TRANSKAPITALBANK GROUP

International Financial Reporting Standards
Interim Condensed Consolidated Financial Statements
(unaudited)

30 June 2017

CONTENTS

In thousands of Russian Roubles	Note	30 June 2017	31 December 2016
ASSETS			
Cash and cash equivalents	6	15 274 188	12 551 021
Mandatory cash balances with the CBRF		2 733 276	2 410 252
Due from other banks	7	6 843 346	4 161 190
Trading securities	8	24 581 693	26 719 310
Loans and advances to customers	9	147 888 544	152 137 276
Repurchase receivables	10	-	10 654 722
Investment securities available for sale	11	11 513 876	13 643 159
Repossessed collateral - residential property		2 020 043	1 848 407
Deferred income tax asset		788 412	777 794
Current income tax assets		295 887	319 597
Intangible assets		928 279	928 154
Premises and equipment		1 909 602	1 801 430
Indemnification asset		12 556 056	17 741 996
Other financial assets	12	2 174 070	1 428 976
Other assets	12	3 638 864	1 938 240
TOTAL ASSETS		**233 146 136**	**249 061 524**
LIABILITIES			
Due to other banks	13	16 650 955	26 856 593
Customer accounts	14	136 092 712	144 965 565
Debt securities in issue	15	11 733 236	9 263 481
Amounts received from the State Corporation Deposit Insurance Agency	16	32 817 468	29 051 167
Deferred income tax liabilities		72 641	70 672
Provisions for other transactions		250 058	2 227 359
Other financial liabilities	18	410 653	211 088
Other liabilities	18	591 806	811 749
Subordinated debt	17	10 784 404	11 924 114
TOTAL LIABILITIES		**209 403 933**	**225 381 788**
EQUITY			
Share capital		2 556 229	2 556 229
Share premium		4 693 490	4 693 490
Revaluation of investment securities available for sale		204 794	236 422
Retained earnings		16 287 690	16 193 595
TOTAL EQUITY		**23 742 203**	**23 679 736**
TOTAL LIABILITIES AND EQUITY		**233 146 136**	**249 061 524**

Approved for issue and signed on 29 August 2017.

O. V. Gryadovaya
Chairman of the Management Board

S. M. Golovanova
Chief Accountant

In thousands of Russian Roubles	**Note**	**Six month period ended 30 June 2017**	**Six month period ended 30 June 2016**
Interest income	19	12 172 582	13 642 467
Interest expense	19	(8 761 367)	(9 135 537)
Deposit insurance program charge	19	(259 518)	(182 918)
Net margin		**3 151 697**	**4 324 012**
Provision for impairment of loans and advances to customers and amounts due from other banks	7,9	(1 235 922)	(2 455 404)
Net margin after provision for loans and advances		**1 915 775**	**1 868 608**
Fee and commission income	20	1 218 194	1 326 357
Fee and commission expense	20	(377 592)	(308 028)
Gains less losses from trading securities		324 950	172 925
Gains less losses / (losses less gains) from investment securities available for sale		123	(29 425)
Losses less gains from trading in foreign currencies, foreign exchange derivatives and foreign exchange translation		(46 528)	(153 852)
Recovery of provision for credit related commitments		284 179	650 441
Other reserves		(249 786)	(74 069)
Other operating income		606 929	73 106
Administrative and other operating expenses	21	(3 326 375)	(2 887 499)
Profit before tax		**349 869**	**638 564**
Income tax expense		(255 774)	(140 845)
Net profit for the year		**94 095**	**497 719**
Other comprehensive (losses) / income			
Items that may be reclassified subsequently to profit or loss:			
Investment securities available for sale:			
- (Losses less gains) / gains less losses		(39 413)	362 021
- (Losses less gains) / gains less losses reclassified to profit or loss upon disposal or impairment		(123)	29 425
Income tax reclaim / (income tax) recorded directly in other comprehensive income		7 908	(59 494)
Other comprehensive (loss) / income for the year		**(31 628)**	**331 952**
Total comprehensive income for the year		**62 467**	**829 671**

In thousands of Russian Roubles	Share capital	Share premium	Retained earnings	Revaluation of investment securities available for sale	Total equity
Balance at 1 January 2016	**2 533 352**	**4 566 362**	**11 663 802**	**(68 051)**	**18 695 465**
Profit for six month period ended 30 June 2016 (unaudited)	-	-	497 719	-	497 719
Other comprehensive income for six month period ended 30 June 2016 (unaudited)	-	-	-	331 952	331 952
Total comprehensive income for six month period ended 30 June 2016	-	-	497 719	331 952	829 671
Balance at 30 June 2016	**2 533 352**	**4 566 362**	**12 161 521**	**263 901**	**19 525 136**
Balance at 1 January 2017	**2 556 229**	**4 693 490**	**16 193 595**	**236 422**	**23 679 736**
Profit for six month period ended 30 June 2017 (unaudited)	-	-	94 095	-	94 095
Other comprehensive losses for six month period ended 30 June 2017 (unaudited)	-	-	-	(31 628)	(31 628)
Total comprehensive income for six month period ended 30 June 2017	-	-	94 095	(31 628)	62 467
Balance at 30 June 2017	**2 556 229**	**4 693 490**	**16 287 690**	**204 794**	**23 742 203**

In thousands of Russian Roubles	**Note**	**Six month period ended 30 June 2017**	**Six month period ended 30 June 2016**
Cash flows from operating activities			
Interest received		11 817 973	13 874 238
Interest paid		(7 650 120)	(9 553 143)
Deposit insurance program charge paid		(194 161)	(215 044)
Fees and commissions received		1 189 638	1 307 483
Fees and commissions paid		(377 592)	(21 319)
Gains less losses from trading securities		256 137	274 678
Losses from investment securities available for sale		(272)	(7 084)
Gains less losses / (losses less gains) from trading in foreign currencies and foreign exchange derivatives		83 981	(175 968)
Other operating income received		145 807	27 224
Administrative and other operating expenses paid		(3 169 653)	(2 899 286)
Income tax paid		(245 215)	216 374
Cash flows from operating activities before changes in operating assets and liabilities		**1 856 523**	**2 828 153**
Net (increase)/decrease in:			
- mandatory cash balances with the CBRF		(323 024)	39 957
- trading securities		1 148 685	11 966 949
- repurchase receivables representing trading securities		6 506 238	(3 090 802)
- due from other banks		(2 489 737)	(1 614 582)
- loans and advances to customers		2 944 401	(6 062 855)
- other financial assets		(1 364 538)	33 969
- other assets		(1 455 028)	151 319
Net increase/(decrease) in:			
- due to other banks		(11 292 497)	15 400 173
- customer accounts		(7 911 998)	(13 440 233)
- debt securities in issue		(73 752)	(4 603 105)
- other financial liabilities		188 780	171 840
- other liabilities		(242 677)	(78 917)
Net cash (used in) / received from operating activities		**(12 508 627)**	**1 701 866**
Cash flows from investing activities			
Acquisition of premises and equipment and intangible assets		(284 544)	(193 190)
Disposal / (Acquisition) of investment securities available for sale		5 528 087	(6 837 688)
Proceeds from disposal of repossessed collateral - residential property		95 923	-
Proceeds from disposal of premises and equipment		1 970	769
Net cash from / (used in) investing activities		**5 341 436**	**(7 030 109)**
Cash flows from financing activities			
Raising loan from the State Corporation Deposit Insurance Agency		7 664 631	-
Issue of bonds		4 095 548	5 097 368
Redemption of subordinated debt		(1 000 000)	-
Redemption of bonds		(1 584 817)	(3 121 359)
Net cash received from financing activities		**9 175 362**	**1 976 009**
Effect of exchange rate changes on cash and cash equivalents		714 996	105 645
Net increase / (decrease) in cash and cash equivalents		**2 723 167**	**(3 246 589)**
Cash and cash equivalents at the beginning of the year	6	**12 551 021**	**12 830 637**
Cash and cash equivalents at the end of reporting period	6	**15 274 188**	**9 584 048**

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the six month period ended 30 June 2017 for TRANSKAPITALBANK (the "Bank" or "TKB") and its subsidiaries including PJSC "Investtradebank", a leasing company "OBLIK" JSC, a Eurobond special purpose vehicle Transregionalcapital Ltd, securitisation special purpose vehicles CJSC "MA TKB-1", LLC "MA TKB-2", "MA TKB-3" LLC, "SPE TKB SME 1" LLC, CJSC "MA ITB 1", CJSC "MA ITB 2013" and CJSC "MA ITB 2014", and asset holding companies "ITB-Semigorye" LLC and "Tritail" LLC (together referred to as the "Group").

The Bank does not have any direct or indirect shareholdings in the subsidiaries Transregionalcapital Ltd, CJSC "MATKB-1", LLC "MA TKB-2", "MA TKB-3" LLC, "SPE TKB SME 1" LLC, CJSC "MA ITB 1", CJSC "MA ITB 2013" and CJSC "MA ITB 2014". Special purpose vehicle Transregionalcapital Ltd was established by the Bank to issue eurobonds. Special purpose vehicles CJSC "MA TKB-1", LLC "MA TKB-2", "MA TKB-3" LLC, "SPE TKB SME 1" LLC, CJSC "MA ITB 1", CJSC "MA ITB 2013" and CJSC "MA ITB 2014" were established to issue mortgage bonds at the domestic market.

From the acquisition date, 27 February 2016, TKB comprises the PJSC "Investtradebank" Group and its subsidiaries.

The Bank was incorporated and is domiciled in the Russian Federation. The Bank is a joint stock company limited by shares and was set up in accordance with Russian regulations.

At 30 June 2017 and 31 December 2016, the following shareholders owned more than 5% of the outstanding shares:

Shareholder	30 June 2017	31 December 2016
European Bank for Reconstruction and Development	28.29%	28.29%
Gryadovaya Olga Viktorovna	21.81%	21.81%
Ivanovsky Leonid Nikolaevich	12.18%	12.18%
DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH	9.04%	9.04%
International Finance Corporation	7.64%	7.64%
Other (less than 5% individually)	21.04%	21.04%
Total	**100.00%**	**100.00%**

Principal activity. The Group's principal business activity is banking operations within the Russian Federation. The Bank has operated under full banking licence No. 2210 issued by the Central Bank of the Russian Federation ("CBRF") since 1992. The Bank participates in the state deposit insurance program, which was introduced by Federal Law No.177-FZ "Deposits of individuals insurance in Russian Federation" dated 23 December 2003.The State Corporation Deposit Insurance Agency guarantees repayment of 100% of individual deposits up to RR 1 400 thousand (before 29 December 2014: RR 700 thousand) per individual in the case of the withdrawal of a licence of a bank or a CBRF imposed moratorium on payments.

At 30 June 2017, the Group has 24 (31 December 2016: 25) branches within the Russian Federation. The number of the Group's employees at 30 June 2017 is 3 806 (31 December 2016: 3 923).

Registered address and place of business. The Bank's registered address is: Russian Federation, 109147 Moscow, 27/35 Vorontsovskaya Str. The Bank's principal place of business is: Russian Federation 105062, Moscow, 24/2 Pokrovka Str.

Presentation currency.These consolidated financial statements are presented in Russian Roubles ("RR"), unless otherwise stated.

2 Operating Environment of the Group

Russian Federation. The economy of the Russian Federation displays certain characteristics of an emerging market. The economy of the country is especially sensitive to the changes in oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations. The Russian economy continues to demonstrate signs of recession. The economic indicators of the second quarter of 2017 confirm the preservance of main negative factors of economic development.

The duration and depth of the recession are determined by such factors as unfavourable situation on commodity markets, the effect of international sanctions, introduced against certain Russian comnaies and individuals, as well as decline in investments and household consumption.

These facts may cause significant influence over the activity of the Group and its financial position the future effects of which are hard to predict.

During six months ended 30 June 2017, the following key changes took place in the selected macroeconomic indicators:

• the US Dollar exchange rate, stipulated by the Central Bank of the Russian Federation, decreased from 60.6569 Russian Roubles per US Dollar to 59.0855 Russian Roubles per US Dollar;

• key rate of the CBRF declined from 10.0% to 9.0% per annum;

• the RTX index decrease from 1 152.3 points to 1 001.0 points.

This operating environment has a significant impact on the Group’s operations and financial position. Management is taking necessary measures to ensure sustainability of the Group’s operations. However, the future effects of the current economic situation are difficult to predict and management’s current expectations and estimates could differ from actual results.

Management determined loan impairment provisions using the “incurred loss” model required by the applicable accounting standards. These standards require recognition of impairment losses that arose from past events and prohibit recognition of impairment losses that could arise from future events, including future changes in the economic environment, no matter how likely those future events are. Thus final impairment losses from financial assets could differ significantly from the current level of provisions.

3 Basis of Preparation

These interim condensed consolidated financial statements have been prepared in accordance with IAS 34 “Interim Financial Reporting” and should be read in conjunction with the annual consolidated financial statements of the Group for the year ended 31 December 2016.
These interim condensed consolidated financial statements do not contain all the explanatory notes as required for a full set of consolidated financial statements.

4 Accounting Policies, Adoption of New or Revised Standards and Interpretations

The accounting policies and methods of computation applied in the preparation of these interim condensed consolidated financial statements are consistent with those disclosed in the annual consolidated financial statements of the Group for the year ended 31 December 2016, except for the changes introduced due to implementation of new and/or revised standards and interpretations as at 1 January 2017 or as at the date indicated, noted below: ***Disclosure Initiative – Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017).***The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. The Group is currently assessing the impact of the amendment on its consolidated financial statements.

Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12 (issued in January 2016 and effective for annual periods beginning on or after 1 January 2017). The amendment has clarified the requirements on recognition of deferred tax assets for unrealised losses on debt instruments. The entity will have to recognise deferred tax asset for unrealised losses that arise as a result of discounting cash flows of debt instruments at market interest rates, even if it expects to hold the instrument to maturity and no tax will be payable upon collecting the principal amount. The economic benefit embodied in the deferred tax asset arises from the ability of the holder of the debt instrument to achieve future gains (unwinding of the effects of discounting) without paying taxes on those gains. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

5 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

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

Impairment loss on loans and advances to customers. The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. A 10% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in loan impairment losses of RR 1 763 653 thousand (2016: RR 1 487 611 thousand), respectively.

Impairment losses for individually significant loans are based on estimates of discounted future cash flows of the individual loans, taking into account repayments and realisation of any assets held as collateral against the loans. A 10% increase or decrease in the actual loss experience compared to the estimated future discounted cash flows from individually significant loans (TOP 10), which could arise from differences in amounts and timing of the cash flows, would result in an increase or decrease in loan impairment losses of RR 49 422 thousand (2015: RR 163 193 thousand), respectively.

6 Cash and Cash Equivalents

In thousands of Russian Roubles	**30 June 2017**	**31 December 2016**
Correspondent accounts and overnight placements with other banks and non-banking financial institutions	5 711 447	1 990 230
Cash balances with the CBRF (other than mandatory reserve deposits)	4 983 544	6 814 227
Cash on hand	4 438 318	3 415 034
Short-term settlements with settlement centers and brokers	122 588	331 530
Placements with other banks with original maturities of less than three months	18 291	-
Total cash and cash equivalents	**15 274 188**	**12 551 021**

The credit quality of cash equivalents may be summarised as follows at 30 June 2017:

In thousands of Russian Roubles	**Cash balances with the CBRF (other than mandatory reserve deposits)**	**Correspondent accounts and overnight placements with other banks and non-banking financial institutions**	**Short-term settlements with settlement centers and brokers**	**Placements with other banks with original maturities of less than three months**	**Total**
Neither past due nor impaired					
- the CBRF	4 983 544	-	-	-	4 983 544
- A- to A+ rated	-	3 733 225	-	-	3 733 225
- BBB- to BBB+ rated	-	860 538	120 416	-	980 954
- BB- to BB+ rated	-	876 059	-	-	876 059
- B- to B+ rated	-	118 402	-	-	118 402
- unrated	-	123 223	2 173	18 291	143 687
Total cash equivalents	**4 983 544**	**5 711 447**	**122 589**	**18 292**	**10 835 871**

The credit quality of cash equivalents may be summarised as follows at 31 December 2016:

In thousands of Russian Roubles	**Cash balances with the CBRF (other than mandatory reserve deposits)**	**Correspondent accounts and overnight placements with other banks and non-banking financial institutions**	**Short-term settlements with settlement centers and brokers**	**Total**
Neither past due nor impaired				
- the CBRF	6 814 227	-	-	6 814 227
- AA- to AA+ rated	-	1 790	-	1 790
- A- to A+ rated	-	85 441	-	85 441
- BBB- to BBB+ rated	-	816 758	324 305	1 141 063
- BB- to BB+ rated	-	558 674	-	558 674
- B- to B+ rated	-	1 246	-	1 246
- CCC- to CCC+ rated	-	128	-	128
- unrated	-	526 193	7 225	533 418
Total cash equivalents	**6 814 227**	**1 990 230**	**331 530**	**9 135 987**

The category “Unrated” is represented by non-banking financial institutions and banks in other CIS countries.

6 Cash and Cash Equivalents (Continued)

At 30 June 2017, short-term settlements with settlement centres and brokers included balances with the National Clearing Centre Bank (Joint-Stock Company) in the amount of RR 121 600 thousand (31 December 2016: RR 324 305 thousand).

Operating transactions that did not require the use of cash equivalents that were excluded from the consolidated statement of cash flows are as follows:

In thousands of Russian Roubles	**Note**	**30 June 2017**	**31 December 2016**
Non-cash operating activities			
Repossessed collateral - residential property		2 020 043	1 848 407
Repossessed collateral	12	2 794 008	1 138 946
Total		**4 814 051**	**2 987 353**

7 Due from Other Banks

In thousands of Russian Roubles	**30 June 2017**	**31 December 2016**
Placements with other banks with original maturities of more than three months	3 994 999	4 277 558
Sale and repurchase receivables with other banks	2 966 173	-
Less impairment provision	(117 826)	(116 368)
Total due from other banks	**6 843 346**	**4 161 190**

Analysis by credit quality of amounts due from other banks is as follows:

In thousands of Russian Roubles	**30 June 2017**	**31 December 2016**
Neither past due nor impaired		
- BB- to BB+ rated	337 665	81
- B- to B+ rated	6 379 405	3 076 602
- CCC- to CCC+ rated	-	524 180
- unrated	4 814	300 388
Total neither past due nor impaired	**6 721 884**	**3 901 251**
Balances individually determined to be impaired (gross)		
- 30 to 90 days overdue	-	22 276
- 91 to 180 days overdue	-	132 618
- 181 to 365 days overdue	-	221 265
- over 365 days overdue	239 288	148
Total individually impaired (gross)	**239 288**	**376 307**
Less impairment provision	(117 826)	(116 368)
Total due from other banks	**6 843 346**	**4 161 190**

7 Due from Other Banks (Continued)

The credit ratings are based on Standard & Poor's ratings where available, or Moody's or Fitch rating converted to the nearest equivalent on the Standard & Poor's rating scale.

Movements in the provision for impairment of due from other banks are as follows:

In thousands of Russian Roubles	30 June 2017	31 December 2016
Provision for impairment of due from other banks as at 1 January	**116 368**	**-**
Net expenses for booking a provision in the year	1 458	116 368
Provision for impairment of due from other banks at the end of reporting period	**117 826**	**116 368**

8 Trading Securities

In thousands of Russian Roubles	30 June 2017	31 December 2016
Russian government bonds	20 931 642	23 943 047
Corporate bonds	3 650 051	2 776 263
Total trading securities	**24 581 693**	**26 719 310**

Trading securities are carried at fair value which also reflects any credit risk related write-downs. As trading securities are carried at their fair values based on observable market data using last bid prices from the Moscow exchange, the Group does not analyse or monitor impairment indicators.

Analysis by credit quality of trading securities outstanding at 30 June 2017 is as follows:

In thousands of Russian Roubles	Russian government bonds	Corporate bonds	Total
Neither past due nor impaired (at fair value)			
- BBB- to BBB+ rated	20 931 642	3 650 051	24 581 693
Total trading securities	**20 931 642**	**3 650 051**	**24 581 693**

Analysis by credit quality of trading securities outstanding at 31 December 2016 is as follows:

In thousands of Russian Roubles	Russian government bonds	Corporate bonds	Total
Neither past due nor impaired (at fair value)			
- BBB- to BBB+ rated	18 884 018	579 504	19 463 522
- BB- to BB+ rated	5 059 029	2 196 759	7 255 788
Total trading securities	**23 943 047**	**2 776 263**	**26 719 310**

The credit ratings are based on Standard & Poor's ratings where available, or Moody's or Fitch rating converted to the nearest equivalent on the Standard & Poor's rating scale.

The Bank is licensed by the Federal Commission on Securities Markets for trading in securities.

9 Loans and Advances to Customers

In thousands of Russian Roubles	30 June 2017	31 December 2016
Loans to legal entities:		
- corporate loans	47 132 029	50 580 118
- loans to small and medium entities	62 368 729	59 142 042
Loans to individuals:		
- mortgage loans	49 625 536	50 641 541
- personal and consumer loans	5 242 815	5 659 043
- car loans	354 581	464 536
- other loans to individuals	531 386	526 110
Total loans and advances to customers (before provision for loan impairment and advances to customers)	**165 255 076**	**167 013 390**
Less impairment provision for loans and advances to customers	(17 366 532)	(14 876 114)
Total loans and advances to customers	**147 888 544**	**152 137 276**

At 30 June 2017, loans to legal entities contain factoring receivables balances in the amount of RR 3 831 707 thousand (31 December 2016: RR 4 644 503 thousand).

Movements in the provision for loan impairment and advances to customers during six month period ended 30 June 2017 are as follows:

In thousands of Russian Roubles	Corporate loans	Loans to small and medium businesses	Mortgage loans	Personal and consumer loans	Auto loans	Other loans to individuals	Total
Impairment provisions for loans and advances to customers at 1 January 2017	**4 741 358**	**7 570 302**	**1 224 271**	**1 116 566**	**116 482**	**107 135**	**14 876 114**
Provision for impairment of loans and advances to customers during the year	(1 469 292)	2 414 597	322 249	335 300	(7 274)	15 819	1 611 399
Amounts written off during the year as uncollectible	(608 046)	(132 175)	(2 383)	(66 341)	(7 844)	(6 136)	(822 925)
Disposal of loans and advances to customers	-	(19 178)	-	(1 078)	(595)	-	(20 851)
Transfer from provisions for performance guarantees	671 367	1 051 428	-	-	-		1 722 795
Impairment provisions for loans and advances to customers at 30 June 2017	**3 335 387**	**10 884 974**	**1 544 137**	**1 384 447**	**100 769**	**116 818**	**17 366 532**

9 Loans and Advances to Customers (Continued)

Movements in the provision for loan impairment and advances to customers during 2016 are as follows:

In thousands of Russian Roubles	Corporate loans	Loans to small and medium businesses	Mortgage loans	Personal and consumer loans	Auto loans	Other loans to individuals	Total
Impairment provisions for loans and advances to customers at 1 January 2016	**4 578 536**	**6 065 776**	**803 753**	**643 984**	**130 153**	**91 216**	**12 313 418**
Provision for impairment of loans and advances to customers during the year	1 474 194	4 186 956	428 699	551 112	(932)	22 611	6 662 640
Amounts written off during the year as uncollectible	(641 460)	(2 528 498)	(1 583)	(68 172)	(8 912)	(6 574)	(3 255 199)
Disposal of loans and advances to customers	(1 003 907)	(219 332)	(6 598)	(10 358)	(3 827)	(118)	(1 244 140)
Transfer from provisions for performance guarantees	333 995	65 400	-	-	-	-	399 395
Impairment provisions for loans and advances to customers at 31 December 2016	**4 741 358**	**7 570 302**	**1 224 271**	**1 116 566**	**116 482**	**107 135**	**14 876 114**

During six month period ended 30 June 2017, the Group sold loans and advances to customers under cession agreements for a total of RR 4 318 376 thousand (2016: RR 5 548 380 thousand). Remuneration on the cession agreements received during six month period ended 30 June 2017 amounts to RR 945 330 thousand (2016: RR 1 793 031 thousand), remuneration with payment deferral has a carrying value of RR 3 352 195 thousand (2016: RR 2 511 209 thousand). At the disposal date, an impairment reserve booked for these loans amounted to RR 20 851 thousand (2016: RR 1 244 140 thousand).

Economic sector risk concentrations within the portfolio of loans and advances to customers are as follows:

	30 June 2017		31 December 2016	
In thousands of Russian Roubles	Amount	%	Amount	%
Individuals	55 754 318	33.7	57 291 230	34.3
Trade	28 358 503	17.2	29 902 150	17.9
Construction	19 398 167	11.7	17 831 756	10.7
Manufacturing	16 329 155	9.9	14 257 638	8.5
Real estate	8 048 446	4.9	10 019 977	6.0
Autodealing, repair and servicing	6 279 783	3.8	6 509 720	3.9
Food industry	4 947 524	3.0	6 194 457	3.7
Leasing companies	4 865 728	2.9	3 696 717	2.2
Machinebuilding industry	4 619 372	2.8	4 059 764	2.4
Services sector	4 267 761	2.6	4 193 891	2.5
Construction of infrastructural objects	3 079 662	1.9	2 522 385	1.5
Energy	2 744 295	1.7	2 408 371	1.5
Agriculture	2 084 684	1.3	2 492 341	1.5
Transport and communications	1 662 685	1.0	1 721 742	1.1
Investment and insurance companies	906 716	0.5	1 728 956	1.0
Other	1 908 277	1.1	2 182 295	1.3
Total loans and advances to customers (before provision for loan impairment and advances to customers)	**165 255 076**	**100**	**167 013 390**	**100**

9 Loans and Advances to Customers (Continued)

Trade sector is represented primarily by food products trade, consumer products trade (cosmetics, clothes, furniture), oil products and fuel, computer equipments and construction materials.

Industrial sector is represented by metal product manufacturing and processing enterprises, chemical and textile industry enterprises.

At 30 June 2017, the Group had 9 groups of borrowers (31 December 2016: 10 groups of borrowers) with aggregated loan amounts above 5% of the Group's total capital each in accordance with the requirements of the Basel Accord as disclosed in Note 24. The aggregate amount of these loans at 30 June 2017 is RR 20 463 882 thousand (31 December 2016: RR 23 160 735 thousand), or 12.4% (31 December 2016: 13.9%) of the gross loan portfolio.

The Group has transferred a pool of fixed interest rate mortgage loans granted to individuals to finance the purchase of residential property to CJSC "MA TKB-1", LLC "MA TKB-2" and "MA TKB-3" LLC, Russia-based special purpose vehicles. At disposal of the loans, the derecognition criteria were met at the level of the Bank. At 30 June 2017, securitised loans amounted to RR 9 920 221 thousand (31 December 2016: a pool of mortgage loans of RR 6 031 647 thousand was ceded to CJSC "MA TKB-1" and LLC "MA TKB-2").

The Group has transferred a pool of fixed interest rate mortgage loans granted to individuals to finance the purchase of residential property to CJSC "MA ITB 1" , CJSC "MA ITB 2013" and CJSC "MA ITB 2014", Russia-based special purpose vehicles. At disposal of the loans, the derecognition criteria were met at the level of the Bank. At 30 June 2017, securitised loans amounted to RR 3 927 177 thousand (31 December 2016: RR 4 781 424 thousand).

At 30 June 2017, the Group has loans amounting to RR 2 830 064 thousand (31 December 2016: RR 5 452 214 thousand) pledged as collateral in the Joint-Stock Company "Russian Bank for Small and Medium Enterprises Support" ("SME Bank") under the Government SME Lending Support Program. Refer to Note 13.

At 30 June 2017, the Group has pledged loans of RR 45 000 thousand to the Bank of Russia as security under loans collateralised by a pledge of loan receivables collateralised by an insurance contract with EXIAR. (31 December 2016: RR 45 000 thousand). Refer to Note 13.

At 30 June 2017, the Group has pledged loans of RR 22 558 779 thousand to the State Corporation Deposit Insurance Agency as collateral for the deposits received for financial rehabilitation of PJSC "Investtradebank" (31 December 2016: RR 23 891 586 thousand). Refer to Note 16.

Information about collateral at 30 June 2017 is as follows:

In thousands of Russian Roubles	**Corporate loans**	**Loans to small and medium businesses**	**Mortgage loans**	**Personal and consumer loans**	**Auto loans**	**Other loans to indi-viduals**	**Total**
Unsecured loans	12 676 991	18 542 736	1 632 580	4 055 233	74 842	530 439	37 512 821
Loans collateralised by:							
- real estate	11 145 332	26 765 839	47 963 340	442 539	-	-	86 317 050
- corporate guarantees	7 863 510	5 793 350	29 616	171 950	79	947	13 859 452
- goods in turnover	5 815 220	3 656 332	-	596	-	-	9 472 148
- receivables	3 307 112	2 247 889	-	6 293	-	-	5 561 294
- equipment	2 772 999	1 945 661	-	103 173	-	-	4 821 833
- motor vehicles	2 106 106	836 114	-	311 059	279 660	-	3 532 939
- mortgage certificates and other securities	1 274 759	1 807 078	-	142 672	-	-	3 224 509
- cash deposits	170 000	435 358	-	-	-	-	605 358
- securities of the Group	-	338 372	-	9 300	-	-	347 672
Total loans and advances to customers	**47 132 029**	**62 368 729**	**49 625 536**	**5 242 815**	**354 581**	**531 386**	**165 255 076**

9 Loans and Advances to Customers (Continued)

Information about collateral at 31 December 2016 is as follows:

In thousands of Russian Roubles	Corporate loans	Loans to small and medium businesses	Mortgage loans	Personal and consumer loans	Auto loans	Other loans to indi-viduals	Total
Unsecured loans	14 880 000	17 045 531	1 865 108	4 338 906	82 805	526 110	38 738 460
Loans collateralised by:							
- real estate	14 005 527	23 858 154	48 771 746	703 595	-	-	87 339 022
- corporate guarantees	6 635 918	6 136 231	3 509	245 251	79	-	13 020 988
- goods in turnover	4 791 584	3 539 320	-	602	-	-	8 331 506
- receivables	3 630 999	1 827 289	-	54 571	-	-	5 512 859
- equipment	1 888 162	3 053 659	-	67 512	-	-	5 009 333
- motor vehicles	2 437 787	799 964	128	47 570	381 652	-	3 667 101
- mortgage certificates and other securities	1 462 842	1 118 290	-	35 266	-	-	2 616 398
- cash deposits	847 299	1 544 653	1 050	15 617	-	-	2 408 619
- securities of the Group	-	218 951	-	150 153	-	-	369 104
Total loans and advances to customers	**50 580 118**	**59 142 042**	**50 641 541**	**5 659 043**	**464 536**	**526 110**	**167 013 390**

The disclosure above represents the lower of the carrying value of the loan or collateral taken; the remaining part is disclosed within the unsecured exposures. The carrying value of loans was allocated based on liquidity of the assets taken as collateral.

At 30 June 2017, consumer loans besides loans granted to the employees of the Bank's corporate clients included express consumer loans granted to "walk-in" customers in the amount of RR 24 271 thousand or 0.5% of total consumer loans portfolio (31 December 2016: RR 54 837 thousand or 1.0%).

The Group estimates its loan loss provision using Methodology for determining the borrower's credit rating. Credit rating is a complex estimate of a borrower's financial stability and solvency and is expressed as scores assigned to creditworthiness based on assessed factors. Such factors include: estimate of the borrower's financial situation on the basis of indicators derived from financial statements, assessment of the borrower's business risk (reputation and market data on the borrower's business); estimate of movement on settlement/current accounts of the borrower with the Bank (cash flow adequacy); evaluation of the shareholder (founder) structure; statistics of repayment of the previously issued loans (credit history).

Creditworthiness rating of a corporate customer determines the amount of estimated loan loss provision and the credit risk rating category.

In accordance with the Methodology the following ratings are assigned:

Rating	Description of Rating
A1	Credit risk is practically non-existent
A2	Minimal risk: the most reliable borrowers
A3	Low risk: reliable borrowers
B1	Low risk: good borrowers
B2	Moderate risk: fairly reliable borrowers
B3	Medium risk: average borrowers
B4	Acceptable risk: borrowers with creditworthiness below average
B5	Maximum allowable risk: fairly good borrowers
C1	High risk: borrowers with unsatisfactory creditworthiness
C2	Very high risk: sub-standard loans
C3	Loans with expected default
D	Default

The estimated loan loss provision is adjusted for collateral based on the application of various discount factors to the assessed fair value of collateral and depending on collateral liquidity and quality.

9 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans and advances to customers at 30 June 2017 is as follows:

In thousands of Russian Roubles	Corporate loans	Loans to small and medium businesses	Mortgage loans	Personal and consumer loans	Auto loans	Other loans to individuals	Total
Loans individually/collectively determined to be neither past due nor impaired							
A3	21 151 280	9 780 646	34 630 616	649 548	4 777	-	66 216 867
B1	13 393 149	9 998 696	5 408 722	2 804 886	180 697	402 535	32 188 685
B2	2 275 607	4 571 893	55 319	20 716	-	-	6 923 535
B3	786 584	2 375 707	5 592	-	-	-	3 167 883
B4	-	910 612	-	-	-	-	910 612
B5	1 193 972	1 843 392	-	-	-	-	3 037 364
C1	-	84 854	-	-	-	-	84 854
Total loans individually/collectively determined to be neither past due nor impaired (gross)	**38 800 592**	**29 565 800**	**40 100 249**	**3 475 150**	**185 474**	**402 535**	**112 529 800**
Loans individually/collectively determined to be past due but not impaired							
- less than 30 days overdue	731 447	560 338	2 162 178	97 028	10 452	12 157	3 573 600
- 31 to 90 days overdue	-	368 405	566 762	7 129	1 295	-	943 591
- 91 to 180 days overdue	1 061 432	2 503 855	95 245	-	-	-	3 660 532
Total loans individually/collectively determined to be past due but not impaired (gross)	**1 792 879**	**3 432 598**	**2 824 185**	**104 157**	**11 747**	**12 157**	**8 177 723**
Loans individually/collectively determined to be impaired							
- impaired but not past due	478 015	5 278 122	7 222	123 785	1 042	-	5 888 186
- less than 30 days overdue	-	538 684	-	147 702	1 307	5	687 698
- 31 to 90 days overdue	266 264	14 547	192 549	73 560	4 260	5 502	556 682
- 91 to 180 days overdue	242 997	2 078 120	510 153	153 485	5 502	10 942	3 001 199
- 181 to 365 days overdue	1 312 333	4 327 877	690 445	86 351	8 133	14 101	6 439 240
- over 365 days overdue	4 238 949	17 132 981	5 300 733	1 078 625	137 116	86 144	27 974 548
Total loans individually/collectively determined to be impaired (gross)	**6 538 558**	**29 370 331**	**6 701 102**	**1 663 508**	**157 360**	**116 694**	**44 547 553**
Total loans and advanced to customers (gross)	**47 132 029**	**62 368 729**	**49 625 536**	**5 242 815**	**354 581**	**531 386**	**165 255 076**
Less impairment provision for loans and advances to customers	(3 335 387)	(10 884 974)	(1 544 137)	(1 384 447)	(100 769)	(116 818)	(17 366 532)
Total loans and advances to customers	**43 796 642**	**51 483 755**	**48 081 399**	**3 858 368**	**253 812**	**414 568**	**147 888 544**

9 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans and advances to customers at 31 December 2016 is as follows:

In thousands of Russian Roubles	**Corporate loans**	**Loans to small and medium businesses**	**Mortgage loans**	**Personal and consumer loans**	**Auto loans**	**Other loans to individuals**	**Total**
Loans individually/collectively determined to be neither past due nor impaired							
A3	22 418 228	11 310 252	37 317 357	824 270	4 634	-	71 874 741
B1	14 675 387	11 700 726	5 988 488	3 553 495	272 847	414 098	36 605 041
B2	1 526 712	4 117 894	13 307	16 500	4 371	-	5 678 784
B3	150 000	5 281 340	78 764	-	-	-	5 510 104
B4	92 597	681 652	2 034	-	-	-	776 283
B5	1 149 894	1 930 364	-	-	-	-	3 080 258
C1	-	625 470	-	-	-	-	625 470
Total loans individually/collectively determined to be neither past due nor impaired (gross)	**40 012 818**	**35 647 698**	**43 399 950**	**4 394 265**	**281 852**	**414 098**	**124 150 681**
Loans individually/collectively determined to be past due but not impaired							
- less than 30 days overdue	-	991 693	595 469	51 287	12 128	2 333	1 652 910
- 31 to 90 days overdue	171 916	1 188 025	488 281	519	-	-	1 848 741
- 91 to 180 days overdue	561 013	1 004 595	38 131	-	-	-	1 603 739
Total loans individually/collectively determined to be past due but not impaired (gross)	**732 929**	**3 184 313**	**1 121 881**	**51 806**	**12 128**	**2 333**	**5 105 390**
Loans individually/collectively determined to be impaired							
- impaired but not past due	2 454 196	6 159 284	3 104	4 898	1 380	-	8 622 862
- less than 30 days overdue	-	263 773	9 491	14 506	2 004	-	289 774
- 31 to 90 days overdue	514 712	237 242	219 734	48 032	5 575	9 788	1 035 083
- 91 to 180 days overdue	76 606	224 655	407 994	56 071	4 338	6 383	776 047
- 181 to 360 days overdue	901 036	4 257 781	961 716	246 830	11 436	18 072	6 396 871
- over 365 days overdue	5 887 821	9 167 296	4 517 671	842 635	145 823	75 436	20 636 682
Total loans individually/collectively determined to be impaired (gross)	**9 834 371**	**20 310 031**	**6 119 710**	**1 212 972**	**170 556**	**109 679**	**37 757 319**
Total loans and advanced to customers (gross)	**50 580 118**	**59 142 042**	**50 641 541**	**5 659 043**	**464 536**	**526 110**	**167 013 390**
Less impairment provision for loans and advances to customers	(4 741 358)	(7 570 302)	(1 224 271)	(1 116 566)	(116 482)	(107 135)	(14 876 114)
Total loans and advances to customers	**45 838 760**	**51 571 740**	**49 417 270**	**4 542 477**	**348 054**	**418 975**	**152 137 276**

The primary factors that the Group considers in determining whether a loan is impaired are its overdue status and realisability of related collateral, if any. As a result, the Group presents above an ageing analysis of loans that are determined to be impaired.

Past due, but not impaired, loans primarily include collateralised loans where the fair value of collateral covers the overdue interest and principal repayments. The amount reported as past due but not impaired is the whole balance of such loans, not only the individual instalments that are past due.

For the purpose of credit quality analysis, loans to individuals are grouped by type of credit products into homogenious sub-portfolios with similar risk characteristics. The Group analyses each portfolio by the ageing of past due debts.

10 Repurchase Receivables

Repurchase receivables represents securities sold under sale and repurchase agreements which the counterparty has the right, by contract or custom, to sell or repledge. The sale and repurchase agreements are short-term in nature.

In thousands of Russian Roubles	30 June 2017	31 December 2016
Trading securities sold under sale and repurchase agreements		
Russian government bonds	-	2 724 339
Corporate bonds	-	4 048 169
Total repurchase receivables representing trading securities	**-**	**6 772 508**
Investment securities available for sale pledged under sale and repurchase agreements		
Corporate bonds	-	3 882 214
Total repurchase receivables representing investment securities available for sale	**-**	**3 882 214**
Total repurchase receivables	**-**	**10 654 722**

The primary factor that the Group considers in determining whether a repurchase receivable is impaired is its overdue status.

Analysis by credit quality of repurchase receivables is as follows at 31 December 2016:

In thousands of Russian Roubles	Russian government bonds	Corporate bonds	Total
Neither past due nor impaired			
- BBB- to BBB+ rated	2 209 861	-	2 209 861
- BB- to BB+ rated	514 478	4 048 169	4 562 647
Total repurchase receivables representing trading securities	**2 724 339**	**4 048 169**	**6 772 508**
Neither past due nor impaired			
- BB- to BB+ rated	-	3 882 214	3 882 214
Total repurchase receivables representing investment securities available for sale	-	**3 882 214**	**3 882 214**
Total repurchase receivables	**2 724 339**	**7 930 383**	**10 654 722**

The credit ratings are based on Standard & Poor’s ratings where available, or Moody’s rating converted to the nearest equivalent on the Standard & Poor’s rating scale.

11 Investment Securities Available for Sale

In thousands of Russian Roubles	30 June 2017	31 December 2016
Corporate bonds	3 908 692	10 678 876
Russian government bonds	7 402 543	2 735 593
Municipal bonds	202 641	228 690
Total investment securities available for sale	**11 513 876**	**13 643 159**

Analysis of investment securities available for sale at 30 June 2017 by credit quality is as follows:

In thousands of Russian Roubles	Russian government bonds	Corporate bonds	Municipal bonds	Total
Neither past due nor impaired (at fair value)				
- BBB- to BBB+ rated	2 126 259	1 384 005	-	3 510 264
- BB- to BB+ rated	1 782 433	5 876 879	190 467	7 849 779
- B+ and lower, unrated	-	141 659	12 174	153 833
Total investment securities available for sale	**3 908 692**	**7 402 543**	**202 641**	**11 513 876**

Analysis of investment securities available for sale at 31 December 2016 by credit quality is as follows:

In thousands of Russian Roubles	Russian government bonds	Corporate bonds	Municipal bonds	Total
Neither past due nor impaired (at fair value)				
- BBB- to BBB+ rated	2 735 593	1 302 214	-	4 037 807
- BB- to BB+ rated	-	9 237 173	204 534	9 441 707
- B+ and lower, unrated	-	139 489	24 156	163 645
Total investment securities available for sale	**2 735 593**	**10 678 876**	**228 690**	**13 643 159**

The primary factor that the Group considers in determining whether a debt security is impaired is its overdue status. At 30 June 2017 and 31 December 2016, the Group had no debt securities available for sale that are individually considered to be impaired. The debt securities are not collateralised.

At 30 June 2017, the Group has pledged investment securities available for sale in the amount of RR 3 597 191 thousand (31 December 2016: RR 4 481 112 thousand) to the State Corporation Deposit Insurance Agency as collateral for the funds received (Note 16).

12 Other Assets

Other financial assets

In thousands of Russian Roubles	**30 June 2017**	**31 December 2016**
Restricted cash	1 766 674	1 042 947
Fines and penalties receivable	369 632	206 884
Fees and commissions accrued	277 939	225 417
Receivables from recovery of state duty	164 129	135 312
Receivables from conversion transactions	30 669	12 502
Financial derivatives	29 818	8 087
Receivables	8 765	16 673
Other	122 345	122 301
Less impairment provision	(595 902)	(341 147)
Total other financial assets	**2 174 070**	**1 428 976**

Restricted cash represents collateral on the accounts with the National Clearing Centre Bank (Joint-Stock Company) and balances on the correspondent accounts with Russian banks placed by the special purpose vehicles CJSC “MA TKB-1”, LLC “MA TKB-2”, “MA TKB-3” LLC, CJSC “Mortgage Agent ITB 1”, CJSC “Mortgage Agent ITB 2013” and CJSC “Mortgage Agent ITB 2014”.

Other non-financial assets

In thousands of Russian Roubles	**30 June 2017**	**31 December 2016**
Repossessed collateral	2 794 008	1 138 946
Prepayments for services	345 801	253 561
Investment property	266 845	251 843
Prepayments for leasing operations	188 928	180 214
Taxes receivable other than on income	53 959	44 267
Goodwill	47 476	47 476
Precious metals	29 464	27 573
Other	40 576	76 285
Less impairment provision	(128 193)	(81 925)
Total other non-financial assets	**3 638 864**	**1 938 240**

13 Due to Other Banks

In thousands of Russian Roubles	**30 June 2017**	**31 December 2016**
Correspondent accounts and overnight placements of other banks	8 722 626	4 416 172
Special purpose-oriented program	5 019 420	8 505 546
Short-term placements of other banks	1 290 257	1 840 253
Trade and ECA covered finance	1 391 049	2 018 916
The CBRF loans	227 603	61 027
Sale and repurchase agreements with other banks	-	10 014 679
Total due to other banks	**16 650 955**	**26 856 593**

13 Due to Other Banks (Continued)

At 30 June 2017 there are no liabilities from sale and repurchase agreements disclosed in Note 10 (31 December 2016: RR 10 014 679 thousand).

Under Trade and Export Credit Agency ("ECA") covered finance the Group has obtained short-term financing of international trade transactions and medium- and long-term financing of capital expenditures under insurance cover by export credit agencies.

Under special purpose-oriented program the Group has obtained special purpose-oriented financing from international and Russian development institutes.

- Loans from the Open Joint-Stock Company "Russian Bank for Small and Medium Enterprises Support" ("SME Bank") in the amount of RR 3 047 896 thousand (2016: RR 5 482 548 thousand) included in special purpose-oriented programs are funds under the Government SME Lending Support Program collateralised by loans and advances to customers. Refer to Note 9.
- Loans from the European Bank for Reconstruction and Development within the scope of Russian Sustainable Energy Financing Facility (RuSEFF) aimed at credit financing of energy-saving projects in the housing sector implemented by small and small and medium entities (RuSEFF Programme) are amounted to RR 0 thousand (2016: RR 502 737 thousand).
- Loans from the International Finance Corporation in the amount of RR 0 thousand (2016: RR 1 733 054 thousand) are aimed at credit financing of energy-saving projects of small and small and medium businesses and at financing female entrepreneurs.
- Loans from the International Investment Bank in the amount of RR 578 565 thousand (2016: RR 729 270 thousand) are aimed at financing of energy-saving projects of small and small and medium businesses.
- Loans from the Black Sea Trade and Development Bank in the amount of RR 1 349 986 thousand (2016 год: RR 0 thousand), are aimed at financing small and small and medium businesses.

Information on related party balances is disclosed in Note 26.

14 Customer Accounts

In thousands of Russian Roubles	**30 June 2017**	**31 December 2016**
Legal entities		
- Current/settlement accounts	15 326 093	17 243 437
- Term deposits	11 553 002	15 150 155
Individuals		
- Current/settlement accounts	4 328 219	5 593 301
- Term deposits	104 885 398	106 978 672
Total customer accounts	**136 092 236**	**144 965 565**

14 Customer Accounts (Continued)

Economic sector concentrations within customer accounts are as follows:

In thousands of Russian Roubles	30 June 2017 Amount	%	31 December 2016 Amount	%
Individuals	109 213 617	80.2	112 571 973	77.7
Trade	6 870 427	5.0	7 917 559	5.5
Services sector	3 862 941	2.8	3 608 142	2.5
Investment and insurance companies	2 925 018	2.2	4 671 192	3.2
Manufacturing	2 544 735	2.0	4 754 417	3.3
Construction	2 430 408	1.8	3 286 428	2.3
Real estate	1 589 570	1.2	2 438 727	1.7
Machinebuilding industry	1 127 695	0.9	1 815 782	1.3
Construction of infrastructural objects	724 044	0.5	495 695	0.3
Leasing companies	600 101	0.4	87 857	0.1
Transport and communications	543 087	0.4	764 545	0.5
Food industry	328 511	0.2	349 378	0.2
Energy	297 597	0.2	339 752	0.2
Autodealing, repair and servicing	141 672	0.1	259 662	0.2
Agriculture	67 931	0.0	437 387	0.3
Other	2 825 358	2.1	1 167 069	0.8
Total customer accounts	**136 092 712**	**100**	**144 965 565**	**100**

At 30 June 2017, the Group had 2 customers (31 December 2016: 2 customers) with balances above 5% of the Group's total capital each in accordance with the requirements of the Basel Accord as disclosed in Note 24. The aggregate amount of these balances at 30 June 2017 is RR 5 930 828 thousand (31 December 2016: RR 5 519 485 thousand), or 4.0% (31 December 2016: 3.8%) of the gross loan portfolio.

Information on related party balances is disclosed in Note 2626.

15 Debt Securities in Issue

In thousands of Russian Roubles	30 June 2017	31 December 2016
Bonds issued on domestic market and secured by the mortgage loans	10 072 577	7 481 493
Promissory notes	1 591 912	1 683 656
Savings certificates	68 704	93 172
Bonds issued on domestic market	43	5 160
Total debt securities in issue	**11 733 236**	**9 263 481**

At 30 June 2017 and 31 December 2016 the Group had no outstanding promissory notes or savings certificates held by counterparties with balances above 5% of the Group's total capital in accordance with the requirements of the Basel Accord.

Promissory notes are issued by the Bank with a discount to face value or with interest accrual and bear an effective interest rate from 2.80% p.a. to 19.91% p.a. depending on the type of issue and currency of nomination (31 December 2016: from 0.01% p.a. to 19.91% p.a.). At 30 June 2017, these promissory notes have maturity dates ranging from July 2017 to January 2024 (31 December 2016: from January 2017 to April 2023).

On 27 December 2013 the Group issued bonds on domestic market secured by the mortgage loans pool of RR 4 414 295 thousand issued by the Bank. The senior tranche of these mortgage bonds in the amount of RR 4 117 989 thousand was acquired by the State Agency for Housing Mortgage Lending. The notes bear a fixed interest rate of 8% per annum payable quarterly from the issuance until maturity in 2045.

15 Debt Securities in Issue (Continued)

On 5 April 2016 the Group issued bonds on domestic market secured by the mortgage loans pool of RR 5 097 368 thousand issued by the Bank. Class A mortgage bonds in the amount of RR 4 681 859 thousand were placed through open subscription on MICEX. They bear a fixed interest rate of 11% per annum payable quarterly from the issuance until maturity in 2047.

On 23 June 2017 the Group issued bonds on domestic market secured by the mortgage loans pool of RR 4 818 291 thousand issued by the Bank. Mortgage bonds in the amount of RR 4 095 548 thousand were placed through open subscription on MICEX. They bear a fixed interest rate of 9,10% per annum payable quarterly from the issuance until maturity in 2045.

At 30 June 2017, the carrying amount of bonds issued on domestic market and collateralised by mortgage loans was RR 10 072 577 thousand (31 December 2016: RR 7 481 493 thousand). At 30 June 2017, the carrying amount of loans securitised was RR 13 847 398 thousand (31 December 2016: RR 10 813 071 thousand). Refer to Note 99.

In 2013, the Bank issued on MICEX a tranche of RR 2 000 000 Rouble-denominated non-convertible bonds with a nominal amount of RR 1 thousand each and a coupon rate of 10.75% per annum until 9 June 2015; 13% until 10 June 2016; 11.25% until 10 June 2017 and maturity in May 2023. On 10 June 2016, TKB has fully discharged its obligation to acquire exchange-traded bonds upon their holders' demand and bought 1 844 879 exchange-traded bonds for RR 1 000 each, which equals 100% of their nominal value.

16 Amounts Received from the State Corporation Deposit Insurance Agency

The funds raised from the State Corporation Deposit Insurance Agency (DIA) as at 31 December 2016 are funds received in October 2015 from DIA within the scope of procedures for financial rehabilitation of PJSC "Investtradebank" (ITB). The funds were issued in two tranches: a cash tranche of RR 19 500 000 thousand with a fixed interest rate of 6.01% p.a. payable quarterly, with a maturity date on 16 October 2017, and a tranche to cover the difference between the assets' fair value and the carrying value of ITB's liabilities of RR 29 700 000 thousand with a fixed interest rate of 0.51% p.a. payable quarterly, with a maturity date on 16 October 2025.

In February 2017 the Group received additional tranche of RR 7 664 631 thousand at the rate of 0.51% p/a/ for the term of 10 years from the State Corporation Deposit Insurance Agency in accordance with the Plan for Involvement of DIA in Measures to Prevent Bankruptcy of ITB.

The balance of funds raised from DIA in the amount of RR 32 133 539 thousand is the result of discounting the tranches of RR 49 200 000 thousand at 13.5% and the tranche of RR 7 664 631 thousand at 13% recorded at 30 June 2017.

17 Subordinated Debt

Name	Currency	Maturity date (year)	Interest rate, %	30 June 2017	31 December 2016
Eurobonds issued	USD	2020/2017	10.00 / 7.74	5 923 973	6 057 181
Bonds issued on domestic market	RR	2018	13.00	-	1 008 550
Bonds issued on domestic market	RR	2022	15.00	1 580 130	1 580 760
Vnesheconombank	RR	2019	6.50	986 748	986 924
INRS International servises	EUR	2017	9.00	685 146	647 684
Dolmiano Investments Limited	USD	2022	7.50	297 249	305 212
Diolon Shipping Limited	USD	2022	6.60	250 896	257 560
Dolmiano Investments Limited	USD	2022	9.00	241 645	248 117
Dolmiano Investments Limited	USD	2022	6.60	236 342	242 628
Dolmiano Investments Limited	USD	2022	8.60	179 804	184 578
Diolon Shipping Limited	USD	2022	8.30	179 715	184 487
Dolmiano Investments Limited	USD	2021	8.50	120 675	123 905
Diolon Shipping Limited	EUR	2020	10.00	102 081	96 528
Total subordinated debt				**10 784 404**	**11 924 114**

In case of the Bank's liquidation the subordinated debt will rank after the other creditors.

In June 2015, the Bank reached an agreement with the holders of its subordinated eurobonds issued in 2007. The agreement introduces amendments to the terms and conditions of issue required to ensure compliance with CB RF Regulation No. 395-P "On the Methodology to Estimate Equity (Capital) of Credit Institutions ("Basel III")" of 28 December 2012.

The amendments provide for extension of the maturity of the Bank's eurobonds from 18 July 2017 to 18 September 2020, inclusion of additional condition on termination of obligations under the loan in case of occurrence of certain events (triggers) and also for the increase of coupon rate from 7.74% to 10% per annum.

In May 2016, the Group received subordinated loans from DIA through transfer to TKB of federal loan bonds (OFZ) with a total nominal value of RR 100 000 thousand. The interest rate on the loans equals coupon rate on OFZ plus 1.0% p.a. The loans will be repaid by returning OFZ in 2025-2034. The loans are included in the list of sources of TKB's additional capital.

In accordance with the loans' terms, the Bank cannot sell OFZ during the first three years from receiving the loans without approval from the Russian Ministry of Finance (the restriction is not applicable to sale and repurchase transactions between the Bank and the Bank of Russia). The Bank should also maintain a certain growth rate of loans from individual categories of borrowers and limit the remuneration paid to management and staff during the first three years from receiving the loan, or until the bank's equity (capital) recorded in form 0409123 of RAS accounting statements at the OFZ receipt date has increased by at least 50% of the subordinated loan received, and maintained at this level during the term of the subordinated loan.

DIA as the owner of OFZ bears all the risks and benefits from OFZ. Thus, the Group did not recognise the OFZ and related obligation to return these securities in its consolidated statement of financial position.

18 Other Liabilities

Other financial liabilities

In thousands of Russian Roubles	30 June 2017	31 December 2016
Outstanding settlements with payment systems	88 892	8 692
Settlements on banknote transactions	85 602	-
Finance lease payables	61 397	93 952
Deferred income on guarantees	57 932	54 619
Financial derivatives	47 554	10 135
Bonuses accrued on plastic card operations	39 810	25 598
Settlements of legal claims	17 941	8 861
Other	11 525	9 231
Total other financial liabilities	**410 653**	**211 088**

Other non-financial liabilities

In thousands of Russian Roubles	30 June 2017	31 December 2016
Accrued employee benefit costs	227 667	206 723
Taxes payable other than on income	139 613	107 275
Trade payables	112 802	108 498
Accrued insurance expenses	65 896	66 544
Settlements under assignment agreements	20 000	300 081
Other	25 827	22 629
Total other non-financial liabilities	**591 806**	**811 749**

19 Interest Income and Expense

In thousands of Russian Roubles	Six month period ended 30 June 2017	Six month period ended 30 June 2016
Interest income		
Loans and advances to customers	10 445 513	10 677 611
Trading securities	1 213 314	1 754 051
Investment securities available for sale	308 343	792 470
Due from other banks	205 065	417 939
Correspondent accounts with other banks	347	396
Total interest income	**12 172 582**	**13 642 467**
Interest expense		
Term deposits of individuals	4 385 715	3 496 635
Amounts received from the State Corporation Deposit Insurance Agency	1 963 842	1 253 380
Term deposits of legal entities	719 923	1 762 755
Subordinated debt	570 211	549 584
Term placements of other banks	541 185	1 241 364
Debt securities in issue	484 962	613 911
Correspondent accounts of other banks	54 316	170 007
Current/settlement accounts	41 213	47 901
Total interest expense	**8 761 367**	**9 135 537**
Deposit insurance program charge	259 518	182 918
Net interest margin	**3 151 697**	**4 324 012**

20 Fee and Commission Income and Expense

In thousands of Russian Roubles	**Six month period ended 30 June 2017**	**Six month period ended 30 June 2016**
Fee and commission income		
Plastic cards	368 753	209 407
Settlement transactions	291 074	335 266
Performance guarantees issued	288 145	473 311
Cash transactions	71 120	121 258
Cash collection and recounts	69 960	34 742
Banknote transactions and operations with precious coins	65 512	88 586
Currency control	46 205	52 082
Financial garantees issued	-	2 201
Other	17 425	9 504
Total fee and commission income	**1 218 194**	**1 326 357**
Fee and commission expense		
Plastic cards	283 981	200 192
Settlement transactions	43 301	77 230
Banknote transactions	19 636	22 669
Cash collection	18 918	2 540
Financial garantees received	2 618	306
Other	9 138	5 091
Total fee and commission expense	**377 592**	**308 028**
Net fee and commission income	**840 602**	**1 018 329**

21 Administrative and Other Operating Expenses

In thousands of Russian Roubles	**Six month period ended 30 June 2017**	**Six month period ended 30 June 2016**
Staff costs	1 497 259	1 521 718
Charges to state non-budget funds	430 957	396 878
Professional services	264 549	79 188
Office rent	216 664	216 682
Communication expenses	141 824	131 331
Insurance expenses on transportation of valuables	137 283	62 119
Impairment of repossessed collateral	133 548	105 903
Depreciation of premises and equipment	87 926	73 537
Taxes other than on income	83 813	62 534
Security expenses	75 846	52 037
Amortisation of intangible assets	61 086	63 300
Other insurance expenses	24 332	24 390
Advertising and other business development expenses	13 544	11 416
Other	157 744	86 466
Total administrative and other operating expenses	**3 326 375**	**2 887 499**

22 Segment Analysis

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available. The CODM is the person – or group of persons – who allocates resources and assesses the performance for the entity. The functions of the CODM are performed by the Chairperson of the Management Board of the Bank.

(a) Description of products and services from which each reportable segment derives its revenue

The Group is organised on the basis of six main business segments:

- **Treasury** – includes money market operations, brokerage and custody services, transactions with securities and foreign currency, REPO agreements and operations with derivative financial instruments.
- **International financing** – raising funds on international capital markets.
- **Overall Management** – this segment performs the centralised risk management, and is responsible for infrastructure maintenance and development.
- **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.
- As the Group acquired PJSC “Investtradebank” for financial rehabilitation on 27 February 2016, it recognises ITB in its segment reporting for 2016 as a separate business. In subsequent periods, after integration of all business processes, ITB operations will be included in the five main business segments of the Group.

(b) Factors that management used to identify the reportable segments

The Group’s segments are strategic business units that focus on different customers. They are managed separately because each business unit requires different marketing strategies and service level.

(c) Measurement of operating segment profit or loss, assets and liabilities

The CODM reviews financial information prepared based on Russian accounting standards and in particular standalone financial reporting of the Bank, adjusted to meet the requirements of internal reporting. Such financial information differs in certain aspects from International Financial Reporting Standards:

(i) the fair value changes in available for sale securities are reported within the segments’ profits or losses rather than in other comprehensive income; the securities presented in the portfolio “trading securities” are subject to revaluation at average market quotes;

(ii) the depreciation rates of premises and equipment differ from the depreciation rates applied under IFRS; the value of the premises and equipment purchased before 1 January 2003 is not adjusted for inflation;

(iii) income taxes are not allocated to segments;

(iv) loan provisions are recognised based on management judgement and availability of information, rather than based on the incurred loss model prescribed in IAS 39;

22 Segment Analysis (Continued)

(v) commission income relating to lending is recognised immediately rather than deferred using the effective interest method; and

(vi) the segment financial reporting, analysed by the CODM, does not include operating results of the subsidiaries; the operating results analysis is delegated on a regular basis to the subsidiaries' management. The information about operating results of the subsidiaries is quarterly reported to the Chairperson of the Bank's Management Board.

The Group calculates the volume of allocated and raised resources within the segments. This calculation is based on the ratio of allocated and raised resources with regard to liquidity and types of foreign currencies (roubles, dollars, euro) for each accounting period. Internal allocation and funding rates are equal and are based on average market borrowing rates.

Expenses, which cannot be directly charged to a segment, are allocated. The principles of allocation are selected in accordance with the objective expense allocation basis such as: salary fund, staff number, occupied working area.

When defining profit or loss of an operational segment, the Bank allocates amortisation and depreciation costs within its operational segments. However, this principle is not applied to book value of premises and equipment.

The CODM estimates the segment results based on profit before income tax.

(d) Information about reportable segment profit or loss, assets and liabilities

Segment information for the reportable segments for the year ended 30 June 2017 and 31 December 2016 is set out below:

In thousands of Russian Roubles	**30 June 2017**	**31 December 2016**
Assets		
Corporate banking	74 019 164	77 451 252
Treasury	47 428 174	56 178 129
PJSC “Investtradebank”	71 520 126	76 833 444
Retail banking	46 596 273	47 940 359
Overall management	5 869 669	3 372 844
International financing	63 910	72 784
Total reportable segment assets	**245 497 316**	**261 848 812**
Liabilities		
Retail banking	55 809 151	57 915 740
PJSC “Investtradebank”	94 079 055	88 514 939
Treasury	44 994 039	50 571 073
Corporate banking	26 963 028	32 814 868
Overall management	328 506	316 240
International financing	11 696 361	13 530 814
Total reportable segment liabilities	**233 870 140**	**243 663 674**

22 Segment Analysis (Continued)

In thousands of Russian Roubles	Treasury	Corporate banking	Retail banking	International financing	PJSC "Investtrade bank"	Overall management	Total
Six month period ended 30 June 2017							
External revenues:							
- Interest income	977 862	4 482 187	3 074 846	-	3 573 999	-	12 108 894
- Fee and commission income	79 751	612 961	395 850	-	148 963	-	1 237 525
- Other operating income	-	-	-	-	158 908	-	158 908
Revenues from other segments:							
- Interest income	734 493	-	300 129	380 014	-	1 363 527	2 778 163
Total revenues	**1 792 106**	**5 095 148**	**3 770 825**	**380 014**	**3 881 870**	**1 363 527**	**16 283 490**
Interest expense	(3 353 259)	(572 207)	(2 338 121)	(478 238)	(3 111 955)	-	(9 853 780)
Interest expense to other segments	-	(2 778 163)	-	-	-	-	(2 778 163)
Provision for loan portfolio impairment	(2 015)	(1 181 312)	(371 206)	-	(643 510)	-	(2 198 043)
Provision for credit related commitments	556	(425 094)	(5 959)	-	685 806	-	255 309
Fee and commission expense	(34 896)	(109 241)	(306 714)	(5 736)	(11 453)	-	(468 040)
Gains less losses from trading in securities	1 644 554	-	-	-	(4 005)	-	1 640 549
Gains less losses from trading in foreign currencies	174 493	(10 664)	-	-	41 041	-	204 870
Administrative and other operating expenses	(119 160)	(752 502)	(682 970)	(18 781)	(1 451 030)	(634 619)	(3 659 062)
Depreciation and amortisation	(4 636)	(15 421)	(13 650)	(326)	(32 871)	(23 412)	(90 316)
Segment result	**97 743**	**(749 456)**	**52 205**	**(123 067)**	**(646 107)**	**705 496**	**(663 186)**
Additional information							
Capital expenditures (acquisition of premises and equipment)	92	473	2 541	4	-	4 298	7 408

22 Segment Analysis (Continued)

In thousands of Russian Roubles	**Treasury**	**Corporate banking**	**Retail banking**	**International financing**	**Overall management**	**Total**
Six month period ended 30 June 2016						
External revenues:						
- Interest income	861 668	5 947 478	2 916 338			9 725 484
- Fee and commission income	89 903	753 091	295 814			1 138 808
- Other operating income						
	-	5 281	-			5 281
Revenues from other segments:						-
- Interest income	596 177	-	71 744	667 209	1 407 736	2 742 866
Total revenues	**1 547 748**	**6 705 850**	**3 283 896**	**667 209**	**1 407 736**	**13 612 439**
Interest expense						
Interest expense to other segments	(3 725 338)	(1 159 730)	(1 878 635)	(642 912)	-	(7 406 615)
Provision for loan portfolio impairment	-	(2 742 866)	-	-		(2 742 866)
Provision for credit related commitments	(101 275)	(1 486 473)	(722 134)	-		(2 309 882)
Fee and commission expense	(4 139)	(787 876)	(10 849)	-		(802 864)
Gains less losses from trading in securities	(36 724)	(95 268)	(260 960)	(9 450)		(402 402)
Gains less losses from trading in foreign currencies	2 551 913	-	-			2 551 913
Administrative and other operating expenses	224 630	(11 109)	-			213 521
Depreciation and amortisation	(81 010)	(800 758)	(770 984)	(33 488)	(574 259)	(2 260 499)
	(1 690)	(12 425)	(14 562)	(447)	(26 098)	(55 222)
Segment result	**374 116**	**(390 655)**	**(374 228)**	**(19 089)**	**807 380**	**397 523**
Additional information						
Capital expenditures (acquisition of premises and equipment)	523	2 699	14 507	24	24 536	42 289

22 Segment Analysis (Continued)

(e) Reconciliation of reportable segment revenues, profit or loss, assets and liabilities

Total consolidated revenues comprise interest income, fee and commission income and other operating income.

In thousands of Russian Roubles	**Six month period ended 30 June 2017**	**Six month period ended 30 June 2016**
Total revenues for reportable segments	**16 283 490**	**13 612 439**
(a) interest income on securities	1 347 792	2 232 747
(b) interest income on leasing operations	134 949	176 927
(c) accrued income on loans	620 521	(81 109)
(d) adjustment of the fair value of acquired assets	870 861	-
(e) intercompany adjustments	(2 507 789)	2 228 500
(f) intersegment results	(2 778 163)	(2 742 866)
Other	26 048	(365 942)
Total consolidated revenues	**13 997 709**	**15 060 696**

(a) Interest income on securities is included within gains less losses from trading securities in the segment reporting;
(b) Interest income on leasing operations is arising from the leasing subsidiary of the Group. Financial results from subsidiaries are excluded from the segment reporting results;
(c) Accrued income on loans is arising from discounted cash flow method;
(d) The adjustment for revaluation of ITB assets and liabilities at fair value;
(e) Interest income from subsidiaries of the Group is not eliminated from the total interest income of the Group for the segment reporting results;
(f) Intersegment results are results arising from trading between segment;

In thousands of Russian Roubles	**Six month period ended 30 June 2017**	**Six month period ended 30 June 2016**
Total reportable segment result	**(663 186)**	**397 524**
(g) impairment provisions for loans and advances to customers	962 121	125 760
(h) provisions for credit related commitments	(220 917)	806 535
(i) effect from consolidation	(871 711)	(274 415)
(j) effect from discounting funds received from DIA	(1 199 160)	-
(k) accrued income on loans	636 481	(81 109)
(l) gains less losses from trading in foreign currencies	(104 318)	(201 633)
(m) other comprehensive income	(71 360)	(301 374)
(n) other accruals	138 500	167 274
Profit before tax	**349 872**	**638 562**

(g) Provision for impairment of loans and advances to customers in segment reporting is based on the statutory provision methodology of the Group, which is different from the provision methodology applied by the Group in these consolidated financial statements;
(h) Provisions for credit related commitments impairment in segment reporting is based on the statutory provision methodology of the Group, which is different from the provision methodology applied by the Group in these consolidated financial statements;
(i) The segmental financial reporting, analysed by the CODM, does not include operating results of the subsidiaries;
(j) Effect from discounting funds received from DIA;
(k) Accrued income on loans is arising from discounted cash flow method;
(l) Gains less losses from operations in foreign currencies is arising from different approaches to revaluation of provisions on loans in foreign currencies;
(m) Other comprehensive income under IFRS includes revaluation of securities available for sale.

22 Segment Analysis (Continued)

(n) Accruals are mainly represented by differences in accounting of operating expenses and commissions;

In thousands of Russian Roubles	30 June 2017	31 December 2016
Total reportable segment assets	**245 497 316**	**261 848 812**
(o) loans and advances to customers	(25 163 561)	(29 707 954)
(p) income taxes	(754 138)	(99 903)
(q) indemnification asset	12 556 056	17 741 996
(r) other assets	(537 677)	-
(s) adjustment of the fair value of acquired assets	(881 471)	(857 624)
(t) financial derivatives	24 695	6 184
(u) effect from consolidation	2 379 112	1 332 573
(v) revaluation of securities	(22 713)	(37 075)
other	(61 483)	(1 165 485)
Total consolidated assets	**233 146 136**	**249 061 524**

(o) loan provisions are recognised based on management judgement and availability of information, rather than based on the incurred loss model prescribed in IAS 39;
(p) Difference is related to deferred tax;
(q) The indemnification asset is the benefit expected from acquisition of ITB;
(r) Difference is related mainly to provisions on other assets;
(s) The adjustment for revaluation of ITB assets at fair value at the acquisition date;
(t) In management accounting is presented on net basis;
(u) The segmental financial reporting, analysed by the CODM, does not include operating results of the subsidiaries;
(v) The fair value changes in investment securities available for sale are reported within the segments' profits or losses rather than in other comprehensive income. The securities presented in the portfolio "Investment securities available for sale" and "Trading securities" are subject to revaluation at average market quotes, rather than at the last bid price;

In thousands of Russian Roubles	30 June 2017	31 December 2016
Total reportable segment liabilities	**233 870 140**	**243 663 674**
Effect from discounting funds received from DIA	(24 040 752)	(20 148 833)
(w) effect from consolidation	1 884 993	2 259 843
(x) adjustment of the fair value of acquired assets	(873 383)	(886 211)
(y) other reserves	(708 933)	(59 110)
(z) income taxes	(196 654)	(75 660)
(aa) financial derivatives	-	10 136
(bb) accruals	(461 453)	143 523
other	(70 025)	474 426
Total consolidated liabilities	**209 403 933**	**225 381 788**

(w) The segmental financial reporting, analysed by the CODM, does not include operating results of the subsidiaries;
(x) The adjustment for revaluation of ITB liabilities at fair value at the acquisition date;
(y) Difference is related to provisions for contingent liabilities;
(z) Difference is related to deferred tax;
(aa) In management accounting is presented on net basis;
(bb) Accruals are mainly represented by differences in accounting of operating expenses and commissions;

(f) Analysis of revenues by products and services

The Group's revenues are analysed by products and services in Note 19 (Interest Income and Expense) and Note 20 (Fee and Commission Income and Expense).

22 Segment Analysis (Continued)

(g) Geographical information

The Group operates in the Russian Federation only. Substantially all revenues of the Group were received from counterparties that conduct their business in the Russian Federation.

(h) Major customers

During six month period ended 30 June 2017 and 30 June 2016, the Group had no clients whose revenues represent 10% or more of the total revenues.

23 Financial Risk Management

The risk management structure is based on the break-even principle and is aimed at the best balance between profitability and level of the risks taken.

The Board of Directors, executive bodies, collective bodies (committees) of the Bank regularly receive necessary and sufficient information about the level of risks and their influence on the changes of capital adequacy, about the facts of excess of the assigned risk level: violation of limits, restrictions and established procedures, results of stress testing.

Risk management system comprises all the directions of the Group’s activity and influences the decision making process on all levels beginning with strategic and ending with operating tasks.

The risk management function within the Group is carried out in respect of financial and operational risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish limits for each type of risk, and then ensure that exposure to risks stays within these limits. The risk management function is aimed at decreasing the probability of unforeseen losses resulting from the influence of internal and external non-financial factors and at cutting down costs on financing liquidation of these losses.

Credit risk

The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group’s lending and other transactions with counterparties giving rise to financial assets. The primary objective of credit risk management is to generate maximum profitability subject to the level of assumed credit risk. This objective is achieved through setting up a system of effective tools allowing minimisation of likelihood of default on principal amount and interest on loans issued. The principal instrument of credit risk management is administration of loans, including a set of sequential actions performed at different stages of transactions exposed to credit risk. The principal instrument for credit risk regulation is setting limits for financial instruments on borrowers and counterparties, assessment of the borrowers’ and counterparties' financial position in order to set loan loss provisions and assessment of collateral quality.

The Group’s maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the consolidated statement of financial position. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 25.

In a complex foreign economic environment an effective risk management system is a priority to the Group. Lending products are given only after thorough assessment of all the risks connected with the borrower’s activity.

Loss given default of the group of homogeneous loans is included in the product cost.

Collective bodies established depending on the scale of credit risk and the lines of activity effectively manage credit risk of the Group.

23 Financial Risk Management (Continued)

The Group Management establishes collective bodies having the right to make decision on operations subject to credit risk, gives to the collective bodies and designated individuals an authority to decide.

- Credit Committee of the Bank makes decisions on the structure of the loan portfolio on the whole, as well as on certain operations subject to credit risk with legal entities (except credit institutions), individual entrepreneurs and individuals. Some responsibilities of the Credit Committee are laid on Small Credit Committee and credit commissions that make decisions on limited number of operations within particular programs and credit products for legal entities and individuals ("lending programs").
- Risk Management Committee carries out the following functions:
  - approves limits for different types of risks;
  - makes decisions related to changes in the structure of portfolio investments, attraction and allocation of resources;
  - monitors the effect of current fluctuations of market prices on financial instruments and makes decisions on formation or reduction of relevant financial instruments portfolios;
- The Limit Committee of the Bank makes decisions on transactions with legal entities and credit institutions;
- The Committee on work with non-performing loans of individuals makes decisions on questions dealing with non-performing and/or overdue loans of individuals;
- The Committee on Work with Non-Performing Loans of Legal Entities (except credit institutions) and individual entrepreneurs makes decisions on questions dealing with non-performing and/or overdue loans of legal entities (except credit institutions) and individual entrepreneurs.

For the purpose of mitigation of its credit risk level, the Group has developed a system of limits allowing to limit exposure to credit risk. The Group's credit policy sets portfolio limits on its loan portfolio. The Bank's Management Board sets limits on lending by branches. The Credit Committee sets limits on credit products for borrowers and counterparties. Decisions on transactions with the Group's related parties (limited up to 3% of the Bank's equity per related borrower) and insiders (limited up to 2% of the Bank's equity per insider) are made by the Credit Committee and in other cases by the Board of Directors. The Risk Management Committee sets limits on industry diversification of loan portfolio and limits on concentration of major loans. Limits on financial instruments on counterparty banks and issuers of securities are set by the Limits Committee. Limits are monitored on a regular basis and revised as required, but not less than once a year.

Credit limits directly depend on financial performance of borrower and on credit rating being an integral estimation of the borrower's financial stability and solvency. Internal credit rating is expressed as scores assigned to creditworthiness based on estimated factors:

- borrower's financial position;
- review of the borrower's business reputation and information of its operations;
- estimation of turnover on the borrower's accounts with the Bank (stability of cash flows);
- assessment of the shareholding (foundation) structure;
- credit history.

Loans are usually issued against a liquid collateral, including costs of sale of the collateral and sufficient coverage of the loan principal and interest. The most relevant indicators of the collateral analysis are sufficiency and liquidity of the collateral received. The Group actively applies collateral insurance. Credit quality of the loans and fair value of collateral are monitored on a continuing basis.

The Group monitors and controls the level of credit risk of every call of the Bank to its counterparty; of sub-portfolios, arranged into groups according to the lines of activity and lending programs; of sub-portfolios made by the divisions taking part in the credit process; of aggregate credit portfolio.

23 Financial Risk Management (Continued)

The Group's divisions involved in lending transactions perform ageing analysis of outstanding loans and follow up past due balances. Management therefore considers it appropriate to provide ageing and other information about credit risk as disclosed in Note 9.

To minimise credit risk losses divisions responsible for monitoring credit risk are to find out non-performing loans in due time. When a problem or non-performing loan is identified compliance units develop the most effective plan to pay overdue amounts and responsible divisions implement it.

When the quality of an asset deteriorates, the Group creates provision for impairment losses fairly reflecting the size of impairment according to the internal regulatory documents of the Bank and the International Financial Reporting Standards.

To minimise credit risk losses caused by non-financial risks the Group uses a system of insurance against risks of the total loan portfolio as well as of separate loans. The maximum credit risk exposure of the Group is included in the carrying value of financial assets in the consolidated statement of financial position unless otherwise stated. The possibility to offset assets against liabilities does not have any material impact on minimisation of potential credit risk.

Credit risk on off-balance financial instruments is defined as a possibility of losses if the other party of the transaction with this financial instrument fails to fulfil the terms of the agreement. The Group uses the same credit policies in assuming conditional obligations as it does for on-balance sheet financial instruments, through established credit approvals, risk control limits and monitoring procedures.

Market risk

The Group takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rates and (c) equity products, all of which are exposed to general and specific market movements.

To manage market risk the Group analyses sensibility of financial result to the changes of interest rates, foreign currency exchanges, market prices of securities and other financial instruments.

The analysis is based on assessment of volatility and interrelation of different risk factors and stress-testing. To keep risk within the policy the Group manages misbalances (GAP), sets limits on financial instruments, limits of acceptable losses (stop-loss) on trading instruments.

The Risk Management Committee sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Interest rate risk

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

Losses arising from interest risk are measured as follows:

- likely reduction of difference between interest received and paid;
- likely decrease of fair value of the Group's assets estimated based on future cash flows formed as a difference between interest paid and received.

Interest rate risk management covers all assets and liabilities of the Group, as well as off balance sheet accounts related to arising of interest rate risk. In order to determine the potential exposure of the Group to interest rate risk, gap analysis and duration method are applied. For gap analysis, the level of asset and liability gap sensitive to changes in interest rates is applied as the main indicator measuring the interest rate risk.

23 Financial Risk Management (Continued)

For duration method analysis, the amount of interest rate risk giving rise to decrease of the Bank's economic value by more than 20% of equity is treated as critical. In order to minimise the interest rate risk, loan agreements provide for periodic review of interest rates depending on changes in the market interest rates. Management monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken.

Financial assets of the Group are subject to the following sources of interest rate risks:

- mismatch of maturity periods of assets and liabilities and off-balance commitments with fixed interest rate;
- mismatch of maturity periods of assets and liabilities and off-balance commitments with floating interest rate;
- mismatch of the changes in interest rates on allocating and borrowing funds of the Group (for financial instruments with fixed interest rate provided that the maturity dates are the same);
- mismatch of the changes in interest rates (for financial instruments with floating interest rate provided that the periods of floating interest rates review match together).

The table below summarises the Group's exposure to interest rate risks. The table presents the aggregated amounts of the Group's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates:

In thousands of Russian Roubles	**Less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**Over 5 years**	**Total**
30 June 2017						
Total financial assets	32 760 721	11 393 286	40 691 778	73 023 207	31 475 234	189 344 226
Total financial liabilities	19 740 616	24 037 869	84 193 441	38 931 219	22 292 041	189 195 186
Net interest sensitivity gap at 30 June 2017	**13 020 105**	**(12 644 583)**	**(43 501 663)**	**34 091 988**	**9 183 193**	**149 040**
31 December 2016						
Total financial assets	47 371 391	20 533 484	40 589 776	61 882 897	34 731 738	205 109 286
Total financial liabilities	30 680 678	27 286 846	83 460 020	31 333 260	17 719 140	190 479 944
Net interest sensitivity gap at 31 December 2016	**16 690 713**	**(6 753 362)**	**(42 870 244)**	**30 549 637**	**17 012 598**	**14 629 342**

When estimating interest rate risk the Group assumes that the amount of early loan prepayments and early withdrawal of deposits will not make great influence of the size of net interest income. Liabilities of the Group, consisting of demand and term deposits of individuals and non-credit institutions, are rather stable.

23 Financial Risk Management (Continued)

Currency risk

Currency risk is determined as probability of negative fluctuations in foreign currency exchange rates resulting in losses from re-assessment of market value of assets and liabilities. The Group is exposed to foreign currency exchange risk on open positions (mainly USD/RR and EUR/RR exchange rate fluctuations). The Group manages currency risk by controlling its open foreign exchange currency position projecting changes in the exchange rate of the Russian rouble and other macro-economic indicators to minimise losses from sizeable fluctuations in the exchange rates of national and foreign currencies.

The Bank`s Treasury undertakes daily aggregation of the currency position of the Group and takes measures for minimising of the Group's currency risk exposure. The Group uses swaps, forwards tradable on Moscow Exchange as the main instruments for risk management. For the purpose of currency risk analysis, the following actions are taken in respect of each currency in which the Group holds an open currency position:

- dynamic of fluctuation of the exchange rate of currency is analysed;
- factors impacting exchange rate of the relevant currency are analysed;
- feasibility of setting long (short) position is determined;
- aggregate amount of profit/loss arising from revaluation of the position is determined;
- ratio between the calculated aggregate amount of income (losses) and equity is determined.

Based on the performed currency risk analysis:

- the maximum currency position is determined (limiting of the currency position); and
- the maximum amount of ratio of losses from position revaluation is set (limiting of losses: stop-loss).

The Risk Management Committee sets limits in respect of currency risk both overnight and intra-day positions, and monitors compliance.

The table below summarises the Group's exposure to foreign currency exchange rate risk at the end of the reporting period:

In thousands of Russian Roubles	**Russian Roubles**	**USD**	**Euro**	**Other**	**Total**
At 30 June 2017					
Monetary financial assets	184 605 764	25 831 906	12 659 644	467 735	223 565 049
Monetary financial liabilities	166 584 562	29 200 389	12 059 815	644 662	208 489 428
Less fair value of currency derivatives	7 892	(9 778)	(15 841)	(10)	(17 737)
Currency derivatives	(312 597)	2 694 319	(2 588 363)	224 378	17 737
Net position including currency derivatives	**17 716 497**	**(683 942)**	**(2 004 375)**	**47 441**	**15 075 621**
At 31 December 2016					
Monetary financial assets	194 378 235	34 958 428	11 842 071	269 168	241 447 902
Monetary financial liabilities	172 309 858	37 306 371	12 450 577	205 202	222 272 008
Less fair value of currency derivatives	(2 575)	1 369	(821)	(22)	(2 049)
Currency derivatives	(538 894)	1 659 228	(1 123 869)	5 584	2 049
Net position including currency derivatives	**21 526 908**	**(687 346)**	**(1 733 196)**	**69 528**	**19 175 894**

Derivatives presented above are monetary financial assets or monetary financial liabilities, but are presented separately in order to show the Group's gross exposure.

23 Financial Risk Management (Continued)

Other price risk

The Group has exposure to equity price risk. The principal methods of equity risk management applied by the Group are:

- estimation of the issuer's financial position;
- setting limits per issuers of securities;
- setting limits on transactions with securities.

When equity risk is measured, the level of change in the price of this security within the set period of time is estimated. The following factors are taken into consideration:

- retrospective data on price fluctuations;
- issuer's nature;
- market liquidity of this security, ratings assigned by recognised rating agencies to these securities and their description as financial instruments;
- level of concentration of the Group's position in securities of one issuer or in a range of its issues.

The Group considers transactions with uncovered shares and derivative financial instruments as highly risky. In order to minimise the price risk the Risk Management Committee set nominal limits depending on the type of financial instruments and determining the size of current position as at the end of the day. All transactions with securities and derivative financial instruments on securities are conducted within the limits on issuers set by the Limit Committee.

Prepayment risk

The Group is exposed to prepayment risk through providing fixed or variable rate loans, including mortgages, which give the borrower the right to early repay the loans. The Group's current year financial result and equity at the current reporting date would not have been significantly impacted by changes in prepayment rates because such loans are carried at amortised cost and the prepayment right is at or close to the amortised cost of the loans and advances to customers.

Liquidity risk

Liquidity risk is defined as the risk of the Group's inability to finance its activity, that is inability to ensure growth of assets and fulfil its obligations as they fall due without carrying any losses in amounts unacceptable for the financial stability. The aim of liquidity risk management is to maximise profit while keeping up necessary and sufficient level of liquid assets. The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loans draw downs, guarantees and other calls on cash settled derivative instruments. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Group manages liquidity risk.

Liquidity risk is managed by the Group's Risk Management Committee. Current liquidity is managed by the Treasury Department which carries out transactions in the money markets to maintain current liquidity and optimise cash flows. The Bank's Liquidity Division is operating within the Treasury Department and carrying out planning and management of instant and short-term liquidity, as well as calculations and analysis of medium-term and long-term liquidity.

The Treasury Department receives information on financial assets and liabilities and then provides for an adequate portfolio of short-term liquid assets, largely made up of short-term liquid trading securities, deposits with banks and other interbank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole. The daily liquidity position is monitored and regular liquidity stress testing, under a variety of scenarios covering both normal and more severe market conditions, is performed by the Treasury Department.

23 Financial Risk Management (Continued)

GAP analysis is an instrument for projecting structural liquidity allowing to make a conclusion on the level of structural matching of the balance sheet assets and liabilities.

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

The Group maintains adequate portfolio of short-term liquid assets, mainly consisting of liquid trading securities, deposits in other banks and other interbank instruments to keep sufficient liquidity level of the Group on the whole.

The Group regularly performs liquidity stress-tests based on various scenarios, comprising standard and more negative market conditions.

The obligatory liquidity ratios settled by the CBRF are controlled every day.

To prevent violation of statutory liquidity ratios set by the CBRF the Risk Management Committee set internal liquidity ratios: in respect of N2 – minimum 20%, N3 – minimum 60% and N4 – maximum 110%.

In order to minimise the risk of liquidity loss, the Group's dependency on interbank transactions is analysed, as well as transactions of major clients and concentration of credit risks.

The table below represents maturity analysis of non-financial assets and liabilities:

In thousands of Russian Roubles	**Current**	**Non-current**	**Total**
At 30 June 2017			
Other assets	1 283 594	2 355 270	3 638 864
Other liabilities	383 814	207 992	591 806
At 31 December 2016			
Other assets	1 349 998	910 090	2 260 088
Other liabilities	625 892	185 857	811 749

23 Financial Risk Management (Continued)

The Group controls expected maturities of financial assets and financial liabilities, which may be summarised as follows at 30 June 2017:

In thousands of Russian Roubles	Less than 1 month	From 1 to 3 months	From 3 months to1 year	From 1 to 5 years	Over 5 years	Total
ASSETS						
Cash and cash equivalents	15 274 188	-	-	-	-	15 274 188
Mandatory cash balances with the CBRF	550 994	428 304	1 243 407	484 047	26 524	2 733 276
Due from other banks	340 983	337 665	3 665 669	2 499 029	-	6 843 346
Trading securities	24 581 693	-	-	-	-	24 581 693
Investment securities available for sale	-	30 502	4 792 556	6 086 947	603 871	11 513 876
Loans and advances to customers	6 761 439	11 346 539	32 681 317	66 227 886	30 871 363	147 888 544
Indemnification asset	-	-	12 556 056	-	-	12 556 056
Other financial assets	171 718	1 288	215 326	19 064	1 766 674	2 174 070
Total financial assets	**47 681 015**	**12 144 298**	**55 154 331**	**75 316 973**	**33 268 432**	**223 565 049**
LIABILITIES						
Due to other banks	10 361 915	404 324	1 366 141	4 468 575	50 000	16 650 955
Customer accounts	27 115 546	21 388 377	62 092 327	24 171 958	1 324 504	136 092 712
Debt securities in issue	850 540	374 216	1 072 980	2 639 493	6 796 007	11 733 236
Other borrowed funds	-	261 505	18 973 035	536 754	13 046 174	32 817 468
Subordinated debt	137 117	63 973	139 183	53 630	16 750	410 653
Other financial liabilities	-	80 130	872 400	8 756 518	1 075 356	10 784 404
Total financial liabilities	**38 465 118**	**22 572 525**	**84 516 066**	**40 626 928**	**22 308 791**	**208 489 428**
Net liquidity gap	**9 215 897**	**(10 428 227)**	**(29 361 735)**	**34 690 045**	**10 959 641**	**15 075 621**
Cumulative liquidity gap	**9 215 897**	**(1 212 330)**	**(30 574 065)**	**4 115 980**	**15 075 621**	

23 Financial Risk Management (Continued)

The maturity analysis at 31 December 2016 is as follows:

In thousands of Russian Roubles	**Less than 1 month**	**From 1 to 3 months**	**From 3 months to1 year**	**From 1 to 5 years**	**Over 5 years**	**Total**
ASSETS						
Cash and cash equivalents	12 551 021	-	-	-	-	12 551 021
Mandatory cash balances with the CBRF	737 870	412 417	988 517	271 161	287	2 410 252
Due from other banks	1 549 388	1 144 238	1 193 859	273 705	-	4 161 190
Trading securities	26 719 310	-	-	-	-	26 719 310
Loans and advances to customers	8 077 240	17 224 963	34 951 724	57 952 252	33 931 097	152 137 276
Repurchase receivable	10 654 722	-	-	-	-	10 654 722
Investment securities available for sale	-	2 190 500	5 489 061	5 162 958	800 640	13 643 159
Indemnification asset	-	5 190 300	12 551 696	-	-	17 741 996
Other financial assets	426 601	4 277	197 525	499 323	301 250	1 428 976
Total financial assets	**60 716 152**	**26 166 695**	**55 372 382**	**64 159 399**	**35 033 274**	**241 447 902**
LIABILITIES						
Due to other banks	16 521 789	466 704	3 274 971	5 887 483	705 646	26 856 593
Customer accounts	44 379 470	24 805 001	59 454 758	16 309 063	17 273	144 965 565
Debt securities in issue	1 300 095	632 893	853 795	2 394 978	4 081 720	9 263 481
Amounts received from the State Corporation Deposit Insurance Agency	-	313 876	18 337 851	392 179	10 007 261	29 051 167
Other financial liabilities	12 443	102 707	52 615	42 269	1 054	211 088
Subordinated debt	-	98 589	830 872	8 087 413	2 907 240	11 924 114
Total financial liabilities	**62 213 797**	**26 419 770**	**82 804 862**	**33 113 385**	**17 720 194**	**222 272 008**
Net liquidity gap	**(1 497 645)**	**(253 075)**	**(27 432 480)**	**31 046 014**	**17 313 080**	**19 175 894**
Cumulative liquidity gap	**(1 497 645)**	**(1 750 720)**	**(29 183 200)**	**1 862 814**	**19 175 894**	

The entire portfolio of trading securities is classified within demand and less than one month based on management's assessment of the portfolio's realisability.

Current/settlement accounts are classified in full amount within category "Less than one month".

To manage liquidity gap the Group has a number of instruments, for instance, the Bank is on the List of banks, which attracts funds under the program "On granting loans collateralised by assets or guarantees to the credit institutions by the CBRF".

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates.

Management believes that in spite of a substantial portion of customer accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide a long-term and stable source of funding for the Group.

23 Financial Risk Management (Continued)

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

Other risk concentrations. Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to borrowers with aggregated loan balances in excess of 5% of the Group's total capital in accordance with the requirements of the Basel Accord. Refer to Note 10.

24 Management of Capital

The Group's objectives when managing capital are to ensure that all Group entities continue as a going concern in the foreseeable future while maximising the return to shareholders through the optimisation of the debt and equity balance.

The Group's Board of Directors reviews capital structure on a regular basis, at least quarterly. Within the scope of this review the Board considers the cost of capital and the risks inherent to each class of capital. On the basis of the Board's recommendations the Group maintains capital adequacy and balances overall capital structure by additional share issue and receipt of subordinated loans.

From the 1 January 2014 the CBRF has established new requirements for calculation of the regulatory capital, based on recommendations of Basel Committee. Under the capital requirements set by the CBRF banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a prescribed minimum level. At 30 June 2017, this minimum level is 4.5% for the regulatory capital, 6% for the core capital and 8% for the equity. During six month period ended 30 June 2017 and during the year ended 31 December 2016 and as at 30 June 2017 and 31 December 2016 the Bank and the Group were in compliance with the statutory capital adequacy ratios, excluding core equity ratio for the Group (N20.2), which was violated at 30 June 2017 and 31 December 2016. The Group developed the "Plan for restoring the level of equity (capital) at the Group's level". The plan provided for the Group's compliance with ratio N20.2 starting from Q12022. The Group has the letter of approval for the above plan from the CBRF. In addition, according to the CBRF-approved Plan of financial rehabilitation of Joint-Stock Commercial Bank "Investment Trade Bank", the ratios will not have been complied with by this Group member over the whole period of financial rehabilitation until 1 October 2025.

Regulatory capital is based on the Bank's reports prepared under Russian accounting standards and comprises:

In thousands of Russian Roubles	**30 June 2017**	**31 December 2016**
Net assets under Russian GAAP	16 448 480	16 612 538
Less intangible assets	(159 106)	(113 254)
Plus subordinated debt	7 403 979	8 580 627
Total regulatory capital	**23 693 353**	**25 079 911**

The Group also monitors capital adequacy calculated in accordance with the requirements of the Basel Accord II, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market and operational risks.

31 Management of Capital (Continued)

The table below shows the Group's capital structure and calculation of capital adequacy ratio in accordance with requirements of the Basel Accord II at 30 June 2017 and 31 December 2016:

In thousands of Russian Roubles	**30 June 2017**	**31 December 2016**
Tier 1 capital		
Share capital	2 556 229	2 556 229
Share premium	4 693 490	4 693 490
Retained earnings	16 287 690	16 193 595
Goodwill	(47 476)	(47 476)
Total tier 1 capital	**23 489 933**	**23 395 838**
Tier 2 capital		
Subordinated debt	7 524 511	8 684 387
Revaluation of investment securities available-for-sale	204 794	236 422
Total tier 2 capital	**7 729 305**	**8 920 809**
Total capital	**31 219 238**	**32 316 647**
Risk weighted assets	**202 805 935**	**232 933 387**
Capital expressed as a percentage of risk-weighted assets	**15.4%**	**13.87%**
Tier 1 capital expressed as a percentage of risk-weighted assets	**11.6%**	**10.04%**

The Group is subject to minimum capital adequacy requirements calculated in accordance with the Basel Accord established by covenants under liabilities incurred by the Group. Under these covenants the Group has to maintain the total capital ratio at a level not less than 12%. At 30 June 2017, 31 December 2016 and during respective financial years the Group complied with all imposed capital requirements.

25 Contingencies and Commitments

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

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

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible, with the evolution of the interpretation of the transfer pricing rules, that such transfer prices could be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group. Management believes that it is pricing policy is arm’s length.

The Group includes companies incorporated outside of Russia. The tax liabilities of the Group are determined on the assumption that these companies are not subject to Russian profits tax, because they do not have a permanent establishment in Russia. This interpretation of relevant legislation may be challenged but the impact of any such challenge cannot be reliably estimated currently; however, it may be significant to the financial position and/or the overall operations of the Group. In 2014, the Controlled Foreign Company (CFC) legislation introduced Russian taxation of profits of foreign companies and non-corporate structures (including trusts) controlled by Russian tax residents (controlling parties). Starting from 2015, CFC income is subject to a 20% tax rate. As a result, management reassessed the Group’s tax positions and recognised current tax expense as well as deferred taxes for temporary differences that arise from the expected taxable manner of recovery of the relevant Group’s operations to which the CFC legislation applies to and to the extent that the Group (rather than its owners) is obliged to settle such taxes. Refer to Note **Ошибка! Источник ссылки не найден.**.

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

Capital expenditure commitments. The Group had no contractual capital expenditure commitments at 30 June 2017 and as at 31 December 2016.

Compliance with covenants.The Group is subject to certain covenants primarily relating to its borrowings.Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. The Group was in compliance with covenants at 30 June 2017 and as at 31 December 2016.

25 Contingencies and Commitments (Continued)

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

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

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

As at 30 June 2017 and 31 December 2016 the fair value of credit related commitments was RR 56 828 thousand and RR 51 381 thousand respectively.

Outstanding credit related commitments are as follows:

In thousands of Russian Roubles	**30 June 2017**	**31 December 2016**
Financial guarantees	546 416	523 108
Letters of credit and other contingencies related to settlement transactions	153 671	342 441
Total credit-related contingencies and commitments	**700 087**	**865 549**

Credit related commitments are denominated in currencies as follows:

In thousands of Russian Roubles	**30 June 2017**	**31 December 2016**
Credit-related contingencies and commitments		
US Dollars	43 739	534 584
Euro	430 115	310 825
Russian Roubles	226 233	20 140
Total credit-related contingencies and commitments	**700 087**	**865 549**

Credit related commitments are irrevocable or are revocable only in response to a material adverse change.

Performance guarantees. Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Such contracts do not transfer only credit risk. The risk under performance guarantee contracts is the possibility that the insured event (i.e. the failure to perform the contractual obligation by another party) occurs.

The key risks the Group faces are significant fluctuations in the frequency and severity of payments incurred on such contracts relative to expectations. The Group uses historical data and statistical techniques to predict levels of such payments.

25 Contingencies and Commitments (Continued)

Claims must be made before the contract matures and most claims are settled within short term. This allows the Group to achieve a high degree of certainty about the estimated payments and therefore future cash flows. The Group manages such risks by constantly monitoring the level of payments for such products and has the ability to adjust its fees in the future to reflect any change in claim payments experience. The Group has a claim payment requests handling process which includes the right to review the claim and reject fraudulent or non-compliant requests.

Performance guarantees are as follows:

In thousands of Russian Roubles	**30 June 2017**	**31 December 2016**
Performance guarantees	**13 831 102**	**29 207 131**
Less impairment provision	(65 535)	(1 452 034)
Total performance guarantees net of provision	**13 765 567**	**27 755 097**

Performance guarantees are denominated in currencies as follows:

In thousands of Russian Roubles	**30 June 2017**	**31 December 2016**
Performance guarantees		
Russian Roubles	12 200 604	27 972 753
Euro	861 273	582 057
US Dollars	479 296	634 408
Other	289 929	17 913
Total performance guarantees	**13 831 102**	**29 207 131**

Assets pledged and restricted. Mandatory cash balances with the CBRF in the amount of RR 2 733 276 thousand (31 December 2016: RR 2 410 252 thousand) represent mandatory reserve deposits, which are not available to finance the Group's day-to-day operations.

26 Related Party Transactions

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

At 30 June 2017, the outstanding balances with related parties were as follows:

In thousands of Russian Roubles	**Shareholders with significant influence**	**Key management personnel**	**Other related parties**
Gross amount of loans and advances to customers (contractual interest rate: 16.00% - 21.4%)	348	-	-
Customer accounts (contractual interest rate: 0.01% – 13.0%)	1 661 571	17 807	18 799
Commitments on credit lines	9 445	3 300	-

26 Related Party Transactions (Continued)

The income and expense items with related parties for the six month period ended 30 June 2017 were as follows:

In thousands of Russian Roubles	Shareholders with significant influence	Key management personnel	Other related parties
Interest income	-	-	4 314
Interest expense	130 601	595	351
Fee and commission income	21	38	205
Fee and commission expense	72	-	-
Administrative and other operating expenses			
- salary	32 503	7 190	-
- social security tax	5 453	1 235	-
- rent	-	-	43 685

Aggregate amounts lent to and repaid by related parties during the six month period ended 30 June 2017 were:

In thousands of Russian Roubles	Shareholders with significant influence	Key management personnel	Other related parties
Amounts lent to related parties during the period	348	-	-
Amounts repaid by related parties during the period	-	-	87 812

At 31 December 2016, the outstanding balances with related parties were as follows:

In thousands of Russian Roubles	Shareholders with significant influence	Key management personnel	Other related parties
Gross amount of loans and advances to customers (contractual interest rate: 13.0%)	-	-	87 812
Due to other banks (contractual interest rate: 5.3% – 14.5%)	2 241 890	-	-
Customer accounts (contractual interest rate: 0.01% – 13.0%)	1 619 711	14 956	1 694
Commitments on credit lines	12 269	1 500	-

The income and expense items with related parties for the six month period ended 30 June 2016 were as follows:

In thousands of Russian Roubles	Shareholders with significant influence	Key management personnel	Other related parties
Interest income	-	1	-
Interest expense	197 496	535	-
Fee and commission income	2	19	23
Fee and commission expense	-	-	1
Administrative and other operating expenses			
- salary	33 104	12 107	-
- social security tax	5 592	2 222	-
- rent	-	-	37 087
- professional services	1 366	-	-

Aggregate amounts lent to and repaid by related parties during the six month period ended 30 June 2016 were:

In thousands of Russian Roubles	Shareholders with significant influence on the Group's decisions	Key management personnel	Other related parties
Amounts lent to related parties during the period	88	-	-
Amounts repaid by related parties during the period	88	-	-

26 Related Party Transactions (Continued)

Other related parties are represented by the parent company of one of key shareholders and a company owned by one of key management personnel.

The Group had 8 members of key personnel during six month period ended 30 June 2017 and six month period ended 30 June 2016, their compensation were:

In thousands of Russian Roubles	Six month period ended 30 June 2017 Expense	Six month period ended 30 June 2016 Expense
Short-term benefits:		
- Salaries	36 692	45 211
Total	**36 692**	**45 211**

Short-term bonuses fall due wholly within twelve months after the end of the period in which management rendered the related services.