improvement, ensuring its exhaustive completeness, the usage in the Group, the timely revision and updating;
- Daily collection of information about the level of significant risks relevant to the preparation of management reporting;
- Daily monitoring the level of the parent Bank of the Group and subsidiaries' significant risks and the initiation of escalation process to the appropriate management level, if necessary;
- Reporting preparation within risk management;
- Reasonableness assessment of the key assumptions used in measurement of significant risks;
- Fulfillment of other functions in accordance with the laws, the Central Bank of Russia regulations and – internal documents of the Group.

The Risk Management Service is based on:

- Coverage of all significant risks of the Group;
- Strong managerial involvement, throughout the entire Group, from the Management Board down to the operational level;
- A tight framework of internal procedures and guidelines;
- Information disclosure via regularly risk reports submission to the Management, governing bodies, Regulator and external reporting.
- Continuous supervision, risks monitoring, compliance with established rules and procedures by an independent from business body;
- Participation of RMS responsible units in embedding of Risk and Capital Management Strategy into the strategic goals and business-planning of the Group.

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40. Subsequent events

In January 2017 the Group redeemed subordinated debt in amount RUB 2,800 million received from Societe Generale S.A.

In January 2017 the Group redeemed debt in the amount RUB 1,000 million received from international financial institution in October 2012.

In February 2017 the Group made early repayment of the loan in the amount RUB 1,441 million provided by international financial institution in 2005. Original maturity date of the loan was in March 2022.

In February 2017 the following bonds were fully redeemed:

Issuer	Issue Date	Maturity Date	Debt Volume, mRUR	Annual coupon rate, %
Rosbank	26 February 2014	26 February 2017	800,000	14.32
Rosbank	26 February 2015	26 February 2017	650,000	9.31