Financial statements and
Independent auditor's report
JSC «Denizbank Moscow»
31 December 2016

Contents

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Independent auditor's report

To the Shareholders and Board of Directors of
JSC «Denizbank Moscow»

Details of auditor

Name: Baker Tilly Rus JSC

State Registration number: 1027700115409

Address: Russia, 123007, Moscow, Khoroshevskoye Shosse 32A

Baker Tilly Rus JSC is a member of Self-regulated organization of auditors "Russian Union of auditors" (Association) ("SRO RUA"). Baker Tilly Rus JSC is included in the control copy of the register of auditors and audit organizations, main registration number 11603076265.

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Details of the audited entity

Joint-Stock Company «Denizbank Moscow»

13, bld.42, 2-nd Zvenigorodskaya st.
123022, Moscow, Russian Federation

Included in the United State Register of Legal Entities on 24 October 2002 by Moscow Division of the Ministry of taxes and duties of the Russian Federation. Registration No. 1027739453390. Certificate series 77 No. 005391806.

Registered by the Central Bank of the Russian Federation on 15 June 1998.

Registration No.3330.

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Independent auditor's report

To the Shareholders and Board of Directors of
JSC «Denizbank Moscow»

Report on the audit of the financial statements

Opinion

We have audited the accompanying financial statements of JSC «Denizbank Moscow», which comprise of the statement of financial position as at 31 December 2016 and the statement of profit or loss and comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of JSC «Denizbank Moscow» as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Provision for impairment of loans

In the ordinary course of business, the Bank forms provision for loan impairment on individual basis or collectively. The process of assessing the adequacy of provision is the key to the Bank's stability analysis. In this regard, we evaluated the methodologies used by the Bank calculating impairment allowance and its application, tested the adequacy of the provision for loan impairment.

Information on the impairment of loans and credit risk management is included in Notes 15 and 27 to the financial statements, respectively.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

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

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

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

We also provide the those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Management of the Bank is responsible for compliance of the Bank with the statutory ratios set by the Bank of Russia and for compliance of internal controls and organization of risk management systems of the Bank with the Bank of Russia's requirements for such systems.

In accordance with Article No.42 of Federal Law of 2 December 1990 No.395-1 "On Banks and Banking Activity", we have examined the following during the audit of the financial statements of the Bank for the year ended 31 December 2016:

- compliance of the Bank as at 31 December 2016 with the statutory ratios set by the Bank of Russia;
- compliance of internal control and organization of risk management systems of the Bank with the Bank of Russia's requirements for such systems.

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

We have identified the following based on our examination:

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

   as at 31 December 2016, the Bank statutory ratios set by the Bank of Russia were within the limits set by the Bank of Russia.

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

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

   a) in accordance with the Bank of Russia's requirements and recommendation, as at 31 December 2016, subdivisions of the Bank for managing significant risk of the Bank were not subordinated or accountable to subdivisions assuming corresponding risks;

   b) internal documentations of the Bank effective as at 31 December 2016 which set out the methodologies to identify and manage significant credit, operational, market and liquidity risk of the Bank, and the methodologies to carry out stress testing are duly approved by appropriate management bodies of the Bank in accordance with the Bank of Russia's requirements and recommendations;

   c) as at 31 December 2016, the Bank had in place a reporting system for significant credit, operational, market and liquidity risks, and for equity (capital) of the Bank;

d) frequency and consistency of reports prepared by risk management subdivisions of the Bank and its internal audit function during 2016 as related to management of credit, operational, market and liquidity risks of the Bank complied with internal documents of the Bank; those reports included observations made by risk management subdivisions of the Bank and its internal audit functions as related to the assessment of the effectiveness of the respective methodologies of the Bank as well as recommendations on their improvement;

e) as at 31 December 2016, the authority of the Board of Directors and its executive bodies included control over compliance of the Bank with risk and equity (capital) adequacy limits set by internal documents of the Bank. To exercise control over the effectiveness of the risk management procedures applied in the Bank and their consistent application in 2016, the Board of Directors of the Bank and its executive bodies regularly discussed the reports prepared by the risk management subdivisions of the Bank and its internal function and considered proposed measures to eliminate weaknesses.

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

The engagement partner on the audit resulting in this independent auditor's report is Maxim Deev.

Moscow, Russian Federation
16 January 2017

Statement of Profit or Loss and Other Comprehensive Income

	Notes	**2016 USD'000**	2015 USD'000
Interest income	5	**14,512**	20,741
Interest expense	5	**(1,616)**	(4,670)
Net interest income		**12,896**	16,071
Provision for loan impairment	10	**(834)**	(605)
Net interest income after provision for loans		**12,062**	15,466
Fee and commission income	6	**2,769**	2,532
Fee and commission expense	6	**(472)**	(750)
Net losses on financial instruments at fair value through profit or loss	7	**(169)**	(9,678)
Net gains on available-for-sale financial assets		**16**	256
Net gains on foreign exchange transactions		**881**	1,413
Net gains on foreign exchange translation		**215**	8,280
Other operating income	8	**41**	16
Operating income		**15,343**	17,535
General administrative expenses	9	**(3,992)**	(4,124)
Profit before tax		**11,351**	13,411
Income tax expense	11	**(2,265)**	(2,792)
Net profit for the year		**9,086**	10,619
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
- Net gains on securities available-for-sale disposed of during the year		**(16)**	(256)
- Unrealized losses on financial assets available for sale		**295**	9,466
- Deferred tax relating to components of other comprehensive income		**(59)**	(1,842)
- Effect of translation		**10,585**	(13,231)
Other comprehensive income / (loss) for the period, net of tax		**10,805**	(5,863)
Total comprehensive income for the year		**19,891**	4,756

The financial statements were approved by the Board of Management of the Bank on 16 January 2017.

Vice-president

Makar GAVRILOV

Chief Accountant

Natalia ELMANOVA

Statement of Financial Position

	Notes	**31 December 2016 USD'000**	31 December 2015 USD'000
ASSETS			
Cash		**1,027**	1,809
Due from the Central Bank of Russia	12	**12,086**	27,533
Placements with banks and other financial institutions	13	**80,105**	73,732
Derivative financial instruments	14	**-**	121
Loans to customers	15	**132,621**	148,221
Financial assets available-for-sale	16	**18,258**	19,720
Other assets	17	**142**	121
Fixed assets	18	**232**	213
Intangible assets	19	**716**	576
Current tax assets		**145**	326
Total Assets		**245,332**	272,372
LIABILITIES AND SHAREHOLDER'S EQUITY			
Derivative financial instruments	14	**27**	-
Deposits and balances from banks and other financial institutions	20	**120,362**	183,678
Current accounts and deposits from customers	21	**46,718**	27,089
Debt securities issued	22	**-**	3,609
Subordinated loans	23	**8,697**	8,894
Other liabilities	24	**430**	218
Deferred tax liabilities	25	**1,552**	1,229
Total Liabilities		**177,786**	224,717
Shareholders' Equity			
Share capital	26	**49,269**	49,269
Share premium		**683**	683
Revaluation reserve for financial assets available-for-sale		**102**	(118)
Translation reserve		**(47,265)**	(57,850)
Retained earnings		**64,757**	55,671
Total Shareholder's Equity		**67,546**	47,655
Total Liabilities and Shareholders' Equity		**245,332**	272,372

The financial statements were approved by the Board of Management of the Bank on 16 January 2017.

Vice-president

Makar GAVRILOV

Chief Accountant

Natalia ELMANOVA

Statement of Cash Flows

	Note	**2016 USD'000**	2015 USD'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit		**9,086**	10,619
Adjustments for non-cash items			
Depreciation		**137**	148
Interest income		**10**	569
Interest expense		**(180)**	92
Recovery impairment for impairment losses		**834**	605
Income tax expense		**2,265**	2,792
Foreign exchange		**(21,939)**	110,383
Other income		**167**	64
(Increase) / decrease in operating assets			
Derivative financial instruments		**145**	-
Loans to customers		**44,694**	(6,343)
Other assets		**4**	42
Increase / (decrease) in operating liabilities			
Derivative financial instruments		**26**	(45)
Amount payables under repurchase agreements		**-**	(27,625)
Deposits and balances from banks and other financial institutions		**(100,202)**	(78,510)
Current accounts and deposits from customers		**14,167**	(35,848)
Debt securities issued		**(4,270)**	1,575
Other liabilities		**16**	(403)
Net cash used in operating activities before income taxes paid		**(55,072)**	(21,885)
Income taxes paid		**(2,307)**	(2,139)
Cash flow used in operating activities		**(57,379)**	(24,024)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of financial assets available-for-sale, net		**5,584**	25,815
Purchases of property & equipment, net		**16**	(40)
Purchases of intangible assets, net		**(56)**	(65)
Cash flows from investing activities		**5,544**	25,710
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash flows used in financing activities		**-**	-
Effect of translation to presentation currency		**30,636**	(13,903)
Effect of changes in exchange rates in cash and cash equivalents		**11,337**	10,679
Net decrease in cash and cash equivalents		**(9,862)**	(1,537)
Cash and cash equivalents at beginning of year		**103,057**	104,594
Cash and cash equivalents at end of year		**93,195**	103,057

See accompanying notes to the financial statements.

Statement of Changes in Shareholders' Equity

	Share capital	Share premium	Revaluation reserve for financial assets available-for-sale	Translation reserve	Retained earnings	**Total**
	USD'000	USD'000	USD'000	USD'000	USD'000	**USD'000**
Balance as of 1 January 2015	**49,269**	**683**	**(7,487)**	**(44,619)**	**45,052**	**42,898**
Profit for the year	-	-	-	-	10,620	**10,619**
Other comprehensive income / (loss)	-	-	7,369	(13,231)	-	**(5,862)**
Balance as of 31 December 2015	**49,269**	**683**	**(118)**	**(57,850)**	**55,671**	**47,655**
Profit for the year	-	-	-	-	9,086	**9,086**
Other comprehensive income / (loss)	-	-	220	10,585	-	**10,805**
Balance as of 31 December 2016	**49,269**	**683**	**102**	**(47,265)**	**64,757**	**67,546**

See accompanying notes to the financial statements.

1. Background

1.1 Principal activities

JSC Denizbank Moscow (the «Bank») was re-established on 19 May 2003 as CJSC Denizbank Moscow through the acquirement of CJSC Iktisat Bank (Moscow) and was re-registered on 19 September 2003. The Bank's predecessor, CJSC Iktisat Bank (Moscow), was initially established by Iktisat Bankasi T.A.Sh. as a joint stock company under the legislation of the Russian Federation and was granted its general banking license in 1998. In December 2007 the Bank has been renamed to CJSC Dexia Bank by decision of shareholders meeting on 15 November 2007. In April 2012 the Bank has been renamed to CJSC «Denizbank Moscow» by decision of shareholders meeting on 21 February, 2012.

The Bank is a part of DenizBank Financial Services Group, which before October 2006 was part of Zorlu Group - a significant financial and industrial group in Turkey, specialising in textile, electronics, energy production and financial services. In October 2006, Dexia Participation Belgique SA, 100% of which was directly and indirectly owned by Dexia SA/NV, became the main shareholder of the DenizBank Financial Services Group, after acquisition of the 75% of the total outstanding shares from Zorlu Holding A.Ş. In December 2006 Dexia acquired the remaining shares listed on Istanbul stock exchange, and the shareholding of Dexia Group came to 99,85%. In September 2012, Sberbank of Russia, more then 50% of which are owned by the Central Bank of the Russian Federation, became the main shareholder of the DenizBank Financial Services Group, after acquisition all 99,85% shares from Dexia Group.

As of 31 December 2016 and 31 December 2015 the Bank's parent companies were DenizBank A.S. (Turkey), the owner of 49% shares of the Bank, and DenizBank AG (Austria), the owner of 51% shares of the Bank.

As of today the principal activities of the Bank are deposit taking, corporate lending, documentary business, customer settlements and operations with securities and foreign exchange.

The activities of the Bank are regulated by the Central Bank of the Russian Federation («the CBR»).

The Bank is a member of the state deposit insurance scheme in the Russian Federation.

As of 31 December 2016 the Bank is located and carried out its activities in Moscow.

The average number of persons employed by the Bank during the year was approximately 74 (2015: 73).

2. Basis of preparation

2.1 Statement of compliance

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted and published by the International Financial Reporting Interpretations Committee of the IASB.

2.2 Basis of measurement

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments at fair value through profit or loss and financial assets available-for-sale.

2. Basis of preparation

2.3 Functional and presentation currency

2.3.1 Changes in functional currency

The national currency of the Russian Federation is the Russian rouble. Previous to 1 January 2006 the Bank used the US Dollar as its functional currency. As of 1 January 2006, the Bank re-evaluated its functional currency and as a result changed it from the US Dollar to the RUR. To effect the change in the functional currency, the USD balance sheet figures as of 31 December 2005 were translated to the RUR at the exchange rate ruling at that date and formed the basis for subsequent accounting.

The RUR/USD exchange rate as of 31 December 2016 and 31 December 2015 was 60,6569 RUR/USD and 72,8827 RUR/USD respectively.

2.3.2 Translation from RUR as functional currency to USD as presentation currency

The presentation currency used in the preparation of these financial statements is United States Dollar ("USD") since management believes that the USD is more useful for the users of the financial statements.

The financial statements have been translated from the RUR (the functional currency) to the USD (the presentation currency) as follows:

- Assets, liabilities that are included to the statement of financial position as of 31 December 2016 have been translated to USD at the RUR/USD exchange rate of 60,6569;

- All income and expense items incurred during the year ended 31 December 2016 and shareholder's equity have been translated to USD at the average RUR/USD exchange rate of 67,0349;

- All resulting exchange differences have been recognized as "translation reserve" which is a separate component of shareholders' equity.

All amounts in the financial statements have been rounded to the nearest thousands.

2.4 Critical accounting estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from these estimates.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies are described in the following notes:

- Note 3 "Significant accounting policies" (3.9 "Impairment") and Note 15 "Loans to customers" in respect of loan impairment allowance
- Note 25 "Deferred tax assets and liabilities" in respect of deferred tax assets and liabilities
- Note 30.4 "Taxation contingencies" in respect of tax contingencies.

3. Significant accounting policies

The following significant accounting policies have been consistently applied in the preparation of the financial statements.

3.1 Foreign currency transactions

Transactions in foreign currencies are translated to the appropriate functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to the functional currency at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency at the foreign exchange rate ruling at the dates the fair values were determined. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income.

3.2 Cash and cash equivalents

The Bank considers cash, balances with Central Bank, placements with banks and financial institutions as well as financial assets at fair value through profit or loss with original maturity periods of less than three months to be cash and cash equivalents.

Cash and cash equivalents are reflected at amortized cost in the statement of financial position.

3.3 Financial instruments

The Bank classified its financial instruments into the following categories: loans and receivables, financial instruments at fair value through profit or loss, available-for-sale financial instruments and held-to-maturity investments. Financial instruments are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. The designation of financial instruments is re-evaluated at every reporting date at which a choice of classification or accounting treatment is available.

Financial assets and liabilities are recognised in the statement of financial position when the Bank becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date. Financial instruments are initially measured at its fair value plus including transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability. An assessment for impairment is undertaken at least at each balance sheet date whether or not there is objective evidence that a financial asset or a group of financial assets is impaired.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money, goods or services directly to a debtor with no intention of trading the receivables.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less provision for impairment. Any change in their value is recognised in profit or loss.

Financial instruments at fair value through profit or loss
This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset or liability is classified in this category if acquired or incurred principally for the purpose of selling or repurchasing in the near term, or is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit making, or is a derivative (except for a derivative that is designated and effective hedging instrument), or upon initial recognition, designated by management as

3. Significant accounting policies (continued)

3.3 Financial instruments (continued)

at fair value through profit or loss. All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as an asset. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as a liability.

Subsequent to initial recognition, the financial instruments included in this category are measured at fair value with changes in fair value recognized in profit or loss. Financial assets originally designated as financial assets at fair value through profit or loss may not subsequently be reclassified.

Available-for-sale financial instruments
Available-for-sale financial assets include non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets.

All financial assets within this category are subsequently measured at fair value, unless otherwise disclosed, with changes in value recognized in other comprehensive income, net of any effects arising from income taxes. Gains and losses arising from securities classified as available-for-sale are recognized in the total comprehensive income when they are sold or when the investment is impaired. Interest in relation to an available-for-sale financial asset is recognized as earned in the statement of comprehensive income calculated using the effective interest method.

Held-to-maturity investments
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and a fixed date of maturity. Investments are classified as held-to maturity if there is an intention and ability of the Bank's management to hold them until maturity.

Held-to-maturity investments are subsequently measured at amortized cost using the effective interest method. In addition, if there is objective evidence that the investment has been impaired, the financial asset is measured at the present value of estimated cash flows. Any changes to the carrying amount of the investment are recognized in profit or loss.

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date. The fair value of derivatives that are not exchange-traded is estimated at the amount that the Bank would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortized cost. Amortized cost is calculated using the effective interest method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

Derecognition of financial instruments occurs when the rights to receive cash flows from the investments expire or substantially all of the risks and rewards of ownership have been transferred. Any rights or obligations created or retained in the transfer are recognized separately as assets or liabilities. A financial liability is derecognized when it is extinguished.

3. Significant accounting policies (continued)

3.4 Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase are retained within the trading or available-for-sale securities portfolios and accounted for accordingly. Liability accounts are used to record the obligation to repurchase. The difference between the sale and repurchase price represents interest expense and is recognised in the statement of comprehensive income over the term of the repurchase agreement.

Securities held under reverse repurchase agreements are recorded as receivables. The difference between the purchase and sale price represents interest income and is recognised in the statement of comprehensive income over the term of the reverse repurchase agreement. The receivables due under reverse repurchase agreements have been shown net of any necessary provisions for impairment.

3.5 Offsetting

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

3.6 Leases

Leases under which the Bank assumes substantially all the risks and rewards of ownership are classified as finance leases. The related asset acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at commencement of the lease, less accumulated depreciation and impairment losses. A corresponding amount is recognised as a finance lease liability.

Subsequent accounting for assets held under finance lease agreements correspond to those applied to comparable acquired assets. The corresponding finance lease liability is reduced by lease payments less finance charges, which are expensed to finance costs. Finance charges represent a constant periodic rate of interest on the outstanding balance of the finance lease liability.

Payments made under operating lease are recognised in the statement of comprehensive income on a straight-line basis over the term of the lease.

3.7 Property and equipment

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. The cost of the self-constructed assets includes the cost of materials, direct labour and an appropriate portion of production overhead. Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other expenditure is recognized in the statement of comprehensive income as an expense incurred.

3. Significant accounting policies (continued)

3.4 Repurchase and reverse repurchase agreements

Depreciation is charged to the statement of comprehensive income on a straight line basis over the estimated useful lives of the individual assets. Land is not depreciated. Depreciation commences the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. The estimated useful lives are as follows:

Leasehold improvements	10 – 50 years
Vehicles	4 years
Fixtures, fittings and other equipment	5 – 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

3.8 Intangible assets

Intangible assets, which are acquired by the Bank, are stated at cost, less accumulated amortization and impairment losses.

Amortization is charged to the comprehensive income statement on a straight-line basis over the estimated useful lives of intangible assets. At the beginning of reporting period the estimated useful life of intangible assets was 3-10 years.

During the previous reporting period management has revised useful life of certain items of software from 10 to 30 years. Management considers that such a revision in useful life reflects better the economic substance of the software being used, owing to the specific nature and uniqueness of such software.

3.9 Impairment

The carrying amounts of Bank's financial assets carried at amortized cost/cost and non financial assets, non including deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

Financial assets carried at amortized cost
The Bank reviews its loans and receivables, to assess impairment on a regular basis. A loan or receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or receivable and that event (or events) has an impact on the estimated future cash flows of the loan that can be reliably estimated.

3. Significant accounting policies (continued)

3.9 Impairment (continued)

In some cases the observable data required to estimate the amount of impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Bank uses its experience and judgement to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognized in the statement of comprehensive income and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

Financial assets carried at cost
Financial assets carried at cost include unquoted equity instruments included in available-for-sale assets that are not carried at fair value because their fair value can not be reliably measured. If there is objective evidence that such investments are impaired the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses respect of these investments are recognized in the statement of comprehensive income and can not be reversed.

Non financial assets
Non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognized in the statement of comprehensive income and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss revered is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognised.

3.10 Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

3. Significant accounting policies (continued)

3.11 Borrowed funds (including subordinated debt)

Borrowings are recognized initially at cost, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Subsequently, borrowings are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the statement of income over period of the borrowings using the effective interest rate method.

Borrowings originated at interest rate different from market rates are measured at origination to their fair value, being future interest payments and principal repayments discounted at market rates for similar borrowings. The difference between the fair value and the nominal value at origination is credited or charged to the statement of income as gains on origination of liabilities at rates below market or losses on origination of liabilities at rates above market. Subsequently, the carrying amount of such borrowings is adjusted for amortization of the gains/losses on origination and the related expense is recorded as interest expense within the statement of income using the effective interest rate method.

3.12 Debt securities issued

Debt securities are recorded initially at cost, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Subsequently, debt securities in issue are stated at amortized cost and any difference between net proceeds and the redemption value is recoded in the statement of income over the period of the security issue using the effective interest rate method.

3.13 Equity

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction in equity from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recognised as a share premium.

Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed or declared after the balance sheet date but before the financial statements are authorised for issue.

3.14 Credit related commitments

In the normal course of business, the Bank enters into credit related commitments, including letters of credit and guarantees. Financial guarantee contracts are recognised initially at fair value and re-measured at the higher of the amount determined in accordance with IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” and the amount initially recognised less, when appropriate, cumulative amortization recognised in accordance with IAS 18 “Revenue”. Specific provisions are recorded against other credit related commitments when losses are considered more likely than not.

3.15 Employee benefits

In the normal course of business the Bank contributes to the Russian Federation Pension Fund, the Social Insurance Fund and the Federal Compulsory Medical Insurance Fund on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred and included in staff costs in the statement of comprehensive income.

3.16 Taxation

Income tax on the profit for the year comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

3. Significant accounting policies (continued)

3.16 Taxation (continued)

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised of the liability settled, based on the tax rates that have been enacted or substantively enacted at the balance sheet date.

3.17 Interest income and interest expense

Interest income and expense is recognized in the statement of comprehensive income as it accrues, taking into account the effective yield of the asset or an applicable floating rate. Interest income and expense includes the amortization of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis. Interest income on financial assets held for trading and on other financial instruments at fair value through profit or loss comprises coupon interest only.

3.18 Fee and commission income

Fee and commission income arises on financial services provided by the Bank including cash management services and asset management services.

3.19 Net result on financial instruments at fair value through profit or loss

Net result on financial instruments at fair value through profit or loss includes gains and losses arising from disposals and changes in the fair value of financial assets and liabilities at fair value through profit or loss.

3.20 Net result on available-for-sale financial assets

Net result on available-for-sale financial assets includes gains and losses arising from disposals of financial assets available-for-sale.

4. Application of new and revised International Financial Reporting Standards

4.1 New and revised standards that are effective for annual periods beginning on or after 1 January 2016

In the current year, the Bank has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2016.

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

4.1 New and revised standards that are effective for annual periods beginning on or after 1 January 2016 (continued)

Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortization of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:
a) when the intangible asset is expressed as a measure of revenue; or
b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.
The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the Bank uses the straight-line method for depreciation and amortization for its property, plant and equipment, and intangible assets respectively.

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants
The amendments to IAS 16 and IAS 41 define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with IAS 16, instead of IAS 41. The produce growing on bearer plants continues to be accounted for in accordance with IAS 41.

Amendments to IAS 1 Disclosure Initiative
The amendments to IAS 1 give some guidance on how to apply the concept of materiality in practice. The amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2016.

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

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI.

Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.The amendments should be applied prospectively to transactions occurring in annual periods beginning on or after 1 January 2016.

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

4.1 New and revised standards that are effective for annual periods beginning on or after 1 January 2016 (continued)

Annual Improvements to IFRSs 2012-2014 Cycle

The Annual Improvements to IFRSs 2012-2014 Cycle include a number of amendments to various IFRSs, which are summarized below.

- The amendments to IFRS 5 introduce specific guidance in IFRS 5 for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa). The amendments clarify that such a change should be considered as a continuation of the original plan of disposal and hence requirements set out in IFRS 5 regarding the change of sale plan do not apply. The amendments also clarifies the guidance for when held-for-distribution accounting is discontinued.
- The amendments to IFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets.
- The amendments to IAS 19 clarify that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate.bonds. The assessment of the depth of a market for high qualify corporate bonds should be at the currency level (i.e. the same currency as the benefits are to be paid). For currencies for which there is no deep market in such high quality corporate bonds, the market yields at the end of the reporting period on government bonds denominated in that currency should be used instead.
- IAS 34 Interim Financial Reporting – disclosure of information elsewhere in the interim financial report. The amendment states that the required interim disclosures must either be in the interim financial statements or incorporated by cross reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report). The International Accounting Standards Board specified that the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete. The amendment should be applied retrospectively for annual periods beginning on or after 1 January 2016.

The above mentioned amended standards effective for the Bank from 1 January 2016 did not have a material impact on the accounting policies, financial position or performance of the Bank.

4.2 Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Bank

IFRS 9 Financial instruments

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting.

Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

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

4.2 Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Bank (continued)

Key requirements of IFRS 9:

- all recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect theecontractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss; with regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss;

- in relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized;

- the new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

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

4.2 Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Bank (continued)

IFRS 15 Revenue from Contracts with Customers
In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- • Step 1: Identify the contract(s) with a customer.
- • Step 2: Identify the performance obligations in the contract.
- • Step 3: Determine the transaction price.
- • Step 4: Allocate the transaction price to the performance obligations in the contract.
- • Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios.

Furthermore, extensive disclosures are required by IFRS 15.

IFRS 16 Lease (issued In January 2016 and effective for the annual periods beginning on or after 1 January 2019). IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 Leases. Lessees will recognize a 'right of use' asset and a corresponding financial liability on the balance sheet. The asset will be amortized over the length of the lease and the financial liability measured at amortized cost. Lessor accounting remains substantially the same as in IAS 17.

Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses (issued on 19 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 unrealized losses on debt instruments.

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.

Amendments to IFRS 4 Insurance Contracts (issued on 12 September 2016 and effective for annual periods beginning on or after 1 January 2018). The amendments introduce two approaches to reduce the impact of differences in the dates of entry of IFRS 9 and IFRS 4: an overlay approach and a deferral approach. A new standard for insurance contracts is currently being developed and planned to be applied no earlier than 2020.

Amendments to IFRS 2 Share based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).

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

4.2 Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Bank (continued)

The amendments mean that nonmarket performance vesting conditions will impact measurement of cash- settled share based payment transactions in the same manner as equity-settled awards. The amendments also clarify classification of a transaction with a net settlement feature in which the entity withholds a specified portion of the equity instruments, that would otherwise be issued to the counterparty upon exercise (or vesting), in return for settling the counterparty's tax obligation that is associated with the share based payment.
The amendments also clarify accounting for cash-settled share based payments that are modified to become equity-settled.

Annual Improvements to IFRSs 2014-2016 cycle (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017 for amendments to IFRS 12, and on or after 1 January 2018 for amendments to IFRS 1 and IAS 28). The improvements impact three standards:

- The amendments clarify the scope of the disclosure requirements in IFRS 12 by specifying that the disclosure requirements in IFRS 12, other than those relating to summarised financial information for subsidiaries, joint ventures and associates, apply to an entity's interests in other entities that are classified as held for sale or discontinued operations in accordance with IFRS 5.
- IFRS 1 was amended and some of the short-term exemptions from IFRSs in respect of disclosures about financial instruments, employee benefits and investment entities were removed, after those short-term exemptions have served their intended purpose.
- The amendments to IAS 28 clarify that an entity has an investment-by-investment choice for measuring investees at fair value in accordance with IAS 28 by a venture capital organisation, or a mutual fund, unit trust or similar entities including investment linked insurance funds. Additionally, an entity that is not an investment entity may have an associate or joint venture that is an investment entity. IAS 28 permits such an entity to retain the fair value measurements used by that investment entity associate or joint venture when applying the equity method. The amendments clarify that this choice is also available on an investment-by investment basis.

IFRIC 22 - Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

The interpretation addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) on the derecognition of a non-monetary asset or non-monetary liability arising from an advance consideration in a foreign currency. Under IAS 21, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transaction for each payment or receipt of advance consideration. IFRIC 22 only applies in circumstances in which an entity recognizes a non-monetary asset or non-monetary liability arising from an advance consideration. IFRIC 22 does not provide application guidance on the definition of monetary and nonmonetary items. An advance payment or receipt of consideration generally gives rise to the recognition of a nonmonetary asset or non-monetary liability, however, it may also give rise to a monetary asset or liability. An entity may need to apply judgment in determining whether an item is monetary or non-monetary.

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

4.2 Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Bank (continued)

Transfers of Investment Property - Amendments to IAS 40 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).The amendments clarify the requirements on transfers to, or from, investment property in respect of properties under construction. Prior to the amendments, there was no specific guidance on transfers into, or out of, investment properties under construction in IAS 40. The amendment clarifies that there was no intention to prohibit transfers of a property under construction or development, previously classified as inventory, to investment property when there is an evident change in use. IAS 40 was amended to reinforce the principle of transfers into, or out of, investment property in IAS 40 to specify that a transfer into, or out of investment property should only be made when there has been a change in use of the property; and such a change in use would involve an assessment of whether the property qualifies as an investment property. Such a change in use should be supported by evidence.

The Bank is considering the implications of the above standards and amendments, the impact on the Bank and the timing of their adoption by the Bank.

5. Interest income and interest expense

	2016 USD'000	2015 USD'000
Interest income		
Loans to customers	9,435	13,966
Placements with banks and other financial institutions	3,536	1,883
Debt securities	1,541	4,892
Total interest income	**14,512**	**20,741**
Interest expense		
Deposits and balances from banks and other financial institutions	(715)	(3,368)
Current accounts and deposits from customers	(712)	(1,114)
Subordinated debt	(181)	(180)
Promissory notes	(8)	(8)
Total interest expense	**(1,616)**	**(4,670)**

6. Fee and commission income and expense

	2016 USD'000	2015 USD'000
Fee and commission income		
Guarantees issued and trade finance	1,864	1,257
Settlement transactions	531	466
Currency control	342	262
Cash management	32	223
Agency fee	-	324
Total fee and commission income	**2,769**	**2,532**
Fee and commission expense		
Guarantees issued and trade finance	(293)	(438)
Settlement transactions	(133)	(190)
Cash management	(5)	(122)
Other	(41)	-
Total fee and commission expense	**(472)**	**(750)**

7. Net losses on financial instruments at fair value through profit or loss

	2016 USD'000	2015 USD'000
Net losses on foreign exchange derivatives	(169)	(9,678)
Net losses on foreign exchange derivatives	**(169)**	**(9,678)**

8. Net other operating income

	2016 USD'000	2015 USD'000
Fines and penalties	1	2
Other income	40	14
Total other operating income	**41**	**16**

9. General administrative expenses

	2016 USD'000	2015 USD'000
Employee compensation	2,764	2,742
Occupancy	365	417
Taxes other than on income	152	168
Depreciation and amortization (Note 18,19)	137	147
IT support expenses	106	97
Communication and information services	87	71
Repairs and maintenance	78	89
Professional services	53	70
Security	26	29
Representation expenses	8	9
Insurance	7	7
Other	209	278
Total general administrative expenses	**3,991**	**4,124**

10. Provision for loan impairment

Analysis of movements in the provision for loans to customers

	2016 USD'000	2015 USD'000
Balance at beginning of year (Note 15)	621	150
Effect of translation to presentation currency	213	(134)
Provision charge for impairment during the period	834	605
Balance at the end of the year (Note 15)	**1,668**	**621**

11. Income tax expense

	2016 USD'000	2015 USD'000
Current tax expense		
Current period	2,252	1,686
Deferred tax expense		
Origination of temporary differences	13	1,106
Total income tax expense	**2,265**	**2,792**

The Bank's applicable tax rate for 2016 was 20% (2015 – 20%). Income tax rate on interest income from government and municipal financial instruments is 15%.

11. Income tax expense (continued)

Reconciliation of theoretical income tax expenses with actual income tax expenses

	2016 USD'000	2015 USD'000
Income before tax	11,351	13,411
Theoretical income tax benefit at the applicable statutory rate	2,270	2,682
Tax effect of non-deductible costs and non-taxable income	(5)	110
Total income tax expense	**2,265**	**2,792**

12. Due from the CBR

	31 December 2016 USD'000	31 December 2015 USD'000
Nostro accounts	9,717	14,959
Deposits	-	10,977
Minimum reserve deposit	2,369	1,597
Total due from the CBR	**12,086**	**27,533**

The minimum reserve deposit is a mandatory non-interest bearing deposit calculated in accordance with regulations issued by the CBR and whose withdrawal is restricted. The nostro balances represent balances with the CBR related to settlement activity and were available for withdrawal at year end.

13. Placements with banks and other financial institutions

	31 December 2016 USD'000	31 December 2015 USD'000
Nostro accounts and deposits on demand	53,292	57,856
Deposits	26,813	15,876
Total placements with banks and other financial institutions	**80,105**	**73,732**

As of 31 December 2016 and 31 December 2016 the Bank did not have any overdue balances on placements with banks and other financial institutions.

Significant exposures

As of 31 December 2016 the Bank had one related group of banks (2015: two related groups of banks) whose balance exceeded 10% of the placements with banks and other financial institutions. The gross value of this exposure as of 31 December 2016 was 63,925 USD'000 (2015: 67,018 USD'000).

14. Derivative financial instruments

The fair values of derivative financial instruments as of 31 December 2016 are set out in the following table:

	Notional or agreed amount	Fair values		Weighted average exchange rate
		Assets	Liabilities	
	USD'000	USD'000	USD'000	
Derivative foreign exchange contracts to buy RUB and sell EUR	4,723	-	11	63,67
Derivative foreign exchange contracts to buy USD and sell RUB	5,500	-	16	60,84
Total derivatives financial instruments	**10,223**	**-**	**27**	

The fair values of derivative financial instruments as of 31 December 2015 are set out in the following table:

	Notional or agreed amount	Fair values		Weighted average exchange rate
		Assets	Liabilities	
	USD'000	USD'000	USD'000	
Derivative foreign exchange contracts to buy USD and sell RUB	17,203	121	-	72,37
Total derivatives financial instruments	**17,203**	**121**	**-**	

15. Loans to customers

	31 December 2016 USD'000	31 December 2015 USD'000
Loans to commercial customers	134,178	148,580
Loans to individuals	111	262
Total loans before impairment	**134,289**	**148,842**
Provision for loan impairment (Note 10)	(1,668)	(621)
Total loans to customers	**132,621**	**148,221**

15. Loans to customers (continued)

Analysis of loans to customers and provision for impairment as of 31 December 2016 are presented below:

In thousands of USD	Gross loans	Impairment	Net loans	Impairment to gross loans (%)
Commercial loans				
standard loans not past due	134,178	(1,668)	132,510	1,24%
Total commercial loans	**134,178**	**(1,668)**	**132,510**	**1,24%**
Retail loans				
standard loans not past due	111	-	111	0,00%
Total retail loans	**111**	-	**111**	0,00%
Total loans to customers	**134,289**	**(1,668)**	**132,621**	**1,24%**

Analysis of loans to customers and provision for impairment as of 31 December 2015 are presented below:

In thousands of USD	Gross loans	Impairment	Net loans	Impairment to gross loans (%)
Commercial loans				
standard loans not past due	148,580	(621)	147,959	0,42%
Total commercial loans	**148,580**	**(621)**	**147,959**	**0,42%**
Retail loans				
standard loans not past due	262	-	262	0,00%
Total retail loans	**262**	-	**262**	**0,00%**
Total loans to customers	**148,842**	**(621)**	**148,221**	**0,42%**

The following table provides an analysis of the loan portfolio by types of collateral as of 31 December 2016:

In thousands of USD	Commercial loans	Retail loans	Total loans	Share in loan portfolio (%)
Guarantees issued by banks	65,640	-	65,640	49,49%
Other collaterals	64,779	5	64,784	48,84%
Unsecured	2,091	106	2,197	1,67%
Total loans to customers	**132,510**	**111**	**132,621**	

15. Loans to customers (continued)

The following table provides an analysis of the loan portfolio by types of collateral as of 31 December 2015:

In thousands of USD	Commercial loans	Retail loans	Total loans	Share in loan portfolio (%)
Guarantees issued by banks	114,154	-	114,154	77,02%
Other collaterals	33,805	93	33,898	22,87%
Unsecured	-	169	169	0,11%
Total loans to customers	**147,959**	**262**	**148,221**	

Loans and advances to customers are issued primarily to customers located within the Russian Federation who operate in the following economic sectors:

	31 December 2016 USD'000	31 December 2015 USD'000
Construction, glass and mining	51,286	40,378
Manufacturing	33,730	28,092
Farming and Cattle	16,208	10,601
Rent services	8,733	8,733
Food services	6,863	7,096
Forestry	6,312	14,226
Trade	5,390	32,278
Publishing and printing	4,369	2,477
Real state	1,287	2,078
Retail customers	111	262
Tourism and transportation	-	2,621
Total loans before impairment	**134,289**	**148,842**
Provision for impairment	(1,668)	(621)
Total loans to customers	**132,621**	**148,221**

Significant exposures

As of 31 December 2016 the Bank had four exposures to related group of companies (2015: the Bank had three exposures), which individually comprised more than 10% of loans to customers. The gross value of these exposures as of 31 December 2016 was 82,394 USD'000 (2015: 55,991 USD'000) and additional amount related guarantees issued by Bank 363 USD'000 (2015: 151 USD'000).

Critical accounting estimates and judgements

The Bank has estimated the provision for impairment on loans to customers in accordance with accounting policy described in Note 3.9 "Impairment". Management estimates the likelihood of repayment of loans and advances to customers based on analysis of individual accounts for individually significant loans, and collectively for loans with similar terms and risk characteristics. Factors taken into consideration when assessing individual loans include collection history with the customer, timeliness of payments and collateral, if any.

16. Financial assets available-for-sale

	31 December 2016 USD'000	31 December 2015 USD'000
Debt instruments		
Corporate bonds	13,403	6,879
Bank's bonds	4,855	12,841
Total unpledged financial assets available-for-sale	**18,258**	**19,720**

The following table provides details of Bank's debt securities of the Bank as of 31 December 2016:

	Maturity		**Interest range**	
	minimum	**maximum**	**minimum**	**maximum**
Corporate bonds	October 2017	May 2019	9,40%	11,40%
Bank's bonds	November 2018	November 2018	9,20%	9,20%

The following table provides details of Bank's debt securities of the Bank as of 31 December 2015:

	Maturity		**Interest range**	
	minimum	**maximum**	**minimum**	**maximum**
Corporate bonds	February 2016	March 2033	8,00%	17,00%
Bank's bonds	January 2016	September 2023	7,90%	8,80%

17. Other assets

	31 December 2016 USD'000	31 December 2015 USD'000
Deposits and advances paid	134	109
Tax prepayment other than income tax	8	12
Total other assets	**142**	**121**

18. Property and equipment

The movements in the property and equipment were as follows:

In thousands of USD	Leasehold improvements	Fixtures and fittings	Vehicles	Total
Cost				
At 1 January 2016	154	355	70	579
Additions	-	43	-	43
Disposals	-	(24)	(36)	(60)
Effect of translation to presentation currency	33	71	14	118
At 31 December 2016	**187**	**445**	**48**	**680**
Depreciation				
At 1 January 2016	(99)	(237)	(30)	(366)
Depreciation charge (Note 9)	(10)	(40)	(12)	(62)
Disposals	-	24	36	60
Effect of translation to presentation currency	(21)	(52)	(7)	(80)
At 31 December 2016	**(130)**	**(305)**	**(13)**	**(448)**
Carrying value				
At 31 December 2015	55	118	40	213
At 31 December 2016	**57**	**140**	**35**	**232**

In thousands of USD	Leasehold improvements	Fixtures and fittings	Vehicles	Total
Cost				
At 1 January 2015	199	463	47	709
Additions	-	6	34	40
Disposals	-	(8)	-	(8)
Effect of translation to presentation currency	(45)	(106)	(11)	(162)
At 31 December 2015	**154**	**355**	**70**	**579**
Depreciation				
At 1 January 2015	(116)	(265)	(26)	(407)
Depreciation charge (Note 9)	(11)	(47)	(12)	(70)
Disposals	-	8	-	8
Effect of translation to presentation currency	28	67	8	103
At 31 December 2015	**(99)**	**(237)**	**(30)**	**(366)**
Carrying value				
At 31 December 2014	83	198	21	302
At 31 December 2015	**55**	**118**	**40**	**213**

19. Intangible assets

The movements in the intangible assets were as follows:

In thousands of USD	Licenses
Cost	
At 1 January 2016	1,068
Additions	102
Disposal	(50)
Effect of translation to presentation currency	220
At 31 December 2016	**1,340**
Accumulated depreciation	
At 1 January 2016	(492)
Depreciation charge (Note 9)	(75)
Disposal	50
Effect of translation to presentation currency	(107)
At 31 December 2016	**(624)**
Carrying value	
At 31 December 2015	576
At 31 December 2016	**716**

In thousands of USD	Licenses
Cost	
At 1 January 2015	1,996
Additions	65
Disposal	(538)
Effect of translation to presentation currency	(455)
At 31 December 2015	**1,068**
Accumulated depreciation	
At 1 January 2015	(1,246)
Depreciation charge (Note 9)	(77)
Disposal	534
Effect of translation to presentation currency	297
At 31 December 2015	**(492)**
Carrying value	
At 31 December 2014	750
At 31 December 2015	**576**

20. Deposits and balances from banks and other financial institutions

	31 December 2016 USD'000	31 December 2015 USD'000
Term deposits	112,328	170,936
Vostro accounts	8,034	12,742
Total deposits and balances from banks and other financial institutions	**120,362**	**183,678**

Significant exposures

As of 31 December 2016 there was one related group of banks, which individually comprised more than 10% of deposits and balances from banks and other financial institutions (2015: one related group). The gross value of these deposits as of 31 December 2016 was 112,903 USD'000 (2015: 182,971 USD'000).

21. Current accounts and deposits from customers

	31 December 2016 USD'000	31 December 2015 USD'000
Current accounts and demand deposits:		
- commercial customers	33,629	17,286
- retail customers	525	1,214
Term deposits:		
- commercial customers	8,142	4,682
- retail customers	4,422	3,907
Total current accounts and deposits from customers	**46,718**	**27,089**

21. Current accounts and deposits from customers (continued)

Significant exposures

As of 31 December 2016 there was two groups of companies, which individually comprised more than 10% of current accounts and deposits from customers (2015: one group of companies). Total value of this balance as of 31 December 2016 was 9,871 USD’000 (2015: 2,903 USD’000).

The table below displays customer accounts and deposits from customers by economic branches:

	31 December 2016 USD’000	31 December 2015 USD’000
Construction	**12,827**	6,869
Whole trade	**7,848**	7,896
Transport and communication	**5,873**	754
Retail customers	**4,947**	5,121
Financial services	**4,321**	2,202
Metallurgy industry	**3,497**	133
Equipment manufacturing	**2,870**	436
Catering	**1,801**	-
Mineral manufacturing	**1,506**	2,276
Paper-and-pulp industry and publishing activities	**383**	467
Real estate	**304**	589
Electric-power production	**163**	149
Manufacturing activity	**131**	142
Mining	**33**	15
Entrepreneur	**4**	15
Chemical production	**-**	24
Other	**210**	1
Total current accounts and deposits from customers	**46,718**	**27,089**

22. Debt securities issued

	31 December 2016 USD’000	31 December 2015 USD’000
Promissory notes	**-**	**3,609**

Pledged promissory notes

As at 31 December 2015 promissory notes with notional amount of 3,663 USD’000 were pledged as collateral for guarantees issued by the Bank. Amortized cost of these securities as of 31 December 2015 was 3,609 USD'000.

23. Subordinated debt

As at 31 December 2016 Bank shareholders granted to the Bank the following subordinated loans:

- US dollars denominated loan in amount of 700 USD'000 (2015: 700 USD'000) maturing in December 2025 and annual interest rate of LIBOR + 2%;
- US dollars denominated loan in the amount of 1,000 USD'000 (2015: 1,000 USD'000) maturing in December 2025 and annual interest rate of LIBOR + 1%;
- US dollars denominated loan in the amount of 2,000 USD'000 (2015: 2,000 USD'000) maturing in December 2025 and annual interest rate of LIBOR + 3,1%;
- EUR denominated loan in the amount equivalent to 4,997 USD'000 (2015: 5,194 USD'000) maturing in December 2025 and annual interest rate of LIBOR + 2%.

24. Other liabilities

	31 December 2016 USD'000	31 December 2015 USD'000
Payable to employees	358	144
Trade payables	53	27
Taxes payable other than income tax	19	15
Unsettled transactions	-	32
Total other liabilities	**430**	218

25. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

	Assets		**Liabilities**		**Net**	
In thousands of USD	**31 December 2016**	31 December 2015	**31 December 2016**	31 December 2015	**31 December 2016**	31 December 2015
Derivative financial instruments	**5**	-	**-**	(24)	**5**	(24)
Loans to customers	**-**	-	**(1,526)**	(1,255)	**(1,526)**	(1,255)
Financial assets available-for-sale	**-**	20	**(34)**	-	**(34)**	20
Property and equipment	**-**	-	**(26)**	(29)	**(26)**	(29)
Intangible assets	**23**	25	**-**	-	**23**	25
Other liabilities	**6**	34	**-**	-	**6**	34
Tax assets / (liabilities)	**34**	79	**(1,586)**	(1,308)	**(1,552)**	(1,229)

25. Deferred tax assets and liabilities (continued)

Movement in temporary differences during the year ended 31 December 2016:

In thousands of USD	Balance at 1 January 2016	Recognized in profit and loss statement	Recognized in other comprehensive income	Effect of translation to presentation currency	Balance at 31 December 2016
Derivative financial instruments	**(24)**	34	-	(5)	**5**
Loans to customers	**(1,255)**	(14)	-	(257)	**(1,526)**
Financial assets available-for-sale	**20**	1	(59)	4	**(34)**
Property and equipment	**(29)**	8	-	(5)	**(26)**
Intangible assets	**25**	(7)	-	5	**23**
Other liabilities	**34**	(35)	-	7	**6**
Tax assets / (liabilities)	**(1,229)**	(13)	(59)	(251)	**(1,552)**

Movement in temporary differences during the year ended 31 December 2015:

In thousands of USD	Balance at 1 January 2015	Recognized in profit and loss statement	Recognized in other comprehensive income	Effect of translation to presentation currency	Balance at 31 December 2015
Derivative financial instruments	**7**	(29)	-	(2)	**(24)**
Loans to customers	**(533)**	(844)	-	122	**(1,255)**
Financial assets available-for-sale	**1,872**	(208)	(1,842)	198	**20**
Property and equipment	**(38)**	18	-	(9)	**(29)**
Intangible assets	**36**	(3)	-	(8)	**25**
Other assets	**5**	(4)	-	(1)	**-**
Other liabilities	**91**	(36)	-	(21)	**34**
Tax assets / (liabilities)	**1,440**	**(1,106)**	**(1,842)**	**279**	**(1,229)**

26. Shareholders' Equity

At 31 December 2016 the authorised, issued and fully paid outstanding share capital comprises 192,300 ordinary shares with a par value RUR 5,869 per share.

	2016	**2015**
Issued and fully paid ordinary shares	192,300	192,300
Issued and fully paid ordinary shares	**192,300**	**192,300**

The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at annual and general meetings of the Bank. Dividends payables are restricted to the maximum retained earnings of the Bank, which are determined according to legislation of the Russian Federation. In accordance with the legislation of the Russian Federation, as of 31 December 2016, retained earnings available for distribution amounted to 39,117 USD'000.

27. Risk management

Management of risk is fundamental to the business of banking and is an essential element of the Bank's operations. The Bank's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effect on the Bank's financial performance.

The major risks faced by the Bank are those related to price, credit exposures, liquidity and movements in interest rates and foreign exchange rates.

The Executive Management Board has overall responsibility for the oversight of risk management, management of key risks and approving its risk management policies and procedures. The Assets and Liabilities Management Committee ("ALCO") as well as operational departments are accountable for all risks assumed and responsible for their continuous and active management. An independent control process is implemented to provide an objective check on risk-taking activities when required by the nature of the risks, in particular to balance short term profit incentives and the long term interests of the Bank.

The Risk Management Service of the Bank is responsible for the monitoring and implementation of risk management measures and oversight that the Bank operates within the established risk parameters.

Market (price, interest rate, currency risks), credit and liquidity risks are managed and controlled through a system of Committees (weekly ALCO meeting, and monthly Risk Committee meeting (including Market, Credit and Liquidity Risk Committees)), established by the Executive Management Board.

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Bank on all credit related products granted to a Client.

Credit risk arises primarily from credit transactions with all counterparties (commercial legal entities, financial institutions and individuals) as well as from other types of credit risk related transactions including issuance of guarantees, L/C confirmations, purchase of debt securities, factoring operations, forward settlement transactions.

Credit Risk management

Credit risk management includes approval of credit limits and their continuous monitoring and update, analyses of customers applications and creditworthiness of applicants, approval of interest rates, approval of segregation of duties and authorities, continuous credit monitoring, credit portfolio management, including non-performing loans.

The Risk Management Service of the Bank forms credit risk policy. The Executive Management Board approves credit risk policy and approves key credit risk related transactions. Where necessary Executive Management Board approves Credit Committee decisions and establishes limits of authority.

Credit Committee of the Bank is responsible for the approval of credit risk related transactions in Roubles and foreign currencies with commercial legal entities and individuals. Credit Committee is also authorized to approve any changes to the existing credit risk transactions.

Before any application is made by the Credit Committee, all recommendations on credit processes (borrower's limits approved, or amendments made to loan agreements, etc.) are reviewed and approved by the Risk Management Service, Credit Allocation and Financial Analysis Department and Financial Institutions Department.

The Bank structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or Banks of borrowers, and to industry (and geographical) segments. Limits on the level of credit risk by a borrower and a product are approved quarterly by the Executive Management Board. The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committee. Actual exposures against limits are monitored daily.

27. Risk management (continued)

27.1 Credit risk

Credit risk limits, which comply with DenizBank Financial Services Group Credit Risk Policy, are approved by Risk Management Department of DenizBank A.S. on consolidated basis for DenizBank AG, DenizBank A.S. and the Bank. For the Bank, the total credit limit is set per country (Russia) in absolute amount, with a breakdown into counterparty types (corporate, bank, etc.). When the specific transaction exceeds the limits, a file is submitted to the Risk Management Service of Bank and ALCO.

During normal course of business the Bank also uses methodologies prescribed by the CBR for determining the ratios of maximum credit risk exposures, as well as other best practices.

Every credit application is analyzed by the Bank taking into account the following aspects:

- Analyses of the creditworthiness of the customer, sources of repayment, its reputation and market position within the operating industry;
- Analyses of the quality of the collateral, including the creditworthiness of the guarantors;
- Analyses of the possible effect of the non-payment of the principal or interest amount on the Banks overall position;
- Analyses of the creditworthiness of the customer are made from the standard list of documents required for the submission by the Bank. Additional documents may be requested subject to the Bank's decision. Documents such as financial statements and/or budgets are requested for submission at every reporting date during the whole period of the credit instrument.

Periodic monitoring of the credit risk on the portfolio is made collectively when new credit instruments are granted.

Collateral and other credit enhancements

Where appropriate, and in the case of most loans, the Bank obtains collateral and corporate and personal guarantees. Commitments to extend credit represent unused portions of credit in the form of loans, guarantees or letters of credit.

Exposure to credit risk is also managed by obtaining sufficient and qualitative collateral. Bank foresees collateral as an instrument to mitigate the credit risk and considers collateral only as a secondary source of repayment.

The Bank normally considers as collateral any tangible assets, personal and corporate guarantees, property rights, cash equivalents, and cash flows which may be utilized to cover losses as a result of the default on the credit instrument (including principal and interest amounts outstanding at the moment of the default, as well as any other direct costs incurred by the Bank and associated with the possible default of the credit instrument).

Quality of the collateral is determined by its fair (market) value and liquidity. Fair (market) value of collateral is determined at each credit risk assessment date for every credit facility.

27. Risk management (continued)

27.1 Credit risk

Settlement risk

The Bank's activities may give rise to settlement risk at the time of settlement of transactions. Settlement risk is the risk of loss due to the failure of counterparty to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions the Bank mitigates this risk by conducting settlements through settlement/clearing agents to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Acceptance of settlement risk on free settlement transactions requires transactions specific and/or counterparty specific settlement limits which form part of the counterparty limit approval/monitoring process described earlier.

27.2 Offsetting of financial instruments

Disclosures presented in the following tables include information on financial assets and financial liabilities which are:

- offset in a financial statement of the Bank or
- are subject to a legally enforceable agreement of offsetting or similar agreements that apply to similar financial instruments, regardless of whether they are offset in a consolidated financial statement.

Operations with derivative financial instruments of the bank, which are not carried on a stock exchange, conducted in accordance with general agreements with counterparties of the Bank. Basically, in accordance with these agreements, the amounts payable by each counterparty on a particular day in respect of pending operations in the same currency form a single net amount payable by one party to the other. Under certain circumstances such as credit event or default; all outstanding transactions under contracts are terminated. The net value of transactions at the time of termination is estimated and paid as a single amount.

27. Risk management (continued)

27.2 Offsetting of financial instruments (continued)

In the table below there are financial assets and financial liabilities, being a subject of legally enforceable netting agreements and similar agreements as of 31 December 2016.

USD'000 Type of financial assets/financial liabilities	Total sum of financial assets/financial liabilities	Total sum of financial assets/financial liabilities, which were offset in a consolidated financial statement	Net sum of financial assets/financial liabilities, which were not offset in a consolidated financial statement	Sums which were not offset in a consolidated financial statement		Net sum
				Financial instruments	Obtained cash security	
Derivatives - liabilities	27		27	(27)		
Total financial liabilities	**27**		**27**	**(27)**		

In the table below there are financial assets and financial liabilities, being a subject of legally enforceable netting agreements and similar agreements as of 31 December 2015.

USD'000 Type of financial assets/financial liabilities	Total sum of financial assets/financial liabilities	Total sum of financial assets/financial liabilities, which were offset in a consolidated financial statement	Net sum of financial assets/financial liabilities, which were not offset in a consolidated financial statement	Sums which were not offset in a consolidated financial statement		Net sum
				Financial instruments	Obtained cash security	
Derivatives - liabilities	121	-	121	(121)	-	-
Total financial liabilities	**121**		**121**	**(121)**		

27.3 Market risk

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and equity prices will affect the Bank's income or the value of its portfolios.

Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements.

The objective of market risk management is to manage and control market risk exposures within the acceptable parameters, whilst optimizing the return on risk.

Market risk is managed primarily through daily mark-to-market procedures and control of position limits in various types of financial instruments, as well as stop-loss limits and pre-settlements limits.

Price risk
Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices.

The risk is mitigated by establishing appropriate counterparty limits in accordance with the Bank's risk management policies and methodologies.

Sensitivity analyses below shows possible effect of the price change of the value of financial instruments as of 31 December 2016 which would have been on the statement of comprehensive income and shareholders' equity given a 10% change in price.

USD'000

	2016	**2015**
Price risk on fixed income debt securities	**1,787**	1,957

Foreign exchange rate risk
The Bank has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency.

Foreign exchange rate risk is managed with respect to open foreign currency positions within the established by the CBR limits and other normative documents.

The Bank's foreign currency policy is reviewed and approved by the Executive Management Board.

The following table details the Bank's sensitivity analysis and possible effect on the statement of comprehensive income and shareholders' equity as of 31 December 2016 assuming a 10% change in the functional currency against the relevant foreign currency.

USD'000	**2016**		**2015**	
	Comprehensive income	**Capital**	**Comprehensive income**	**Capital**
10% increase USD/RUR rate	**(101)**	**(101)**	21	21
10% decrease USD/RUR rate	**101**	**101**	(21)	(21)
10% increase EUR/RUR rate	**3**	**3**	4	4
10% decrease EUR/RUR rate	**(3)**	**(3)**	(4)	(4)

See Note 37 "Currency analysis".

Interest rate risk

Interest rate risk is measured by the extent to which changes in market interest rates impact on margins and net interest income. To the extent the term structure of interest bearing assets differs from that of liabilities, net interest income will increase or decrease as a result of movements in interest rates.

27. Risk management (continued)

27.3 Market risk (continued)

Interest rate risk is managed by increasing or decreasing positions within limits specified by the Bank's management. These limits restrict the potential effect of movements in interest rates on current earnings and on the value of interest sensitive assets and liabilities.

Vast majority of the interest rate assets and liabilities of the Bank have a fixed rate interest. Settlement Treasury Department of the Bank is responsible for monitoring the interest rate margin gap and considers that the Bank is not significantly exposed to a fluctuation in the interest rates with respect to its cash flows.

An analyses of sensitivity of the Bank's projected net interest rate margin for the year to changes in the market interest rate based on a simplified scenario of a 100 basis point (bp) parallel shifts in all yield curves (assuming a constant balance sheet position), which could have had an effect on the Bank's statement of comprehensive income and shareholders' equity is presented as follows:

USD'000

	2016	2015
100 bp parallel increase	(1,366)	(883)
100 bp parallel decrease	1,366	883

Note 34 "Average effective interest rates" shows analyses of Bank's interest bearing assets and liabilities to their corresponding average effective interest rates for all major currencies.

Note 35 "Interest rate repricing analysis" shows analyses of Bank's assets and liabilities by contractual interest rate repricing date.

27.4 Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities as a result of mismatch in maturities between cash inflows and outflows in respective currencies.

Treasury Department is responsible for daily management of the current, short-term and long-term liquidity position of the Bank.

Liquidity Management Committee, Credit/Finance Committee are responsible for monitoring the liquidity positions of the Bank. Internal Control Committee insures that appropriate procedures are in place over the management and control of the liquidity positions.

The Bank also calculates mandatory liquidity ratios on a daily basis in accordance with the requirement of the CBR. These ratios include:

- Instant liquidity ratio (N2), which shows liquidity risk position within one operational day and is calculated as the ratio of highly-liquid assets to liabilities payable on demand;
- Current liquidity ratio (N3), which shows liquidity risk position within the next 30 calendar days and is calculated as the ration of liquid assets to liabilities maturing within 30 calendar days;
- Long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after one year to capital and liabilities maturing after one year.

The Bank was in compliance with the above ratios during the year ended 31 December 2016.

For more effective liquidity risk management Liquidity Management Committee has the right to set stricter liquidity ratio values.

See also Note 36 "Maturity analysis".

27. Risk management (continued)

27.5 Capital management

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of its business.

Capital requirements are determined for different operations and activities as to maximize the return on the distributed capital taking into account respective risk factors. When determining capital requirements other factors such as availability of human and other resources, redistribution of capital between the different operations, alignment with long-term strategy of the Bank are also taken into consideration. Capital requirements and distribution policies are analyzed and approved on a regular basis by the Board of Directors during annual budgeting process for the Bank and different business processes.

The CBR sets and monitors capital adequacy requirements of the Bank. Under the current capital requirements set by the CBR banks have to maintain a ratio of capital to risk weighted assets ("Capital Adequacy Ratio") above the prescribed minimum level. As of 31 December 2016 and 31 December 2015 this minimum level was 8,00% and 10,00% correspondingly.

As of 31 December 2016 the Capital Adequacy Ratio calculated in accordance with the requirements of the CBR was 24,06 % (as of 31 December 2015: 22,72 %). This ratio is calculated based on the statutory financial statements before the adjustments that will be done in accordance with the requirements of the CBR for purposes of statutory annual report.

	31 December 2016 USD'000	31 December 2015 USD'000
Tier 1 Capital	50,593	37,361
Tier 2 Capital	17,916	11,321
Total Capital	**68,509**	**48,682**
Risk weighted assets	**83,697**	**101,262**
Capital adequacy ratio (H 1.0)	**24,06%**	**22,72%**

28. Commitments

At any time the Bank has outstanding commitments to extend credit. These commitments take the form of approved loans and credit card limits and overdraft facilities.

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to 1 year.

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognized at the balance sheet date if counterparties failed completely to perform as contracted.

	31 December 2016 USD'000	31 December 2015 USD'000
Contracted amount		
Guarantees and letters of credit	104,164	69,788
Undrawn loan commitments	8,076	8,983
Total commitments	**112,240**	**78,771**

28. Commitments (continued)

Some of the above commitments may expire or terminate without being advanced in whole or in part. Therefore, the amounts do not represent expected future cash outflows.

Significant exposures

As of 31 December 2016 the Bank had two exposures to counterparties (2015: three exposures to counterparties), which individually comprised more than 10% of guarantees issued. The gross value of these exposures as of 31 December 2016 was 99,686 USD'000 (2015: 61,418 USD'000).

29. Operating leases

The Bank leases a number of premises and vehicles under operating lease. Non-cancellable operating lease rentals are payable as follows:

	31 December 2016 USD'000	31 December 2015 USD'000
Less than one year	293	390
Between one and five years	27	281
Total operating leases	**320**	**671**

30. Contingencies

30.1 Russian business environment

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations.

During 2016 the Russian economy was negatively impacted by a decline in oil prices and ongoing political tension in the region and international sanctions against certain Russian companies and individuals. As a result during 2016:

- the CBR exchange rate fluctuated between RUB 60,27 and RUB 83,59 per USD;
- the CBR key refinancing interest rate decreased from 11,0% p.a. to 10,0% p.a.;
- the RTS stock exchange index ranged between 628,41 and 1 164,15;
- access to international financial markets to raise funding is still limited for certain entities and capital outflows increased compared to prior years;

The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. Subsequent to 31 December 2016:

- the CBR exchange rate continued to fluctuate significantly;
- the RTS stock exchange index continued to fluctuate significantly;
- banks' lending activity decreased as banks are reassessing the business models of their borrowers and their ability to withstand the increased lending and exchange rates.

These events may have a further significant impact on the Bank's future operations and financial position, the effect of which is difficult to predict. The future economic and regulatory situation and its impact on the Bank's operations may differ from management's current expectations.

30. Contingencies (continued)

30.1 Russian business environment (continued)

Also, factors including increased unemployment in Russia, reduced corporate liquidity and profitability and increased corporate and personal insolvencies may affect the Bank's borrowers' ability to repay the amounts due to the Bank. In addition, adverse changes in economic conditions may result in deterioration in the value of collateral held against loans and other obligations. To the extent that information is available, the Bank has reflected revised estimates of expected future cash flows in its impairment assessment.

Management believes it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances.

30.2 Insurance

The Bank insures its fixed assets amounting to 614 USD'000, civil liability amounting to 247 USD'000, cash on hand amounting to 2,143 USD'000 and business interruption amounting 6,512 USD'000. The Bank does not have full coverage for business termination, or third party liability in respect of property or environmental damage arising from accidents on Bank property or relating to Bank operations. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Bank's operations and financial position.

30.3 Litigation

From time to time and in the normal course of business, claims against the Bank are received. On the basis of own estimates and internal and external professional advice the Management is of the opinion that no material losses will be incurred and accordingly no provision has been made in these financial statements.

30.4 Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised by numerous taxes and frequently changing legislation, which may be applied retroactively and is often unclear, contradictory, and subject to interpretation. Often, differing interpretations exist among numerous taxation authorities and jurisdictions. Taxes are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges.

These facts may create tax risks in the Russian Federation substantially more significant than in other countries. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation. However, the relevant authorities may have differing interpretations and the effects could be significant.

Fiscal period remain open and subject to review by the tax authorities is a period of three calendar years immediately preceding the year in which the decision to conduct a tax review is taken. Under certain circumstances tax reviews may cover longer periods.

As of 31 December 2016, the Bank's management believes that its interpretation of the relevant legislation is appropriate and that the Bank's tax, currency and customs positions will be sustained.

31. Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability (i.e. an exit price) in an orderly transaction between market participants in the principal (or most advantageous) market at the measurement date under current market condition, regardless of whether that price is directly observable or estimated using another valuation technique.

The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available.

Fair value measurements are analyzed by level in the fair value hierarchy as follows:

- level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities,
- level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices), and
- level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs).

Management applies judgment in categorizing financial instruments using the fair value hierarchy. Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

Management of the Bank considers that estimated fair values of all financial assets and liabilities as of 31 December 2016 and 31 December 2015 are not materially different from their carrying amounts.
The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy as of 31 December 2016:

	Level 1 USD'000	Level 2 USD'000	Level 3 USD'000	Total USD'000
Financial assets				
Financial assets available-for-sale	18,258	-	-	**18,258**
Financial liabilities				
Derivative financial instruments	27	-	-	**27**

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy as of 31 December 2015:

	Level 1 USD'000	Level 2 USD'000	Level 3 USD'000	Total USD'000
Financial assets				
Financial assets available-for-sale	19,720	-	-	**19,720**
Derivative financial instruments	121	-	-	**121**

31. Fair value of financial instruments (continued)

The following table shows an analysis of financial instruments not recorded at fair value by level of the fair value hierarchy as of 31 December 2016:

	Level 1 USD'000	Level 2 USD'000	Level 3 USD'000	Total USD'000
Financial assets				
Cash	1,027	-	-	**1,027**
Due from the Central Bank of Russia	9,717	-	2,369	**12,086**
Placements with banks and other financial institutions	53,292	26,813	-	**80,105**
Loans to customers	-	-	132,621	**132,621**
Financial liabilities				
Deposits and balances from banks and other financial institutions	8,034	112,328	-	**120,362**
Current accounts and deposits from customers	34,154	12,564	-	**46,718**
Subordinated loans	-	8,697	-	**8,697**

The following table shows an analysis of financial instruments not recorded at fair value by level of the fair value hierarchy as of 31 December 2015:

	Level 1 USD'000	Level 2 USD'000	Level 3 USD'000	Total USD'000
Financial assets				
Cash	1,809	-	-	**1,809**
Due from the Central Bank of Russia	14,959	10,977	1,597	**27,533**
Placements with banks and other financial institutions	57,856	15,876	-	**73,732**
Loans to customers	-	-	148,221	**148,221**
Financial liabilities				
Deposits and balances from banks and other financial institutions	12,742	170,936	-	**183,678**
Current accounts and deposits from customers	18,500	8,589	-	**27,089**
Debt securities issued	-	3,609	-	**3,609**
Subordinated loans	-	8,894	-	**8,894**

32. Related party transactions

The Bank's shareholding structure is as follows: DenizBank A.S. 49% and DenizBank AG 51%.

Both DenizBank A.S. and DenizBank AG are part of DenizBank Financial Services Group, which before October 2007 was part of a larger Zorlu Group – a significant financial and industrial group in Turkey. In October 2007, Dexia Participation Belgique SA, 100% of which is directly and indirectly owned by Dexia SA/NV, became the main shareholder of the DenizBank Financial Services Group, after acquisition of the 75% of the total outstanding shares from Zorlu Holding A.Ş. In December 2007 Dexia acquired the remaining shares listed on Istanbul stock exchange and the shareholding of Dexia Group came to 99,85%. In September 2012, Sberbank of Russia, more than 50% of which are owned by the CBR, became the main shareholder of the DenizBank Financial Services Group, after acquisition all 99,85% shares from Dexia Group.

32.1 Transactions with Directors and Management

Within 2016 total Directors and Management remuneration was 1,052 USD'000 (2015: 930 USD'000).

All transactions with Directors and Management were concluded on an arm's length basis.

The outstanding balances and average interest rates as at 31 December 2016 and 31 December 2015 with Directors and Management are as follows:

	31 December 2016 USD'000	**Average Interest Rate**	31 December 2015 USD'000	Average Interest Rate
Assets				
Loans to customers	1	11%	3	11%
Liabilities				
Current accounts and deposits from customers	201	1,7%	1,760	2,5%
Other liabilities	278	-	89	-

33.2 Transactions with Shareholders

	31 December 2016 USD'000	**Average Interest Rate**	31 December 2015 USD'000	Average Interest Rate
Assets				
Placements with banks and other financial institutions	63,925	0,3%	54,190	2,4%
Derivative financial instruments	-	-	121	-
Liabilities				
Deposits and balances from banks and other financial institutions	112,903	0,1%	182,971	0,6%
Subordinated debt	8,697	2%	8,894	2,0%

Commitments and Contingent liabilities

As at 31 December 2016 the Bank has also obtained from shareholders seventeen letters of guarantee (2015: thirty three) as securities for granted loans to customers with total value of 81,366 USD'000 (2015: 158,072 USD'000) and five letters of guarantee (2015: four letters of guarantee) as security for guarantees issued with total value of 21,859 USD'000 (2015: 18,855 USD'000).

32. Related party transactions (continued)

Amounts included in the statement of comprehensive income in relation to transactions with Shareholders are as follows:

	2016 USD'000	2015 USD'000
Interest income	1,617	549
Interest expense	(895)	(2,532)
Fee and commission income	1,251	724
Fee and commission expense	(293)	(428)
Net loss on financial instruments at fair value trough profit or loss	-	(1,440)
Net gain (loss) from foreign exchange transactions	403	(437)

33. Cash and cash equivalents

Cash and cash equivalents at the end of the financial year as shown in the statement of cash flow is composed of the following items:

	31 December 2016 USD'000	31 December 2015 USD'000
Cash	1,027	1,809
Due from the Central Bank of Russia	12,086	27,533
Placements with banks and other financial institutions	80,082	73,715
Total cash and cash equivalents	**93,195**	**103,057**

As of 31 December 2016 placements with banks and other financial institutions includes amount of accrued interests at amount 23 USD'000 (2015: 17 USD'000).

35. Average effective interest rates

The table below represents the Bank's interest bearing assets and liabilities interest rates range for all major currencies as at 31 December 2016 and 31 December 2015:

	31 December 2016 Interest Rate Range	31 December 2015 Interest Rate Range
Interest Bearing Assets		
Due from the Central Bank of Russia	**0%**	0 - 10%
Placements with banks and other financial institutions		
- Roubles	**0 - 11%**	0 - 13%
- USD	**0%**	0%
- EUR	**0%**	0%
- Other	**0%**	0%
Loans to customers		
- Roubles	**11 - 17%**	10 - 20%
- USD	**2 - 8%**	2 - 12%
- EUR	**4 - 8%**	4 - 8%
Financial assets available-for-sale		
- Roubles	**9 - 11%**	8 - 17%
Interest Bearing Liabilities		
Amounts under repurchased agreements		
- Roubles	**0%**	0%
Deposits and balances from banks and other financial institutions		
- Roubles	**0%**	0%
- USD	**0 - 1%**	0 - 2%
- EUR	**0 - 1%**	0 - 1%
Current accounts and deposits from customers		
- Roubles	**0 - 10%**	0 - 13%
- USD	**0 - 3%**	0 - 4%
- EUR	**0 - 2%**	1 - 3%
- Other	**0%**	0%
Debt securities issued		
- Roubles	**0%**	0 - 7%
- USD	**0%**	0 - 3%
Subordinated debt		
- USD	**3 - 4%**	3 - 4%
- EUR	**1%**	1%

36. Interest rate repricing analysis

The following table represents assets and liabilities by contractual interest rate repricing date as of 31 December 2016.

	Less than 1 month USD'000	1 to 3 Months USD'000	3 months to 1 year USD'000	More than 1 year USD'000	Maturity Undefined USD'000	Total USD'000
Assets						
Cash	1,027	-	-	-	-	**1,027**
Due from the Central Bank of Russia	12,086	-	-	-	-	**12,086**
Placements with banks and other financial institutions	80,105	-	-	-	-	**80,105**
Loans to customers	32,450	16,560	48,357	35,254	-	**132,722**
Financial assets available-for-sale	-	-	18,258	-	-	**18,258**
Other assets	-	-	-	-	142	**142**
Property and equipment	-	-	-	-	232	**232**
Intangible assets	-	-	-	-	716	**716**
Current tax assets	-	-	-	-	145	**145**
Total Assets	**125,668**	**16,560**	**66,615**	**35,254**	**1,235**	**245,432**
Liabilities						
Derivative financial instruments	27	-	-	-	-	**27**
Deposits and balances from banks and other financial institutions	85,117	35,245	-	-	-	**120,362**
Current accounts and deposits from customers	43,320	236	3,056	106	-	**46,718**
Subordinated debt	-	-	8,697	-	-	**8,697**
Other liabilities	40	-	-	-	390	**430**
Deferred tax liabilities	-	-	-	-	1,552	**1,552**
Total Liabilities	**128,504**	**35,481**	**11,753**	**106**	**1,942**	**177,786**
Net position as at 31 December 2016	**(2,836)**	**(18,921)**	**54,862**	**35,148**	**(707)**	**64,646**
Net position as at 31 December 2015	5,991	(29,586)	50,628	20,833	(211)	47,655

36. Interest rate repricing analysis (continued)

The following table represents assets and liabilities by contractual interest rate repricing date as of 31 December 2015.

	Less than 1 month USD'000	1 to 3 Months USD'000	3 months to 1 year USD'000	More than 1 year USD'000	Maturity Undefined USD'000	Total USD'000
Assets						
Cash	1,809	-	-	-	-	**1,809**
Due from the Central Bank of Russia	27,533	-	-	-	-	**27,533**
Placements with banks and other financial institutions	73,732	-	-	-	-	**73,732**
Derivative financial instruments	121	-	-	-	-	**121**
Loans to customers	35,861	37,296	53,877	21,187	-	**148,221**
Financial assets available-for-sale	3,620	7,135	8,965	-	-	**19,720**
Other assets	-	-	-	-	121	**121**
Property and equipment	-	-	-	-	213	**213**
Intangible assets	-	-	-	-	576	**576**
Current tax assets	-	-	-	-	326	**326**
Total Assets	**142,676**	**44,431**	**62,842**	**21,187**	**1,236**	**272,372**
Liabilities						
Deposits and balances from banks and other financial institutions	112,484	71,194	-	-	-	**183,678**
Current accounts and deposits from customers	24,201	2,302	586	-	-	**27,089**
Debt securities issued	-	521	2,734	354	-	**3,609**
Subordinated debt	-	-	8,894	-	-	**8,894**
Other liabilities	-	-	-	-	218	**218**
Deferred tax liabilities	-	-	-	-	1,229	**1,229**
Total Liabilities	**136,685**	**74,017**	**12,214**	**354**	**1,447**	**224,717**
Net position as at 31 December 2015	**5,991**	**(29,586)**	**50,628**	**20,833**	**(211)**	**47,655**
Net position as at 31 December 2014	(43,783)	(17,063)	37,474	64,551	1,719	42,898

36. Maturity analysis

The following table shows the undiscounted cash flows as of 31 December 2016 of the Bank's financial liabilities and unrecognized loan commitments on the basis of their earliest possible contractual maturity. The gross nominal inflow/outflow disclosed in the table is the contractual, undiscounted cash flow on the financial liability commitment. In case where maturity is not fixed, it is determined on the conditions ruling at the reporting date. The Bank's expected cash flows on these financial liabilities and unrecognized loan commitments vary significantly from this analysis.

	Less than 1 month USD'000	1 to 3 months USD'000	3 months to 1 year USD'000	More than 1 year USD'000	Maturity Undefined USD'000	Notional value of cash flow USD'000	Carrying value USD'000
Non-derivative liabilities							
Deposits and balances from banks and other financial institutions	88,518	41,981	-	-	-	**130,499**	**120,362**
Current accounts and deposits from customers	43,320	236	3,055	106	-	**46,717**	**46,718**
Subordinated debt	-	-	540	9,778	-	**10,318**	**8,697**
Other liabilities	40	-	-	-	390	**430**	**430**
Derivative financial instruments							
Inflow	(10,223)	-	-	-	-	**(10,223)**	**-**
Outflow	10,250	-	-	-	-	**10,250**	**27**
Total liabilities	**131,905**	**42,217**	**3,595**	**9,884**	**390**	**187,991**	**176,234**
Credit related commitments	**2 091**	**988**	**70,733**	**38,428**	**-**	**112,240**	

36. Maturity analysis (continued)

The following table shows the undiscounted cash flows as of 31 December 2015 of the Bank's financial liabilities and unrecognized loan commitments on the basis of their earliest possible contractual maturity. The gross nominal inflow/outflow disclosed in the table is the contractual, undiscounted cash flow on the financial liability commitment. In case where maturity is not fixed, it is determined on the conditions ruling at the reporting date. The Bank's expected cash flows on these financial liabilities and unrecognized loan commitments vary significantly from this analysis.

	Less than 1 month USD'000	1 to 3 months USD'000	3 months to 1 year USD'000	More than 1 year USD'000	Maturity Undefined USD'000	Notional value of cash flow USD'000	Carrying value USD'000
Non-derivative liabilities							
Deposits and balances from banks and other financial institutions	112,503	71,340	-	-	-	**183,843**	**183,678**
Current accounts and deposits from customers	24,211	2,314	597	-	-	**27,122**	**27,089**
Debt securities issued	-	521	2,786	357	-	**3,664**	**3,609**
Subordinated debt	-	-	174	10,460	-	**10,634**	**8,894**
Other liabilities	-	-	-	-	218	**218**	**218**
Derivative financial instruments							
Inflow	(17,203)	-	-	-	-	**(17,203)**	**(121)**
Outflow	17,082	-	-	-	-	**17,082**	**-**
Total liabilities	**136,593**	**74,175**	**3,557**	**10,817**	**218**	**225,360**	**223,367**
Credit related commitments	**1,210**	**12,605**	**30,326**	**34,630**	**-**	**78,771**	

36. Maturity analysis (continued)

The following table shows assets and liabilities by remaining contractual maturity dates as of 31 December 2016.

Management believes that in spite of substantial portion of accounts and deposits from customers being on demand (customer current/settlement accounts) being reflected as having maturity of less than one months, diversification of these deposits by number and type of depositors, and the past experience of the Bank, would indicate that these accounts provide a long-term and stable source of funding to the Bank.

	Less than 1 month USD'000	1 to 3 months USD'000	3 months to 1 year USD'000	More than 1 year USD'000	Maturity Undefined USD'000	Total USD'000
Assets						
Cash	1,027	-	-	-	-	**1,027**
Due from the Central Bank of Russia	12,086	-	-	-	-	**12,086**
Placements with banks and other financial institutions	80,105	-	-	-	-	**80,105**
Loans to customers	3,229	12,751	71,499	45,142	-	**132,621**
Financial assets available-for-sale	-	-	1,317	16,941	-	**18,258**
Other assets	-	-	-	-	142	**142**
Property and equipment	-	-	-	-	232	**232**
Intangible assets	-	-	-	-	716	**716**
Current tax assets	-	-	-	-	145	**145**
Total Assets	**96,447**	**12,751**	**72,816**	**62,083**	**1,235**	**245,332**
Liabilities						
Derivative financial instruments	27	-	-	-	-	**27**
Deposits and balances from banks and other financial institutions	85,116	35,246	-	-	-	**120,362**
Current accounts and deposits from customers	43,321	236	3,055	106	-	**46,718**
Subordinated debt	-	-	-	8,697	-	**8,697**
Other liabilities	40	-	-	-	390	**430**
Deferred tax liabilities	-	-	-	-	1,552	**1,552**
Total Liabilities	**128,504**	**35,482**	**3,055**	**8,803**	**1,942**	**177,786**
Net position as at 31 December 2016	**(32,057)**	**(22,731)**	**69,761**	**53,280**	**(707)**	**67,546**
Net position as at 31 December 2015	(9,533)	(58,012)	69,134	45,277	789	47,655

36. Maturity analysis (continued)

The following table shows assets and liabilities by remaining contractual maturity dates as of 31 December 2015.

Management believes that in spite of substantial portion of accounts and deposits from customers being on demand (customer current/settlement accounts) being reflected as having maturity of less than one months, diversification of these deposits by number and type of depositors, and the past experience of the Bank, would indicate that these accounts provide a long-term and stable source of funding to the Bank.

	Less than 1 month USD'000	1 to 3 months USD'000	3 months to 1 year USD'000	More than 1 year USD'000	Maturity Undefined USD'000	Total USD'000
Assets						
Cash	1,809	-	-	-	-	**1,809**
Due from the Central Bank of Russia	27,533	-	-	-	-	**27,533**
Placements with banks and other financial institutions	73,732	-	-	-	-	**73,732**
Derivative financial instruments	121	-	-	-	-	**121**
Loans to customers	20,108	13,063	70,889	44,161	-	**148,221**
Financial assets available-for-sale	3,620	2,942	1,565	11,593	-	**19,720**
Other assets	121	-	-	-	-	**121**
Property and equipment	-	-	-	-	213	**213**
Intangible assets	-	-	-	-	576	**576**
Current tax assets	326	-	-	-	-	**326**
Total Assets	**127,370**	**16,005**	**72,454**	**55,754**	**789**	**272,372**
Liabilities						
Derivative financial instruments	-	-	-	-	-	**-**
Amount payables under repurchase agreements	-	-	-	-	-	**-**
Deposits and balances from banks and other financial institutions	112,484	71,194	-	-	-	**183,678**
Current accounts and deposits from customers	24,201	2,302	586	-	-	**27,089**
Debt securities issued	-	521	2,734	354	-	**3,609**
Subordinated debt	-	-	-	8,894	-	**8,894**
Other liabilities	218	-	-	-	-	**218**
Deferred tax liabilities	-	-	-	1,229	-	**1,229**
Total Liabilities	**136,903**	**74,017**	**3,320**	**10,477**	**-**	**224,717**
Net position as at 31 December 2015	**(9,533)**	**(58,012)**	**69,134**	**45,277**	**789**	**47,655**
Net position as at 31 December 2014	(49,368)	(59,672)	44,094	106,792	1,052	42,898

37. Currency analysis

The following table shows the currency structure of assets and liabilities at 31 December 2016:

	Roubles USD'000	USD USD'000	EUR USD'000	Other USD'000	Total USD'000
Assets					
Cash	145	482	400	-	**1,027**
Due from the Central Bank of Russia	12,086	-	-	-	**12,086**
Placements with banks and other financial institutions	26,964	554	52,583	4	**80,105**
Loans to customers	47,705	41,210	43,706	-	**132,621**
Financial instruments available-for-sale	18,258	-	-	-	**18,258**
Other assets	142	-	-	-	**142**
Property and equipment	232	-	-	-	**232**
Intangibles assets	716	-	-	-	**716**
Current tax assets	145	-	-	-	**145**
Total Assets	**106,393**	**42,246**	**96,689**	**4**	**245,332**
Liabilities					
Derivative financial instruments	17	-	10	-	**27**
Deposits and balances from banks and other financial institutions	7,769	35,263	77,330	-	**120,362**
Current accounts and deposits from customers	27,331	9,789	9,597	1	**46,718**
Subordinated debt	-	3,700	4,997	-	**8,697**
Other liabilities	430	-	-	-	**430**
Deferred tax liabilities	1,552	-	-	-	**1,552**
Total Liabilities	**37,099**	**48,752**	**91,934**	**1**	**177,786**
Net on balance sheet position as of 31 December 2016	**69,294**	**(6,506)**	**4,755**	**3**	**67,546**
Net off balance sheet position as of 31 December 2016	**(777)**	**5,500**	**(4,723)**	**-**	**-**
Net (short) / long position as of 31 December 2016	**68,517**	**(1,006)**	**32**	**3**	**67,546**
Net (short) / long position as of 31 December 2015	47,403	210	37	5	47,655

37. Currency analysis (continued)

The following table shows the currency structure of assets and liabilities at 31 December 2015:

	Roubles USD'000	USD USD'000	EUR USD'000	Other USD'000	Total USD'000
Assets					
Cash	176	957	676	-	**1,809**
Due from the Central Bank of Russia	27,533	-	-	-	**27,533**
Placements with banks and other financial institutions	15,533	1,136	57,058	5	**73,732**
Derivative financial instruments	-	121	-	-	**121**
Loans to customers	26,770	58,087	63,364	-	**148,221**
Financial instruments available-for-sale	19,720	-	-	-	**19,720**
Other assets	121	-	-	-	**121**
Property and equipment	213	-	-	-	**213**
Intangibles assets	576	-	-	-	**576**
Current tax assets	326	-	-	-	**326**
Total Assets	**90,968**	**60,301**	**121,098**	**5**	**272,372**
Liabilities					
Amount payables under repurchase agreements	-	-	-	-	**-**
Deposits and balances from banks and other financial institutions	7,060	61,680	114,938	-	**183,678**
Amount payables under repurchase agreements	-	-	-	-	**-**
Current accounts and deposits from customers	17,628	8,532	929	-	**27,089**
Debt securities issued	348	3,261	-	-	**3,609**
Subordinated debt	-	3,700	5,194	-	**8,894**
Other liabilities	218	-	-	-	**218**
Deferred tax liabilities	1,229	-	-	-	**1,229**
Total Liabilities	**26,483**	**77,173**	**121,061**	**-**	**224,717**
Net on balance sheet position as of 31 December 2015	**64,485**	**(16,872)**	**37**	**5**	**47,655**
Net off balance sheet position as of 31 December 2015	**(17,082)**	**17,082**	**-**	**-**	**-**
Net (short) / long position as of 31 December 2015	**47,403**	**210**	**37**	**5**	**47,655**
Net (short) / long position as of 31 December 2014	42,343	273	262	20	42,898

38. Geographical analysis

The following table shows the geographical concentration of assets and liabilities at 31 December 2016:

	Russia USD'000	OECD USD'000	Other USD'000	Total USD'000
Assets				
Cash	1,027	-	-	**1,027**
Due from the Central Bank of Russia	12,086	-	-	**12,086**
Placements with banks and other financial institutions	15,933	64,172	-	**80,105**
Loans to customers	132,621	-	-	**132,621**
Financial instruments available-for-sale	18,258	-	-	**18,258**
Other assets	135	7	-	**142**
Property and equipment	232	-	-	**232**
Intangibles assets	716	-	-	**716**
Current tax assets	145	-	-	**145**
Total Assets	**181,153**	**64,179**	**-**	**245,332**
Liabilities				
Deposits and balances from banks and other financial institutions	7,000	113,362	-	**120,362**
Derivative financial instruments	27	-	-	**27**
Current accounts and deposits from customers	46,026	674	18	**46,718**
Subordinated debt	-	8,697	-	**8,697**
Other liabilities	424	6	-	**430**
Deferred tax liabilities	1,552	-	-	**1,552**
Total Liabilities	**55,029**	**122,739**	**18**	**177,786**
Net on balance sheet position as of 31 December 2016	**126,124**	**(58,560)**	**(18)**	**67,546**

38. Geographical analysis (continued)

The following table shows the geographical concentration of assets and liabilities at 31 December 2015:

	Russia USD’000	OECD USD’000	Other USD’000	Total USD’000	
Assets					
Cash	1,809	-	-	**1,809**	
Due from the Central Bank of Russia	27,533	-	-	**27,533**	
Placements with banks and other financial institutions	6,016	67,716	-	**73,732**	
Derivative financial instruments	121	-	-	**121**	
Loans to customers	141,983	6,238	-	**148,221**	
Financial instruments available-for-sale	19,720	-	-	**19,720**	
Other assets	121	-	-	**121**	
Property and equipment	213	-	-	**213**	
Intangibles assets	576	-	-	**576**	-
Current tax assets	326	-	-	**326**	
Total Assets	**198,418**	**73,954**	**-**	**272,372**	
Liabilities					
Deposits and balances from banks and other financial institutions	-	183,678	-	**183,678**	
Current accounts and deposits from customers	22,132	4,929	28	**27,089**	
Debt securities issued	3,577	32	-	**3,609**	
Subordinated debt	-	8,894	-	**8,894**	
Other liabilities	218	-	-	**218**	
Deferred tax liabilities	1,229	-	-	**1,229**	-
Total Liabilities	**27,156**	**197,533**	**28**	**224,717**	
Net on balance sheet position as of 31 December 2015	**171,262**	**(123,579)**	**(28)**	**47,655**	

39. Events after the reporting date

There have been no non – adjusting events after the balance sheet date that require disclosure.