One Bank One UniCredit

2016

Annual Report

Welcome to UniCredit Bank

We are a simple pan-European commercial bank with a fully plugged in Corporate & Investment Banking, delivering our unique Western Central and Eastern European network to our extensive client franchise.

We offer local expertise as well as international reach. We accompany and support our 25 million clients globally, providing them with unparalleled access to our leading banks in 14 core markets as well as to another 18 countries worldwide.

Our vision is to be “One Bank, One UniCredit”.

Everything we do to implement our vision is based on our Five Fundamentals.

Our top priority, every minute of the day, is to serve our customers the very best we can (Customers First).

To do this, we rely on the quality and commitment of our people (People Development), and on our ability to cooperate and generate synergies as “One Bank, One UniCredit” (Cooperation & Synergies).

We take the right kind of risk (Risk Management) whilst being very disciplined in executing our strategy (Execution & Discipline).

Life is full of ups and downs.
We’re there for both.

Welcome to
UniCredit Bank

A shared vision based on Five Fundamentals.

As a strong pan-European Group with leading banks in 14 core markets, and operations in another 18 countries, we perfectly embody our vision to be “One Bank, One UniCredit”. A simple pan-European commercial bank enriched by multiple cultures where everybody shares the same vision and are guided by our Five Fundamentals: Customers First, People Development, Execution & Discipline, Cooperation & Synergies and Risk Management.

Financial Highlights

	2016	2015	change 2016-2015
ASSETS AT THE END OF THE YEAR, RUB million			
Total assets, including	**1 172 250**	**1 407 126**	**-16.7%**
Loans to customers	677 011	867 295	-21.9%
Securities	93 949	89 521	4.9%
LIABILITIES AT THE END OF THE YEAR, RUB million			
Total liabilities, including	**990 575**	**1 242 598**	**-20.3%**
Amounts due to customers	779 102	931 427	-16.4%
Amounts due to credit institutions	152 109	193 922	-21.6%
Total Equity	**181 675**	**164 527**	**10.4%**
CAPITAL (CB RF) AT THE END OF THE YEAR, RUB million			
Total capital	**179 247**	**173 981**	**3.0%**
CAPITAL (BASEL II) AT THE END OF THE YEAR, RUB million			
Total capital	**192 267**	**176 092**	**9.2%**
PROFIT FOR THE YEAR, RUB million			
Net interest income	45 100	40 361	12%
Non-interest income	8 087	8 611	-6%
Operating income	**53 187**	**48 971**	**9%**
Net income from financial activities	**35 599**	**34 362**	**4%**
Operating costs	-18 008	-15 387	17%
Gains on disposal of fixed assets	12	8	41%
Profit before income tax expense	**17 602**	**18 983**	**-7%**
Income tax expense	-3 579	-3 465	3%
Total profit for the year	**14 023**	**15 518**	**-10%**
KEY PERFORMANCE INDICATORS			
Return on average equity (ROE)	8.1%	10.1%	
Return on average assets (ROA)	1.1%	1.1%	
Total capital ratio (Basel II)	16.2%	12.9%	
Central Bank of Russia N1 capital adequacy ratio	16.2%	12.9%	
Cost/income ratio	33.9%	31.4%	
STAFF			
Number	4 084	3 908	5%
GEOGRAPHY			
Branches in Moscow	38	39	-3%
Regional branches	55	51	8%
RepOffices	11	12	-8%
Offices abroad	1	1	0%
Total Number of Offices	**105**	**103**	**2%**

Simple Pan-European Commercial Bank

We are a simple pan-European commercial bank with a fully plugged in CIB, enriched by multiple cultures and strong local knowledge, where everybody shares the same vision: One Bank, One UniCredit. That's why when it comes to our client's international needs we have the solution. Whether it is trade or other banking services, we can help: with our deep local knowledge and our unique Western Central and Eastern European network serving our clients in Europe and beyond, we are fully equipped to meet our clients' needs, both in our home-markets and further afield.

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Chief Executive Officer's message

> "I am proud to have the opportunity to lead UniCredit. I and my management team are fully committed to making UniCredit one of the most attractive banks in Europe."

Jean Pierre Mustier
CHIEF EXECUTIVE OFFICER

Dear Shareholders,

as this is my very first letter to you, I would like to say how proud and honored I am to have the opportunity to lead UniCredit and that I and my management team, are fully committed to making UniCredit one of the most attractive banks in Europe and to creating recurring value for all our stakeholders.

2016 was an eventful year for European financial services, including for the Italian banking sector. This, coupled with rapidly evolving client behaviors and expectations and the need to transform and strengthen the Bank, led us to launch an in depth strategic review in early July.

Our core priorities are to reinforce and optimize the Group's capital position, improve profitability, ensure continuous transformation of operations, maintain flexibility to seize value creating opportunities, further reduce costs, increase cross selling and above all further improve risk discipline.

There is now one executive governing body, one closely knit management team, led by the CEO and composed of the leaders of the key activities and geographies within UniCredit, with one single General Manager in charge of all businesses activities. There is now One Bank, One UniCredit.

Before we presented the outcome of the strategic review, Transform 2019, which is the beginning of a long term transformative process for the bank, we took bold actions to strengthen our capital ratios. We did so by agreeing the sales of Pioneer and Pekao and by optimizing our participation in Fineco as well as improving our asset quality by addressing our Italian legacy issues through the de-risking of a 17.7 billion euro non performing portfolio.

Transform 2019's core message is that UniCredit is a simple Pan-European Commercial Bank, with a fully plugged in CIB, delivering a unique Western, Central and Eastern European network to its extensive client franchise; competitive advantages – on which we shall build.

The plan is based on pro-active self-help. Key levers of the plan, cost and risk, are fully under management control. This to ensure maximum value creation for all our stakeholders while reducing execution risk.

We de-risked the balance sheet by taking an 8.1 billion euro one-off provision in 2016 resulting in boosted coverage. This will significantly improve our asset quality.

Very strong risk discipline is another key component of the plan, this to further improve the quality of future origination with the objective to bring our group cost of risk down to about 49 bps by end 2019.

The transformation of business processes will allow our teams more client facing time, provide a better service and leading to a recurring 1.7 billion euro net annual cost reduction as of 2019. Group cost income ratio will decrease by more than 9.5 percentage points to below 52 per cent.

However, this transformation will also lead to a number of colleagues leaving the Group, primarily through early retirements and voluntary redundancies. We shall endeavor to treat everyone concerned with the utmost respect and dignity to facilitate their transition. My thanks for the contribution they have made to the Bank.

Going forward we will have a much leaner but strong steering corporate centre to drive Group performance and ensure accountability through a set of Group-wide KPIs.

Taking the current low rate environment and prevailing economic context into account, our objective is to reach a RoTE above 9 per cent in 2019.

Fully loaded CET1 will be above 12.5 per cent in 2019.

The Transform 2019 targets are tangible pragmatic and based on conservative assumptions. As a team we are fully committed to achieving them with management's interests fully aligned with shareholders'.

In order to achieve the plan targets and to significantly strengthen the Group's capital position in line with best-in-class global SIFIs, a 13 billion euro rights issue was proposed.

Let me also pay tribute to our employees and thank them for their ongoing commitment. This is only the beginning of our transformative journey and it is thanks to our teams, that we will be successful and create value.

Sincerely,

Jean Pierre Mustier
Chief Executive Officer
UniCredit S.p.A.

Message from the Chairman of the Supervisory Board

“In 2016, UniCredit Bank performed as well as in previous years, and re-affirmed its reliability and commitment to its clients’ interests.”

Erich Hampel
CHAIRMAN OF THE SUPERVISORY BOARD

Dear shareholders, clients, colleagues and friends,

I am honoured to present the 2016 Annual Report of UniCredit Bank on behalf of the Supervisory Board.

In 2016, the economic situation across the globe and in Europe, along with continuing natural transformation of the banking business, triggered changes in the banks’ behaviour. The Transform 2019 Strategic Plan advanced by UniCredit Group set the tone for the operation of all the Group’s subsidiaries, including Russia-based UniCredit Bank, for years to come. Now we all, regardless of the country, operate as “One Bank, One UniCredit”, and this approach determines our vision of the business and, more importantly, our relations with our clients.

In 2016, UniCredit Bank performed as well as in previous years, and re-affirmed its reliability and commitment to its clients’ interests.

Despite a variety of constraints that put the Russian banks’ growth under pressure, a sustainable business model and high-quality client base enabled the Bank, in 2016, to retain its stature as the major foreign bank in Russia in terms of assets and to focus primarily on their high quality. Meanwhile, thanks to its excellent reputation and clients' trust, UniCredit Bank maintains a highly diversified base of independent funding sources. UniCredit Bank's credit/deposit ratio stood at 87% in 2016 attesting to the bank's high liquidity.

Central and Eastern Europe (CEE) has remained an important region for UniCredit Group which enjoys leading positions in this market and is determined to strengthen them using innovation-driven approach and digital transformation. UniCredit Bank confidently represents the Group's interests in Russia, the largest CEE country, providing its clients with high-quality service and access to the services, products and opportunities offered by UniCredit Group's international network. So, the contribution of the Russian business to the Group's sustainable performance in the CEE region has remained substantial. Importantly, the "One Bank, One UniCredit" concept has been promoted by UniCredit Bank earlier as well. For instance, many Bank's major corporate clients are cooperating with other Group's banks as well. This helps cross the borders and provide clients with cross-border services, which is an important advantage of international companies.

In 2017, UniCredit Bank will be faced with new goals that are part of the Group's Strategic Plan. I am confident that with its 27 years of experience working in Russia and its highly skilled team of professionals, UniCredit Bank will make its contribution to achieving the goals set out in the plan and will help the Group retain its strong positions in the Russian banking market.

I would like to thank the Management Board members and all UniCredit Bank employees for their good work and good performance results achieved in 2016. In 2017, we will continue to follow our Five Fundamentals - Customers First, People Development, Cooperation & Synergies, Risk Management, Execution & Discipline - acting in the interests of our shareholders, clients and all other stakeholders.

Erich Hampel,
Chairman of the
Supervisory Board
of UniCredit Bank

Highlights

UniCredit is a strong pan-European Group with a simple commercial banking model and a fully plugged in Corporate & Investment Bank, delivering its unique Western, Central and Eastern European network to its extensive 25 million strong client franchise. UniCredit offers local expertise as well as international reach and accompanies and supports its clients globally, providing clients with unparalleled access to leading banks in its 14 core markets as well as an another 18 countries worldwide. UniCredit European banking network includes Italy, Germany, Austria, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Hungary, Romania, Russia, Slovakia, Slovenia, Serbia and Turkey.

Financial Highlights[1]

Operating income
€ 18,801 mln

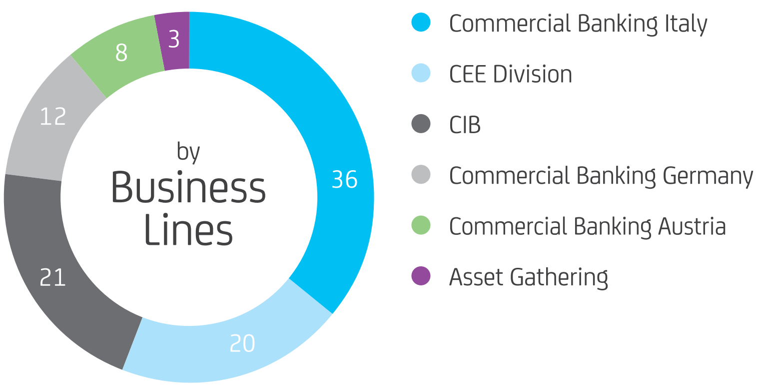
Net profit (loss)
€ (11,790) mln

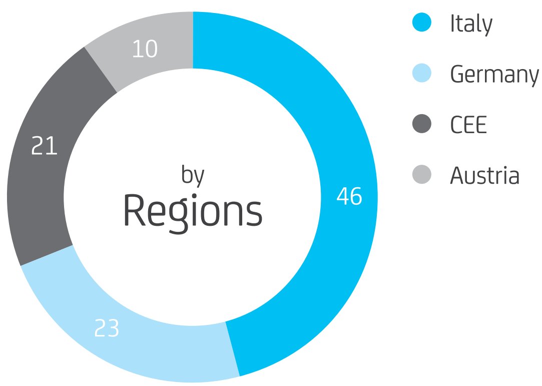
Shareholder's equity
€ 39,336 mln

Total assets
€ 859,533 mln

Common Equity Tier 1 ratio*
11.15%

Revenues[1] (%)





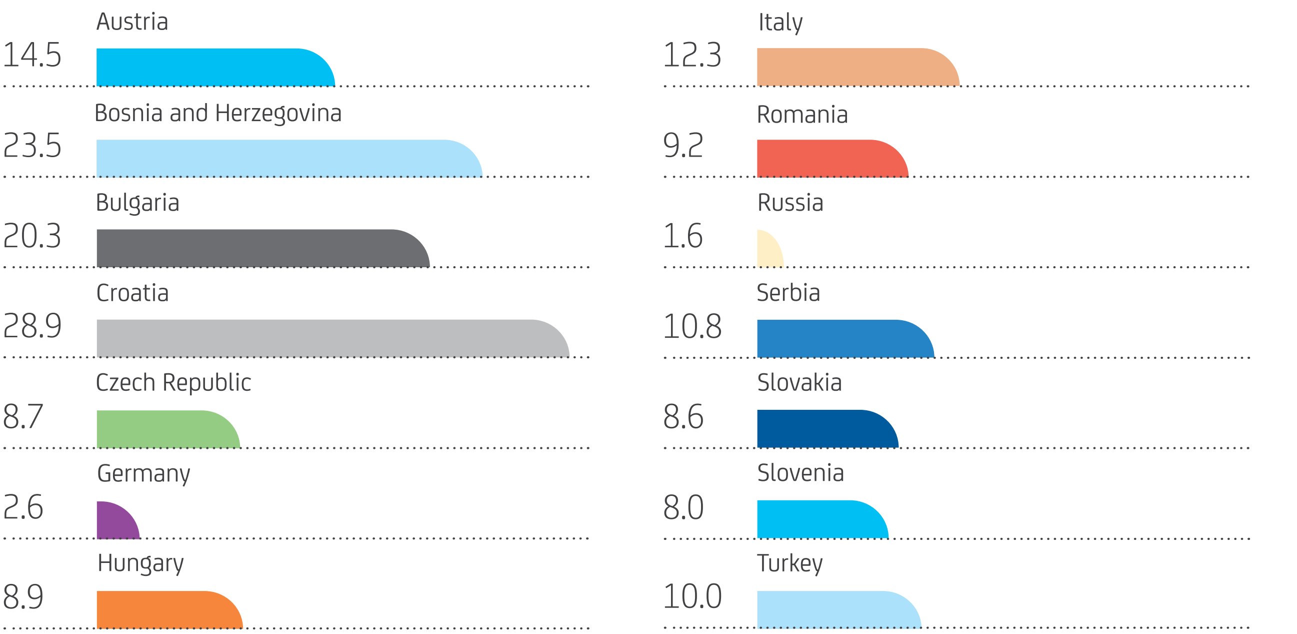
1. Data as at December 31, 2016. As at December 31, 2016, in accordance with IFRS5, the assets/liabilities and the profit/loss of Bank Pekao S.A., Pioneer Global Asset Management S.p.A. and their subgroups' companies, as a result of their classification as "discontinued operations", were recognized:
- in Balance Sheet under items "Non-current assets and disposal groups classified as held for sale" and "Liabilities included in disposal groups classified as held for sale";
- in Income Statement under item "Profit (loss) after tax from discontinued operation";
- the previous periods were restated accordingly to increase comparability.

* Fully loaded CET1 ratio at 11.15% post capital increase, above 12% including Pioneer and Pekao deals. CET1 ratio transitional at 11.49% post capital increase.

International presence[2]

- Austria
- Bosnia and Herzegovina
- Bulgaria
- Croatia
- Czech republic
- Germany
- Hungary
- Italy
- Romania
- Russia
- Serbia
- Slovakia
- Slovenia
- Turkey

Market Shares[3] (%)



2. On December 8, 2016, UniCredit ("UCG") entered into a binding agreement with PZU SA and PFR (Polish Development Fund) for the sale of a 32.8% stake in Bank Pekao (Poland) and, on the same date, it announced the disposal of the remaining 7.3% via a market transaction. The CEE division includes only the 11 countries in which the Group operates through Retail branches. Accordingly, Azerbaijan, Estonia, Latvia and Lithuania have been excluded.
3. Market Shares in terms of Total Loans as at December 31, 2016. Source: Company data, National Central Banks.

One Bank, One UniCredit. Transform 2019

A challenging business environment marked by greater regulatory pressure and a lengthy period of low growth and low interest rates has prompted a deep strategic review of every major area of the bank. More specifically, the review has focused on how to reinforce and optimize the Group's capital position, reduce the risk profile of the balance sheet, improve profitability, and ensure that operations are transformed continuously in ways that enable increased client focus, further cost reductions and cross-selling across Group entities. These goals are to be pursued while maintaining the flexibility to seize value-creating opportunities and while improving risk discipline still further.

Hence, the Transform 2019 Strategic Plan targets are pragmatic, tangible and achievable and are based on conservative assumptions associated with five strategic pillars defined as follows:

- **Strengthen and optimize capital,** to align capital ratios with the best in class G-SIFIs
- **Improve the asset quality,** addressing Italian legacies via a proactive balance sheet de-risking
- **Transform the operating model,** strengthening our client focus while simplifying and streamlining products and services
- **Maximize commercial bank value,** capitalizing on the potential of our retail client relationships and our status as the "go-to" bank for corporate clients in Western Europe while building on our leadership position in Central and Eastern Europe and increasing cross-selling across business lines and countries
- **Adopt a lean but strong steering Group Corporate Center,** establishing consistent Groupwide KPIs to drive performance and improve accountability

This transformation will enable the Group to take advantage of future opportunities and generate long-term profits, functioning successfully as a **simple pan-European commercial bank with a fully plugged in CIB and a unique network in Western, Central and Eastern Europe.**

Five Strategic Pillars

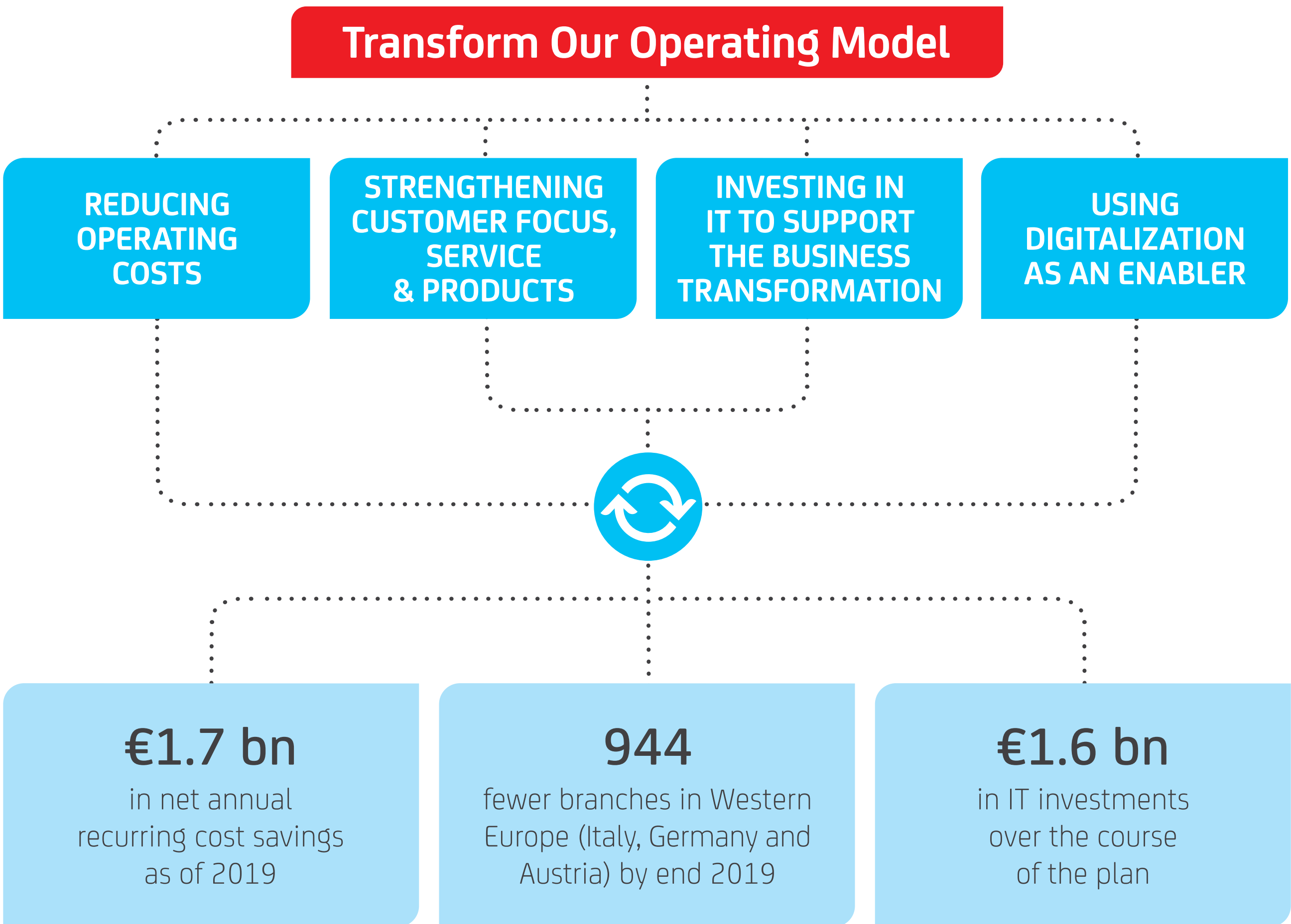
STRENGTHEN AND OPTIMIZE CAPITAL	IMPROVE ASSET QUALITY	TRANSFORM OPERATING MODEL	MAXIMIZE COMMERCIAL BANK VALUE	ADOPT LEAN BUT STEERING CENTER
Reinforce capital	Increasing coverage ratio of bad loans	Digitalization and process redesign	Tailored strategies	KPIs to drive performance and accountability
Capital optimization actions	Strong risk discipline	Improved efficiency and customer focus	Synergies and cross-selling	Leaner support functions and transparent cost allocation

Transform Our Operating Model

Among the key pillars of UniCredit's Strategic Plan for 2017-2019, one of the most important objectives is the transformation of the Group's operating model. The purpose of this is to strengthen our customer focus, service and products while simplifying our structure and increasing our efficiency. Digitalization will enable the transformation and make it possible to achieve a lower sustainable cost base.

The main initiatives include:

- **Redesigning end-to-end processes and lowering the cost of "running the bank"** by leveraging our global operations and developing economies of scale
- **Strengthening client focus** by further improving the customer experience, carrying out product standardization, and engaging in more client-facing activities
- **Investments in IT** that will support the business transformation with greater digitalization, the technological improvement of core systems, and ongoing infrastructure updates



About UniCredit Bank

AO UniCredit Bank is a Russian commercial bank, operating in Russia since 1989. Ranked 11th by total assets based on the 2016 results (Interfax-100 ranking), UniCredit Bank is the largest foreign bank in Russia. UniCredit Bank is fully owned (100%) by UniCredit Group (UniCredit S.p.A.).

The Bank benefits from its strong position in the large Russian corporate finance market and sustainable retail banking business.

General information

- Until December 20, 2007, the Bank was called International Moscow Bank, registered by the State Bank of the USSR on October 20, 1989.
- Since 1991 the Bank has operated under General License No.1 for banking operations.
- The first bank in Russia with majority foreign ownership.
- On December 20, 2007, International Moscow Bank officially changed its name to UniCredit Bank.

Data as of 31.12.2016

Total assets
1 172.3 billion

Total Equity
181.7 billion

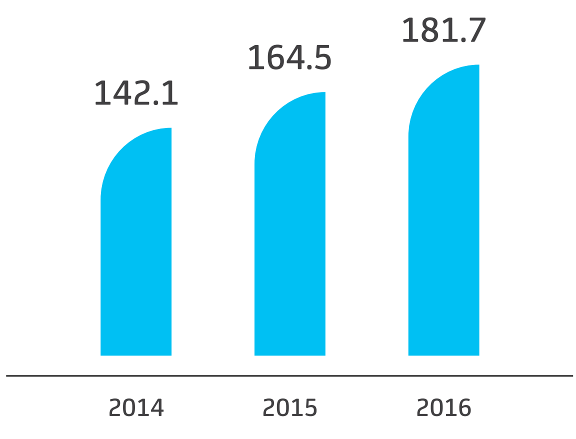
Retail customers
more than **1 800 000**

Corporate clients
About **28 000**

Employees
Around **4 000**

Capital

RUB billion

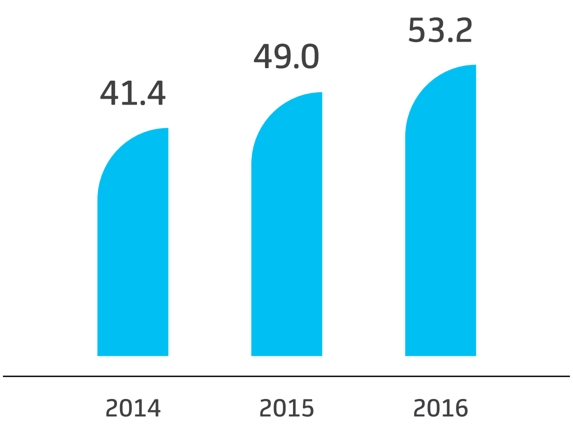


UniCredit Bank in Russia

Moscow and the Moscow Region
Saint-Petersburg
Arkhangelsk
Barnaul
Belgorod
Chelyabinsk
Irkutsk
Kaluga
Kazan
Kemerovo
Krasnodar
Krasnoyarsk
Lipetsk
Magnitogorsk
Nizhny Novgorod
Novorossiysk
Novosibirsk
Omsk
Orenburg
Perm
Rostov-on-Don
Samara
Saratov
Sochi
Stavropol
Tyumen
Ufa
Volgograd
Voronezh
Yekaterinburg

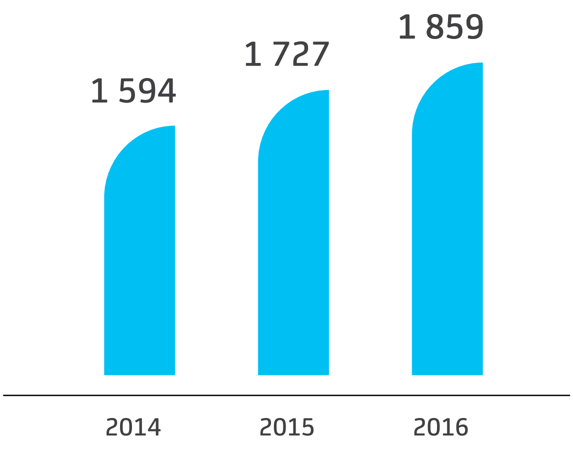
Operating income

RUB billion



Number of customers

Corporate and individual clients, thousand



Customers First

Our top priority, every minute of the day, is to serve our customers the very best we can. We provide solutions for a wide variety of different personal finance and enterprise business needs. Our products and services are based on our customer's real needs and aimed at creating value for both individuals and businesses.

Strategy and Results in 2016

Message from the Management Board

> “Over the course of our 27 years working on the Russian market, we have created a solid base for implementing the Group’s Strategic Plan in Russia.”

Mikhail Alekseev
CHAIRMAN OF THE MANAGEMENT BOARD

Dear clients, partners and colleagues,

The year 2016 brought certain improvements to the Russian banking sector. Meanwhile, the situation on the global markets was far from being stable with Brexit, the US elections and several other major developments testing the markets over and over again.

Nonetheless, in this complex situation, UniCredit Bank continued to successfully represent UniCredit Group’s interests in Russia. Last year came as a pivoting point for the Bank’s shareholders. As it was responding to important challenges, the Group revised its strategy and, in December 2016, presented its Transform 2019 Strategic Plan which was welcomed by the markets.

The Central and Eastern Europe (CEE) Division, which the Russian UniCredit Bank is part of, has a major role to play in seeing this plan through. Relying on its strong positions in CEE and the anticipated regional GDP growth, as well as taking advantage of the opportunities offered by the Group’s broad network, all of us, acting as one bank, will do our best to achieve the goals outlined in the Strategic Plan.

The UniCredit Bank priority areas include expanding business relations with major corporate customers and affluent clients, as well as taking advantage of the opportunities offered by the anticipated economic recovery. However, our top priority is to work for the benefit of our clients, as they are the ones who matter in the banking business.

Over the course of our 27 years working on the Russian market, we have created a solid base for implementing the Group’s Strategic Plan in Russia. This is another reason why 2016 was not an exception for us in terms of profitability and further business development despite all economic headwinds.

As of the end of 2016, UniCredit Bank managed to retain the positions of Russia's largest bank with foreign capital, and come in 9th in terms of profitability among all Russian banks. The Bank's net income amounted to RUB 14 bn, with operating income exceeding RUB 53 bn, which is indicative of the excellent performance of our business model.

Strengthening the base for further business expansion, we continued to increase our capital which exceeded RUB 181 bn. The statutory capital ratio (N1) went up to 16.2%, which allows the Bank to comply with all the regulatory requirements and be part of the most capitalised and stable banks on the Russian financial market. Moreover, the Bank of Russia continues to consider UniCredit Bank as a systemically important lending institution.

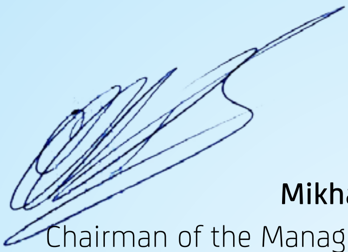
In 2016, the Bank focused on efficiency, strict risk management and high quality of the assets. As of late 2016, the cost/revenue ratio stood at 33.9% thus making the Bank one of Russia's best-performing lending institutions.

In late 2016, the Bank completed a large-scale three-year automated banking system upgrading programme, Core Banking Transformation, which was yet another crucial success of the year and a major step towards digital transformation of our business.

Since the Bank values highly its professional team, we focused on developing our employees and the corporate culture. Also, in line with the major international companies' best practices we worked on creating an inclusive work environment.

Acting in line with UniCredit Group's culture and arts strategy, UniCredit Bank continued to participate in the cultural life of our country in 2016. As a Russian subsidiary of a banking Group originating in Italy, the Bank supported a number of projects related to Italian culture and art. The list of such projects includes several exhibitions held at the Multimedia Art Museum sponsoring an exhibition "Piranesi. Before and after. Italy – Russia. 18th–21st centuries" at the Pushkin State Museum of Fine Arts. In addition, the Bank acted as the general partner of the Third Russian-Italian feature and documentary and short film festival (RIFF) which was held in Moscow, St Petersburg and other major Russian cities. We also continued our cooperation with Russia's leading charity foundations and held, for the seventh time, the annual You Can Help contest among our employees. All the winning projects have been successfully implemented before 2016 ran out.

On behalf of the Management Board, I would like to thank all UniCredit Bank employees who help us consistently achieve excellent results every year. We make the Russian part of a single UniCredit Group representing its interests and working with clients in our country. Next year, we are determined to do our best to ensure successful implementation of the Group Strategic Plan for the benefit of society, our shareholder and clients.



Mikhail Alekseev,
Chairman of the Management Board

Main Achievements in 2016

AO UniCredit Bank Stock Goes under UniCredit S.p.A. Direct Control

An entry regarding the change of the sole shareholder was made to the AO UniCredit Bank's ordinary shareholders' register on October 24, 2016. As a result, 100% of the shares in the authorised share capital were transferred to UniCredit S.p.A.

The transaction was effected as part of transferring a number of CEE-based UniCredit Group subsidiaries which were formerly managed by UniCredit Bank Austria AG that operated as a sub-holding company under direct control of UniCredit S.p.A., the Group's parent company. Thus, the Group's management structure in CEE was simplified, which will allow UniCredit to strengthen the centralised functions under its direct control, while preserving the existing know-how and customers' relationships.

UniCredit Bank Makes it to the List of Systematically Important Credit Institutions

The Bank of Russia annually approves the list of systemically important credit institutions in accordance with Ordinance No. 3737-U 'On the Methodology for Determining Systemically Important Credit Institutions' dated July 22, 2015. The list approved in 2016 remained unchanged compared to the previously approved one. UniCredit Bank is included in this list along with other major Russian banks.*

According to Forbes Magazine, UniCredit Bank Made It to Russia's Most Reliable Banks for the Ninth Consecutive Year

As of the end of 2016, Forbes magazine published its traditional 100 major banks rankings. UniCredit Bank ranks 9th among the most reliable Russian banks. UniCredit Bank was ranked among the most reliable Russian banks for the ninth consecutive year.

Besides, this time, the Bank came in 2nd among 11 banks in the top reliability group with a considerable improvement of its position compared to the previous year having become both the most reliable non-public bank and Russia's most reliable bank with the participation of foreign capital

UniCredit Bank is Awarded Another Quality Recognition Award by JPMorgan Chase Bank

Based on 2016 results, UniCredit Bank was awarded two JPMorgan Chase Bank awards again. The Quality Recognition Award was awarded to UniCredit Bank, N. A. for the quality of interbank payment orders MT202 (98.55% of STP payments) for 15th time in a row. The Bank was also awarded the Elite Quality Recognition Award for exceptionally high quality of commercial MT103 payment orders (99.71% of STP payments) for the 8th time in a row. Prior to that, the Bank had been receiving the Quality Recognition Award for commercial payments for seven years.

* This information is based on a statement issued by the Press Service of the Bank of Russia.

Russian Companies Join UniCredit CEE Lounge Programme

Two more Russian companies, clients of UniCredit Bank, joined the UniCredit CEE Lounge programme in 2016. The programme is part of the successful ELITE programme of the London Stock Exchange Group and is designed for ambitious private companies interested in further growth and access to international markets.

Uralplastic-N JSC took part in the second wave of the programme, and PRO Eurasia joined the third one. The ELITE services are designed to meet individual needs of each participant, while the UniCredit Group contributes to training and provides access to customised services.

Five New UniCredit Bank Offices in Five Cities

In 2016, UniCredit Bank opened five new retail offices – in Kemerovo, Novodvinsk, Solikamsk, Kazan, and Chusovoy – as part of its retail network expansion strategy.

All of the new offices use the new format with the cash desk replaced by an ATM with cash acceptance feature located nearby. Other than that, they look like conventional offices which can be used to perform basic banking operations, such as opening an account or a deposit, receive a loan or a package of banking services, and make a wire transfer, to name a few.

UniCredit Bank Launches Visa Air Cards with Bonus Miles Accepted by All Airlines

Visa Air product line includes debit (Air Package) and credit cards. The bonus miles are assigned the same way for these bank cards: the first 500 welcome miles are credited upon activation, with bonus miles assigned for any payment using the primary or additional card.

UniCredit Bank Launches delo.unicredit.ru – New LLC or Sole Proprietorship E-Registration Service

UniCredit Bank, in conjunction with Kaluga Astral CJSC, launched a new service for SMEs – delo.unicredit.ru – which makes it possible to register an LLC or a sole proprietorship without visiting the Russian Federal Tax Service office. The service is available to both existing clients and companies that are not UniCredit Bank's clients.

UniCredit Bank Presents New World Elite MasterCard® Jointly with Pushkin State Museum of Fine Arts and MasterCard

In October 2016, AO UniCredit Bank, MasterCard payment system, and Pushkin State Museum of Fine Arts presented World Elite MasterCard®, a new UniCredit Bank card for clients of UniCredit Private Banking. This card combines the advantages of a premium card product with the opportunities offered by Pushkin Museum's Friends programme.

This is the only co-branding product by the museum and a commercial bank and the second co-branded bank card. The first one was presented to clients in September 2015 with the design based on Seascape at Saintes-Maries (1888) by Vincent Van Gogh. This time, the new bank card was designed based on a masterpiece from the collection of Pushkin State Museum of Fine Arts, The Blue Dancers (1897) by impressionist Edgar Degas. MasterCard made it possible to use the great works of art in the bank card design.

Mobile.UniCredit Ranks High on the List of Top Mobile Banking Applications

UniCredit Bank's iOS Mobile.UniCredit application came in fifth on a list of mobile banking applications compiled by Deloitte in its Mobile Banking for Smartphones study.

According to the annual efficiency survey of mobile banking applications published by the analytical agency Markswebb Rank & Report, the Bank's mobile application made it to the top 10 mobile banking applications and came in seventh best among iOS apps and the eighth best among Android-powered banking applications.

Mikhail Alekseev, Chairman of UniCredit Bank's Management Board, receives the Knight of the Order of the Star of Italy

The state award of the Italian Republic, the Knight of the Order of the Star of Italy (Ordine della Stella d'Italia nel grado di Cavaliere), was granted to Mikhail Alekseev, the Chairman of the Management Board of UniCredit Bank. The awarding ceremony took place at the Embassy of Italy on May 13, 2016. Cesare Maria Ragaglini, the Ambassador of the Italian Republic to Russia, presented the Order to Mikhail Alekseev during the ceremony. The Order is awarded to Italian expatriates and foreign nationals for outstanding achievements in promoting friendly relations and cooperation between Italy and other countries, as well as for the promoting relationships with Italy.

Mr Alekseev was awarded the Knight of the Order for his exceptional contribution to promoting Russian-Italian relations in financial and economic spheres, as well as support in organising cultural events that help to further strengthen the ties between Russia and Italy.

UniCredit Bank Receives Top Employer 2017 Certificate

UniCredit Bank has been included on the Russian and European top employer list for the fifth straight time. The Top Employers Institute is an international certification company which recognises organisations that create competitive advantages focusing on human resources. The certificate confirms UniCredit Bank's compliance with top HR standards, as well as the high level of employee involvement and satisfaction.

“In 2016, UniCredit Bank showed its strong fundamentals: the customer focus, the quality and commitment of the people, the ability to deliver solutions. Thanks to that, the Bank can look into the next year with confidence.”

Graziano Cameli

CHIEF OPERATING OFFICER,
MEMBER OF THE MANAGEMENT BOARD

Report on the Bank's Activities

Macroeconomics and the Russian banking sector in 2016

Macroeconomics

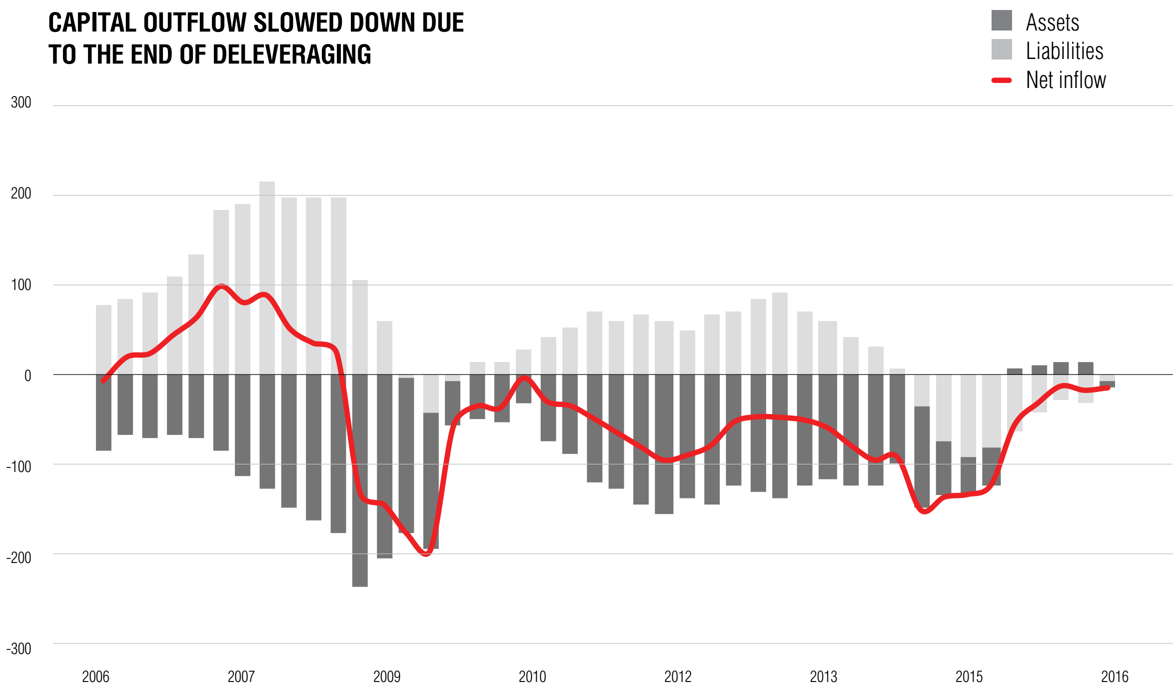
Following the recession of 2015, when Russian GDP shrunk by ca.3%, according to the recently revised estimates, in 2016 the economy stagnated, having registered a 0.2% decline. At the same time, the ongoing underinvestment has negatively affected the potential economic growth representing a constraint on future recovery.

Oil prices grew by more than 50% in 2016, but the yearly average price stayed below that of 2015 ($45/bbl vs $54). As a result, export revenues continued to fall, albeit at a slower pace than a year before. The rouble appreciation following the recovery in energy commodities prices improved the attractiveness of imported goods, resulting in import volumes (measured in US dollars) remaining almost at the level of the previous year. Following these developments, the positive current account balance shrunk to roughly $22 bn in 2016. Yet, the positive spin-off of this was the shrinking outflow of capital (to just $15.4 bn from $57.5 bn in 2015) in the absence of CBR's FX interventions. An increase in the rollover rate on foreign liabilities (to 87% from 55% a year before) has also contributed to a decline in capital outflows.

The budget revenue declined amid low oil prices, although the overall decrease was rather moderate (-1.5%). Yet, together with an increase in expenditures by 5.2%, this has resulted in a wider than expected budget deficit of 3.5% of GDP. To finance this gap, the Government has spent almost $34 bn from the Reserve Fund, bringing the balance down to $16 bn by late 2016. Besides, the government sold a portion of its stake in two large oil companies – Bashneft and Rosneft – to finance the deficit. The Budget law for 2017-19 effectively freezes the expenditures at the level of 2016, but even though the deficit will shrink very slowly due to the weak revenue dynamics, and its financing might require more aggressive borrowing due to the prospective depletion of reserves.

Weak consumption demand and the rouble appreciation brought inflation down to 5.4% by the end of 2016 (vs 12.9% at the end of 2015). Tight monetary policy implemented by the CBR has also contributed to the CPI growth slowdown: the regulator cut the key rate only twice last year – in June and September, by a total of 100 bps (to 10%). The CBR is concerned by elevated inflationary expectations of the population,

CAPITAL OUTFLOW SLOWED DOWN DUE TO THE END OF DELEVERAGING



and therefore maintains real interest rates at a high level. The implemented policy illustrates the seriousness of the CBR's commitment to achieve its inflation target set at 4% by the end of 2017.

Despite a significant slowdown in inflation, real wages ceased falling only in the last few months of 2016, but this has only managed to drive the FY result to +0.6% vs 2015. At the same time, real disposable incomes dropped almost 6% last year, negatively affecting spending: retail sales turnover decreased by 5.2% over the same period.

In the estimation of Macro and Strategic Analysis Unit the deferred demand and the desire to regain the pre-crisis living standards will trigger consumption recovery, following some stabilisation in personal incomes amid further disinflation. The scenario is based on the assumption of only a modest increase in the oil price to $60/bbl at the end of 2017, with further stabilisation in the range of $60-65/bbl. Even a more significant recovery in the commodities market does not guarantee faster GDP increase for Russia, as growth rates in various industry segments are uneven, and acceleration in some might be offset by a slowdown or a drop in the output in others.

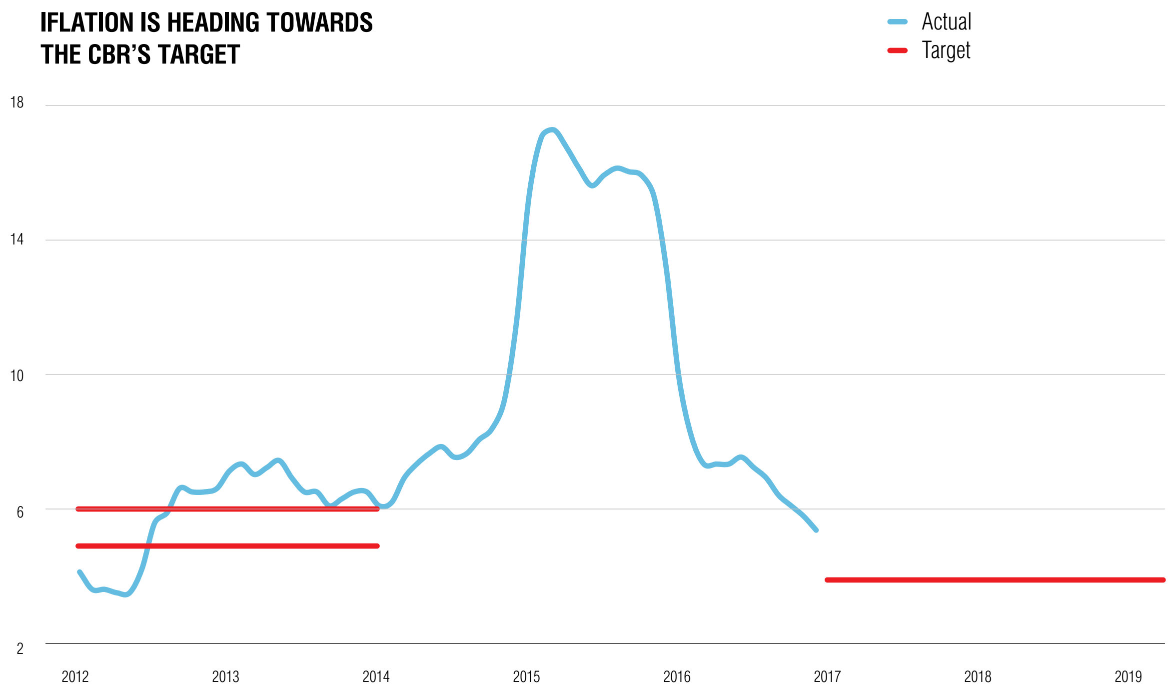
Banking sector

In 2016, the Russian Banking sector's profit amounted to RUB 930 bn – an almost five-fold increase compared to 2015. This improvement was triggered by a significant decline in loan loss provisioning compared to 2015, as well as an increase in net interest income by 30% y/y.

Banking sector assets decreased by 3.5% y/y, but net of FX revaluation there was a slight increase (+1.8% y/y). As in the previous year, the FX revaluation effect has significantly impacted most of the balance sheet items in 2016, albeit in an opposite direction as compared to 2015. Corporate lending dropped by 9.5% y/y (-4.7% y/y net of FX) to RUB 30.1 trln, while the share of FX loans declined from 40% to 32% during 2016. The portfolio quality was rather stable in this segment: overdue was at 6.28% (+0.05 p.p.) at the end of the year.

Retail lending resumed growth in 2Q16, and by the end of the year reached RUB 10.8 trln (+1.1% y/y). The demand for retail loans was supported by the government subsidies for mortgage and car loans, as well as by decreasing interest rates. Overdue payments in this segment

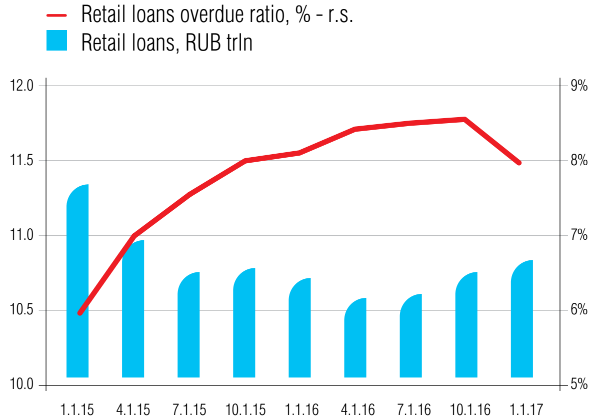
IFLATION IS HEADING TOWARDS THE CBR'S TARGET



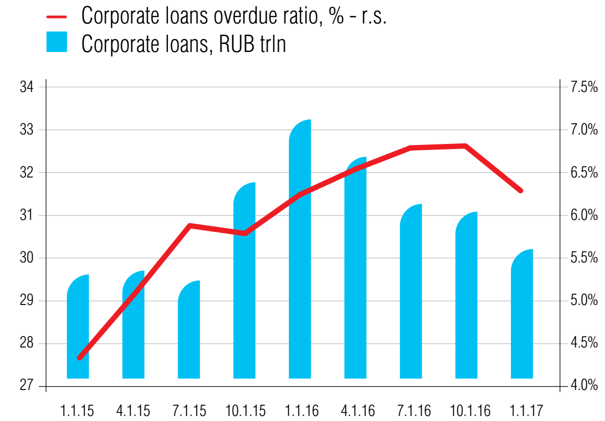
Report on the Bank's Activities (Continued)

Macroeconomics and the Russian banking sector in 2016 (Continued)

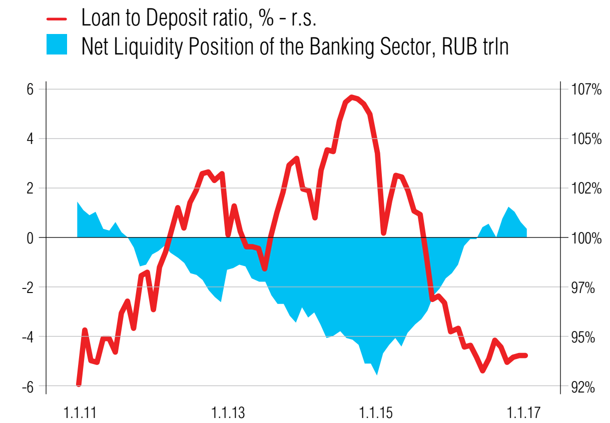
RETAIL OVERDUE RETREATED AMID GROWING VOLUMES



CORPORATE OVERDUE RETREATED WHILE VOLUMES DECREASED



BANKS ARE OVERLIQUID AMID LOW DEMAND FOR LOANS



had registered a record high of 8.6% during the year, but by the end of 2016 they had decreased to 7.9%.

Retail customers increased their savings to RUB 24.2 trln (+4.2%) in 2016. Retail deposits maturity structure changed slightly in favour of longer term deposits, while the share of short-term deposits declined from 57 to 53%, which might be related to stabilisation of the economy in late 2016. Stagnating lending volumes together with an increase in customers funds resulted in a positive net liquidity position of the banking sector – for the first time since 2011.

The banking system capital grew by 3.8% y/y to RUB 9.35 trln – most of the increase came from retained earnings. At the same time, the banking sector's capital adequacy ratio was maintained at 12.7% during the year, implying a proportionate increase in the risk-weighted assets.

In 2017 the Russian banking sector volumes will increase moderately by 1-2%, including FX revaluation. Corporate portfolio will be growing approximately at the same pace. It is expected that retail segment will continue to develop on the back of interest rates reduction amid low inflation. The government will no longer support mortgage and car lending (both programmes were abolished beginning January 1, 2017), but the negative impact would be partially offset by the interest rates reduction in the banking system. Increased allowances for capital adequacy practically return the previous level of regulatory requirements for systemically important banks, for which these developments will be further aggravated by an introduction of new regulations, so that we can expect some major banks' recapitalisation in 2017.

2016 Financial Results

The participants of a general shareholders' meeting held on April 28, 2016 decided to assign the 2015 net profit after tax in the amount of RUB 15,518 million to the retained earnings.

Major Transactions

Under the Russian Federal Law "On Joint Stock Companies", a major transaction is one with value in excess of 25 percent of the company's total assets. For AO UniCredit Bank, a major transaction would therefore be a transaction worth more than RUB 287,004 million (under 2016 RAS accounting statements). In 2016, the Bank did not undertake any such major transactions.

Related Parties Transactions

In 2016, the Bank did not enter into any transactions in which the Bank's directors, top managers or other parties listed in the Federal Law "On Joint Stock Companies" had an interest. Further information about related parties' transactions is given in AO UniCredit Bank audited consolidated financial statements.

Footnote 28 of the consolidated financial statements lists transactions with related parties made in the normal course of business in accordance with the requirements of IAS 24 "Related Party Disclosures".

Operating and Net Profit

Gross operating profit remains resilient to still challenging environment. According to IFRS, AO UniCredit Bank Russia generated a gross operating profit of RUB 35,179 million in 2016, which is 4.7% higher than in 2015 and confirms high effectiveness of the Bank's business model.

Due to increase in operating costs and loan loss provisions charge the Bank's net profit decreased by 9.6% compared to 2015 and composed RUB 14,023 million. Nevertheless the Bank's profitability ratios show a solid return on equity (ROE) of 8.1% and return on assets (ROA) of 1.1%.

Net Interest Income

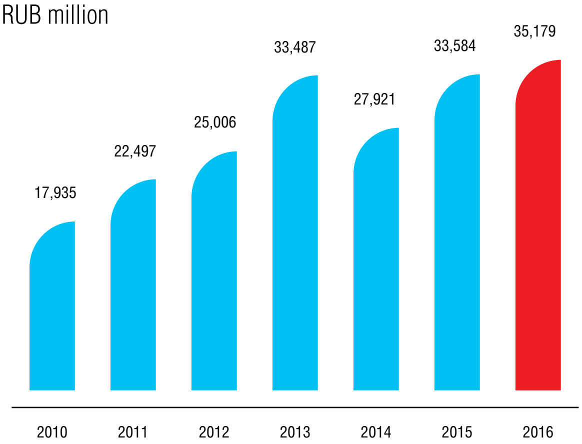
Net interest income totaled RUB 45,100 million that is RUB 4,739 million or 11.7% higher than the respective result of 2015.

Non-Interest Income

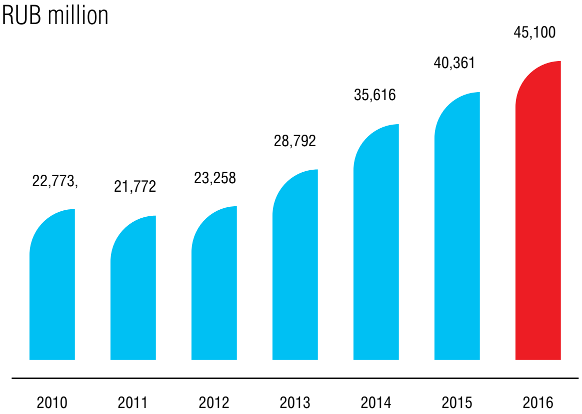
Net fee and commission income amounted to RUB 5,977 million and was higher than in 2015 by RUB 1,597 million supported by strong commercial performance both in Corporate and Retail banking.

Despite still turbulent markets and extremely volatile environment, gain on financial assets and liabilities held for trading amounted to RUB 2,147 million (compared with RUB 5,257 million in 2015).

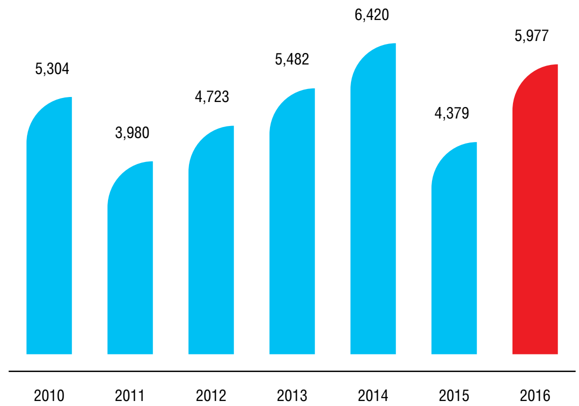
GROSS OPERATING PROFIT,
RUB million



NET INTEREST INCOME,
RUB million



NET FEE INCOME,
RUB million



Report on the Bank's Activities (Continued)

Loan impairment

The total allowances for loan impairment rose by RUB 11,806 million (+35.3%) at the end of 2016 to RUB 45,255 million. Asset quality remained solid: the weight of the impaired loans in total loan portfolio amounted to 8.4% (6.4% in 2015), the loan impairment allowances to total portfolio coverage ratio increased to 6.3% (compared to 3.7% in 2015). The loan impairment charge composed RUB 17,218 million in 2016, that is RUB 2,598 million higher compared to 2015. Overall impaired loans coverage ratio reached 68.1%.

Operating costs

In 2016, total operating costs amounted to RUB 18,008 million with a growth rate of 17.0% compared to the previous year. Nevertheless, strict cost management procedures allowed to maintain cost/income ratio at an excellent level of 33.9%, one of the best among Russian (and European) banks.

Assets

The value of total assets decreased by 16.7% and amounted to RUB 1,172,250 million. The gross loans to customers totaled RUB 722,266 million and decreased by 19.8% or RUB 178,478 million compared to last year (o/w RUB -89,902 million due to FX effect). Retail portfolio (gross, including SME) amounted to RUB 126,628 million (-RUB 6,018 million, -4.5% y/y). Total gross loans to corporate customers (including reverse repurchase agreements and lease receivables) decreased to RUB 595,637 million (-RUB 172,460 million, -22.5% y/y).

The trading securities portfolio decreased from RUB 3,652 million in 2015 to RUB 2,406 million in 2016, while available-for-sale portfolio decreased from RUB 69,738 million in 2015 to RUB 60,627 million in 2016.

Liabilities

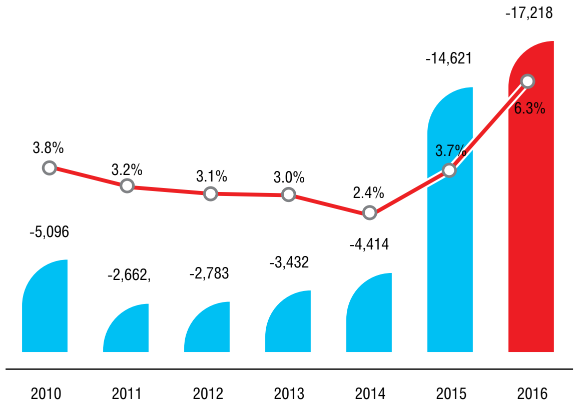
In 2016, UniCredit Bank continued to maintain a well-diversified funding base. The client's deposits base decreased by 16.4% or RUB 152,325 million compared to the last year (o/w RUB -117,523 million due to FX effect), composed RUB 779,102 million in late 2016. Corporate deposits, representing 73% of total customer funds, reached the level of RUB 565,964 million, while Retail (including SME) deposits amounted to RUB 213,138 million. The volume of debt securities amounted to RUB 6,508 million at the year-end.

Equity

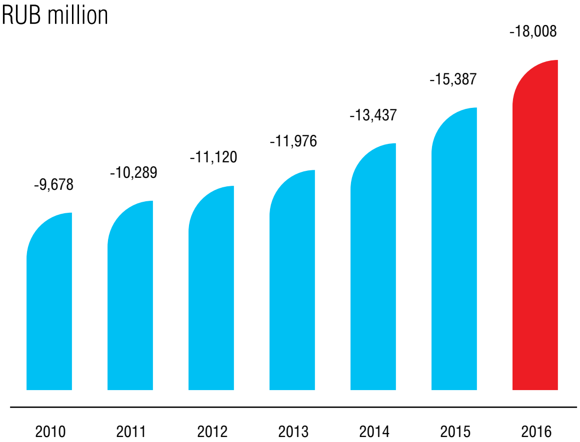
Total Equity increased to RUB 181,675 million or by 10.4% compared with 2015, further supporting results sustainability. The N1 capital adequacy ratio (under CBR methodology) was 16.2% at the end of 2016, which is well above the CBR limit.

PROVISIONS CHARGE FOR LOANS IMPAIRMENT,
RUB million

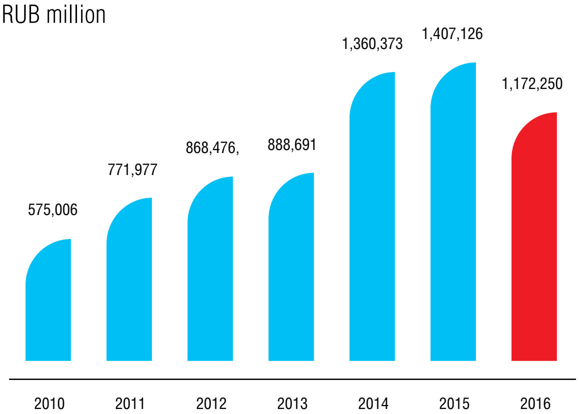
COVERAGE RATIO



OPERATING COSTS,
RUB million



TOTAL ASSETS,
RUB million



Assets and Liabilities Management

As in previous years, in 2016 the Bank continued to streamline its liability structure in order to preserve the interest income and to create the best possible terms for issuing loans. In particular, as part of its streamlining efforts, the Bank made an early payment of two subordinated loans in the amount of €200 mln in the aggregate, brought total issued debt down to RUB 6.5 bn, and paid out in full its debt to the Central Bank and the Ministry of Finance.

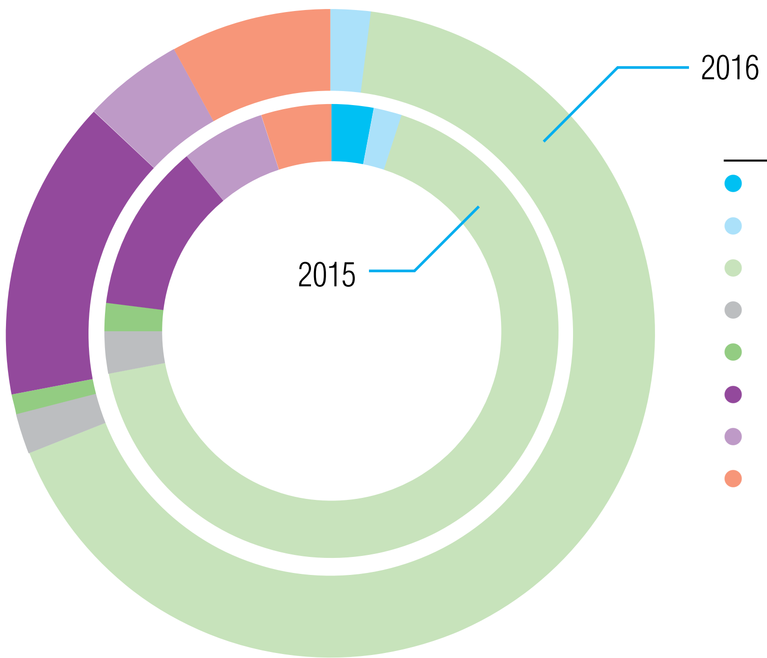
The Bank preserved its diversified funding base securing the most affordable liquidity sources.

In 2016, liquidity management was in line with the Group's paradigm providing for more stringent, compared to the regulator, liquidity requirements. The regulator's liquidity requirements (N2, N3, N4 liquidity ratios) have been met with a proper margin throughout the year. The bank focused specifically on N26 liquidity coverage ratio which entered into force in January 2016. In late 2016, the credit/deposit ratio stood at 87%. Moreover, the Bank continued to maintain a consistently high level of the pool of loans available for pledge with the Central Bank (subject to Regulation No.312-p providing for a possibility to refinance a loan against non-market assets).

Compliance with the limits was carried out on a day-to-day basis throughout 2016. Monitoring was carried out by an independent Market Risk Unit. The Asset-Liability Management Committee reviewed the findings on a weekly basis.

The approved Assets and Liabilities Management Strategy for 2017 provides for maintaining a proper liquidity level with the maximum possible increase in the Bank's profitability.

STRUCTURE OF LIABILITIES AS OF 31 DECEMBER, *%*



	2015	2016
CBR	2.7%	0.0%
Intragroup Funding	1.9%	2.0%
Due to Customers	66.2%	66.5%
Subordinated Debt	3.6%	2.5%
Own Bonds	2.3%	0.6%
Capital	11.7%	15.5%
Other liabilities	6.1%	4.4%
Due to Banks	5.5%	8.5%

Report on the Bank's Activities (Continued)

Corporate and Investment Banking

"In 2016, despite the challenging macroeconomic environment, UniCredit Bank managed to achieve sustainable dynamics of commercial indicators and strengthened its positions as a provider of complex financial solutions for its clients, leveraging on capabilities of the Russian bank and on the Group's international market capabilities."

Kirill Zhukov-Emelyanov
MEMBER OF THE MANAGEMENT BOARD

In 2016, despite the challenging macroeconomic environment, UniCredit Bank managed to achieve sustainable dynamics of commercial indicators. The total revenue of corporate business grew by 9% compared to the previous period and amounted to 34.2 billion roubles.

The focus on maintaining the loan portfolio quality allowed to keep the share of overdue loans at a level lower than the average for the banking system (5% vs. 6%). By the end of the year, the corporate loan portfolio reached 590 billion roubles. The volume of the portfolio was influenced by low demand and FX revaluation. At the same time, the credit portfolio is highly diversified. The volume of the deposit portfolio amounted to 566 billion roubles. The ratio of loans to deposits was 104%, which confirms the stable funding structure.

In 2016, the Bank continued to develop relations with its clients, following "One Bank, One UniCredit" concept, i.e. actively leveraging on the experience and presence of the Group. This allowed to provide cross-border services and access to a wider product offering. The reliance on the Group international relations also allowed to expand significantly cooperation with the segment of international companies. A number of commercial initiatives have allowed to attract customers not only from traditional markets – Germany, Italy, Northern Europe, the United States and Austria – but also from new ones, such as Asia, the UK and France.

Focusing on a long-term partnership with its clients, UniCredit Bank successfully maintains its role as a key player on regional corporate markets, providing a full range of financial solutions structured to meet the individual needs of enterprises in various sectors of the economy. Traditionally regional corporate business achievements are noticeable in the area of trade finance and cash management, which along with active sales of FX services provide a significant share of non-credit income.

In 2016, UniCredit Bank maintained its leading position on the structured finance market in terms of the volume and number of completed transactions. The Bank maintained strong positions both on the Eurobond market and the Russian debt capital market, successfully closing a significant number of transactions of international and Russian companies, as well as financial institutions.

UniCredit Bank pays great attention to the development of Group's projects and initiatives aimed at the clients' needs. For example, UniCredit Elite Lounge – a unique innovative programme designed to support the ambitious and fast growing mid-market companies – was launched in 2016.

The migration of corporate clients to a new remote banking system, which fully replaced the systems previously used by the Bank, was completed. The automation of processes and transition to new platforms were actively carried out within the framework of the Bank's IT infrastructure transformation.

Significant efforts were put into developing new products in the area of transactional banking and money market, that are currently offered by only few players on the market.

In 2017 a high level of customer satisfaction will remain the top priority of corporate business. The Bank will continue to work on the initiatives launched in 2016 which are designed to improve this indicator. The Bank will also continue to follow a balanced approach towards risks, and focus on credit quality and non-credit income.

International Center

In 2016, despite the challenging macroeconomic environment in Russia, the International Clients segment of corporate business confirmed a sustainable growth, which was largely the result of a solid cooperation between all the Banks and Branches of the UniCredit Group. The result of this approach is that Customers (Russian subsidiaries of International Groups) are fully serviced in coordination with all the relationship managers interacting with corporate Clients within the UniCredit Group's network.

Current service model for International Clients proved to be a key success factor allowing to increase both the number of clients acquired in 2016 and the share of wallet of the existing ones catching unique opportunities.

In 2017, the focus will remain on expanding the number of clients, leveraging on both UniCredit Group's network as well as our local leadership as a foreign capital bank in Russia.

Structured and Project Finance

The trend towards reducing the number of deals on the market, which started in 2015 year, was also observed throughout 2016. In addition to limited demand from corporate clients, loan volumes were significantly affected by the Eurobond market's revival. For instance, Russian corporate clients made 18 eurobond issues last year vs. just 3 in 2015.

Despite the above market developments, UniCredit Bank has participated in the majority of Russian market transactions maintaining leading position in CEE league tables. Additionally to Mandated Lead Arranger role, UniCredit Bank acted as Coordinator in many of syndicated transactions for the Russian companies made in 2016, i.e. for PhosAgro, Suek, Polymetal and Metalloinvest.

Decrease of market activity in syndicated lending in 2016 contributed to an increase in bilateral business in structured finance segment and UniCredit Bank also raised volume of such structured bilateral financing for Russian corporate borrowers.

Financial advisory services remain in demand in connection with project financing and represent an important business activity of UniCredit Bank.

The Bank is looking forward to seeing a gradual revival of the syndicated loans market in 2017 and is committed to retain strong leadership position in large corporates financing in general with primary focus on structured finance products.

Cash management

The main tasks for the UniCredit Bank Cash management in 2016 included developing and implementing complex solutions based on existing products, streamlining internal processes, and improving work with external vendors, as well as client support and service quality.

AO UniCredit Bank extended its list of merchant acquiring partners, which provided access to the quality service at reasonable prices to the customers with medium turnovers. The Bank also managed to keep good pace of bringing aboard new clients to the PayHD Customs Card service.

In the end of the year, the Bank introduced Escrow Account to its clients – a newly developed and sought-after product rarely offered on the Russian market.

AO UniCredit Bank still plays a leading role in the process of ISO 20022 promotion for the Russian payment system. The Bank actively works in all relevant committees run by the Central Bank, ROSSWIFT and other organisations. The Standard is already successfully used by the Bank in several Host-to-Host projects launched with major Russian and international clients.

Correspondent Banking

In 2016, AO UniCredit Bank continued to render clearing services to correspondent banks, servicing approximately 300 Loro accounts opened by banks from 45 countries. Considerable efforts were made to streamline and increase efficiency of correspondent banking network.

AO UniCredit Bank reaffirmed its positions among the leaders of the Russian banking market in terms of volumes of payments in Russian roubles made on orders from non-resident banks.

Report on the Bank's Activities (Continued)

Corporate and Investment Banking (Continued)

Trade Finance

Similarly to the previous year, maintenance of portfolio quality and risk mitigation, along with balanced pricing policy, remained main tasks set for AO UniCredit Bank in trade finance.

Simultaneously, the Bank continued to constantly develop cooperation with the customers in trade finance sphere both by extending product range for active customers and by attracting new names.

In 2016, some previously deferred CAPEX projects were revived and, as a consequence, the demand for import LCs and financing increased. Owing to the advantages of UniCredit Group the Bank was able to offer to the customers the most attractive terms of confirmation and financing of such LCs.

It is also important to note the trend for active usage of letters of credit in importing consumer goods and services. As to the guarantee business, in 2016, it remained dominating with prevalence of domestic instruments.

Customer satisfaction survey demonstrates high level of satisfaction in trade finance area.

As a part of UniCredit Group, the Bank has received the award for Best Trade Finance Provider in Central and Eastern Europe for the fourth consecutive year.

Despite challenging macroeconomic environment, competition in trade finance market has gained momentum, while the Bank is carrying out the key tasks of improving efficiency and mitigating risk. To achieve the goals, the Bank is going to develop relationship with its key customers in different industries and regions as well as enhance quality and competitiveness, including elaboration and introduction of new products and solutions.

CORPORATE PORTFOLIO STRUCTURE

Energy (including oil & gas)	19.54%
Non-ferrous metal production&mining (excl. precious metals)	10.53%
Food and beverage	9.80%
Chemicals, pharma, healthcare	9.70%
Other machinery, metals	6.89%
Mining of precious (gold/silver/platinum) metail, rare earths, gems	6.76%
Media, paper	6.14%
Steel Production & Mining (incl. icon ore)	4.79%
Construction, wood	4.68%
Real estate	4.53%
Automotive	3.95%
Fin institution & insurance	2.90%
Telecom, IT	2.70%
Consumer goods	2.60%
Agriculture, forestry	2.55%
Transport, travel	0.61%
Electronics	0.46%
Textiles	0.32%
Services	0.26%
Shipping	0.19%
Tourism	0.08%

Factoring

In the post-crisis environment, the main objectives in the field of factoring were to keep and to further increase the portfolio together with its quality improvement and risk reduction.

The factoring target customers are large and mid-size companies. International companies show strong interest in the product as well.

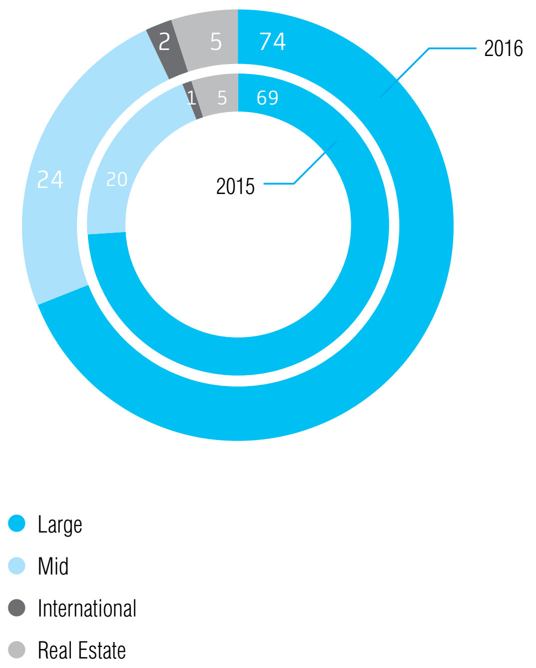
It should be noted that in 2016 the Bank actively developed the international factoring. Besides the traditional import factoring development, many efforts have been made in the sphere of export factoring which turned out to be possible after the legal limitations had been lifted.

Along with the main task of good quality portfolio keeping, the Bank will strive to increase operations efficiency, to enhance its clients' base, and to expand its product range. Thus, integrated solutions will be exploited including UniCredit Group best practices.

Structured Trade and Export Finance

UniCredit Group pays great attention to long-term tied financing under ECA-cover. Under current market conditions, this product is

CORPORATE LOAN PORTFOLIO STRUCTURE BY SEGMENTS,%



mutually beneficial both for AO UniCredit Bank and the borrowing company. On the one hand, the product offers capital-light structure, which allows the Bank to finance large-scale investment projects on long-term basis, and on the other hand, it allows Russian companies to attract financing for the purpose of upgrading facilities on the best conditions.

Thanks to its historically strong position on the European market, UniCredit Group cooperates with all leading European ECA's, and is ready to support financing of capital-intensive import from Asia and North America.

In 2016, AO UniCredit Bank closed several deals with Russian companies from metals and mining and petrochemical sectors under European ECAs. Positive economic trends are indicative of the stabilising Russian economy, which can possibly lead to an increase in investment activity across production and processing industries. This process will increase the demand for long-term financing and make financing under ECA-cover even more attractive.

Global Securities Services

The GSS unit of AO UniCredit Bank is part of UniCredit Group's Global Securities Services (GSS) division which covers 12 Central and Eastern Europe (CEE) markets, including Russia. Being part of the largest custody network in the CEE and a proven expert on the Russian market, AO UniCredit Bank provides high-class services to leading international financial institutions, including brokers and dealers, as well as global custodians and investment funds, using UniCredit Group's global approach to marketing and client relations.

GSS operates on the Russian and international securities markets, including stock exchange and OTC trading and settlement. Under the amended Russian law, the GSS started offering a new type of accounts for non-resident clients, including foreign nominee holder's accounts.

As a result of bringing aboard several large international and local companies as well as an increase in existing clients' activities, the assets under management grew by 48% in 2016 against the same period of 2015.

Being a member of National Finance Association (NFA), AO UniCredit Bank GSS representatives actively participate in efforts to improve securities legislation and market infrastructure and represent AO UniCredit Bank in various committees and working groups of the National Settlement Depositary (NSD) and NFA. During 2016, AO UniCredit Bank together with the NSD and other securities market participants actively worked on implementation of the corporate actions reform, as well as standardisation of processing of corporate actions and introduction of mandatory electronic document interchange and electronic voting, as well as ISO 20022.

Financial Markets

The FX market volatility dropped significantly in 2016. Despite an increase in competition, the Bank has maintained strong performance on the FX market with an increased volume of transactions compared to 2015.

In 2017, we expect to see more corporate clients looking to minimise exposure to the FX risk through a gradual shift to local currency contracts. The Bank plans to develop the FX and Money Market business by extending the product spectrum and further improving and streamlining its processes.

Volatility and profitability were gradually declining during 2016 on the Russian derivatives market. If at the beginning of the year, the core client's interest was to hedge FX risk from the rouble-denominated bonds issuance, later, the interest in such trades has declined. Expectations

Report on the Bank's Activities (Continued)

of Federal Reserve's hikes encouraged even more interest rates hedging.

The Bank's plans for 2017 remain ambitious. The Bank expects to concentrate on traditional FX and interest rates hedging with corporate clients, however we also plan to expand our product line.

The year 2016 was quite successful for corporate bond primary market. Underlining the strength of the DCM team, the Bank managed to execute a number of successful transactions on the local debt capital market: debut placements by SIBUR, RN Bank and Eurasia Drilling Company, as well as a number of bond issues by other major Russian and international companies and financial institutions, such as VW Bank RUS, MegaFon, ING Bank, Acron, X5, MOESK, and Europlan.

In 2017, the Bank's priorities will include focusing on existing key debt market clients and retaining positions as a major organiser of the corporate bonds. The Bank also plans to use the favourable market conditions for placing its own bonds.

Corporate Finance Advisory and Capital Markets

In 2016, the Corporate Finance Advisory and Capital Markets Department successfully achieved its potential accumulated over previous years, by closing three M&A transactions amid general market uncertainty and lack of a strong appetite for deals among market participants. In addition, UniCredit Bank's brand name, high reputation in the market and unique competences allowed us to take advantage of the growing investor appetite towards Russian corporate Eurobonds, and we participated in five Eurobond offerings outside Russia as a joint lead manager and bookrunner. As part of our origination and deal execution efforts, we cooperate closely with the Group's Russian and international client relationship teams, as well as international capital markets practice.

Advisory to Virgin Connect on the acquisition of Smile Group, an internet service provider based in the Moscow region, and raising an additional capital to finance the acquisition, relied on our team's unique experience in investor negotiations, which also includes such specialised area as structured financing. The sale of flexible packaging producer Uralplastik-N to international strategic investor Mondi demonstrated our high competence in negotiations with the leading international players in the sector, as well as in structuring complex multi-contract transactions. UniCredit Bank has once again demonstrated its leading position in the Russian regions in the course of the sale of the Tatarstan-based pork production business Tatmeat Agro to the KOMOS GROUP. In 2017, the key focus for M&A advisory will be on successful closing of the ongoing transactions, as well as the launch of new projects, targeting both regional clients and cross-border transactions. The ongoing cooperation with the key clients of the Bank is one of our top priorities.

UniCredit Bank continues its dialogue on bank financing and debt capital markets advisory with key Russian clients. Our strong brand in international debt capital markets and the success of our recent transactions allowed us to realise a series of placements in 2016. The Bank acted as a Joint Lead Manager in the Eurobond issuance for Gazprom, Global Ports, Tengizchevroil, and Otkrytie. The early 2016 issuance for Global Ports became the first Eurobond offering outside Russia since November 2013; the follow-up offering occurred in the fall of 2016. In 2017, the Bank will continue to support its key clients in attracting funds on international debt capital markets.

UniCredit Leasing

Successful activity in 2016 allowed UniCredit Leasing to strengthen its positions among top players on the Russian leasing market amid economic stabilisation in Russia. Key types of assets both in new business and lease portfolio include loaders, warehousing and packaging equipment, food processing machinery, telecommunications equipment, computers and business machines, and agricultural equipment.

According to IFRS, UniCredit Leasing's net profit amounted to 330 mln roubles after tax in 2016, which exceeds the corresponding number for 2015 by 22%. The amount of gross loans to customers increased by 25% compared to late 2015. The top management team of UniCredit Leasing took timely measures with regard to potentially defaulting clients, which allowed to close 2016 with portfolio quality significantly exceeding the market average. Cost/income ratio improved by 6.6% as compared to the previous year. The company demonstrated low operating costs as a result of effective cost-cutting measures, as well as streamlining of internal business processes.

Significant positive dynamics of the company's key indicators are related not only to the emerging market recovery trend, but also to proactive work of the team in general, which demonstrates stable results higher than the market average in recent years.

In December 2016, RAEX Rating Agency (Expert RA) confirmed the rating of UniCredit Leasing at A++ level "Exceptionally high (the highest) level of creditworthiness", with stable outlook.

UniCredit Leasing has been actively participating in the State Leasing Subsidy Programme initiated by the Ministry of Industry and Trade of the Russian Federation in 2015.

The 20th Anniversary of UniCredit Leasing in 2016

In 2016 about 300 vehicles were financed in terms of the programme. The total amount of financing equals 790 mln roubles (21% of the annual sales of vehicles with load-carrying capacity more than 3.5 metric tons), with UniCredit Leasing saving 73 mln roubles for its clients. UniCredit Leasing plans to continue the participation in the programme in the coming years, in order to ensure high level of service and strengthen business competitiveness.

Despite sales decrease on the domestic auto market, the results of joint programmes of UniCredit and Renault and Nissan car manufacturers remained at their 2015 level (approximately 950 vehicles) in absolute terms.

Moreover, the new BMW leasing product was launched in the second half of 2016.

More than 380 leasing deals were concluded in 2016 in terms of JCB Finance: one of our key vendor projects with the leading equipment manufacturer worldwide – JCB. In 2016, JCB Finance product offerings were improved. Thus, the UniCredit clients had the possibility to benefit from the reduction of the minimal down payment of “Simple leasing of JCB machines” product, as well as extension of acquisition terms of used JCB equipment. The financial service for agricultural sector enterprises became even more affordable for individual entrepreneurs purchasing JCB equipment. Also, the new product for dealers’ demonstration parks financing was introduced.

In 2016, UniCredit Leasing celebrated the 20th anniversary of its successful activity in the Russian leasing market. The strategic goal for UniCredit Leasing for 2017 is to enhance the attractiveness of the leasing service package for UniCredit Bank clients, as well as to develop vendor leasing programmes with the leading international manufacturers and suppliers of vehicles, construction equipment, agricultural equipment, and other types of assets.

Maintenance of high-quality leasing portfolio along with strengthening its competitiveness in the main cities of presence – Moscow, St Petersburg, Krasnodar, Novosibirsk – remain integral parts of UniCredit Leasing’s strategy. Providing financing for SME segment is also included in business development plan for 2017 as well as expanding the product line including insurance services for UniCredit clients in Russia. Participation in federal and local subsidy programmes for real sectors of economy via leasing, along with active improvement of IT-systems and automation of business processes are also on the target list of UniCredit Leasing for 2017.

Report on the Bank’s Activities (Continued)

Private Banking

UniCredit Private Banking ended the year 2016 with a stable growth of total financial assets (TFA) under management, keeping the position of one of the market’s leaders in private banking sector. TFA growth in 2016 was 10% with 28% y/y investment portfolio increase.

The base for our successful work in private banking sphere is the widest in Europe network of UniCredit Group. Paying special attention to the clients’ needs, the Bank provides them with its knowledge and deep expertise. The core part of the portfolio is its more stable component. The objective of the core investment is to provide steady growth over many years. In this regards we collaborate exclusively and on a long-term basis with a limited number of specially selected fund partners – Pioneer Investments, Franklin Templeton Investments, Schroder Investment Management, BNP Paribas Investment Partners and J.P. Morgan Asset Management. We provide our clients with customised advice on how to diversify their assets, including short-term opportunities as a satellite part of the portfolio with the objective of higher returns.

For clients with geographically diversified portfolios, UniCredit Private Banking together with its international partner Schoellerbank organised an investment seminar that took place in Ritz-Carlton Moscow in September 2016. During the seminar, the clients learned about Schoellerbank’s Philosophy and Investment Approach “at first-hand” from Head of Schoellerbank Asset Management Robert Karas. Founded in 1833, Schoellerbank is one of Austria’s leading private banks, with a reputation for high-quality investment management. Schoellerbank has been part of UniCredit Group since 2005.

Together with UniCredit Private Banking’s legal partners, several round tables devoted to currency regulation, currency control, and tax issues were organised during the year.

The important feature of UniCredit Private Banking has always been its active participation in the cultural life. The year 2016 was not an exception: together with the partners, the Bank organised a series of events for the clients who just began to collect art or already owned art collections. Through cooperation with the Pushkin National Museum of Fine Arts, the UniCredit Private Banking clients could privately enjoy the exhibition “Ivan Aivazovsky. 200th anniversary”, in the Tretyakov Gallery on special days dedicated to such visits. Another memorable event was private viewing of a unique immersive performance, Black Russian, a thriller based on Alexander Pushkin’s novel “Dubrovsky”. As a good tradition, a Christmas celebration became the magical year closure: our youngest clients and their parents were invited to the Snow Queen’s castle.

In October 2016, a reinforcement has been made to the UniCredit Private Banking’s premium product range. A second limited edition of World Elite MasterCard in cooperation with MasterCard payment system, and Pushkin National Museum of Fine Arts was presented to the customers. The design of the new card is based on one of the masterpieces from the collection of Pushkin National Museum of Fine Arts, the painting “Blue Dancers” by Edgar Degas.

The importance of individual touch and significance of satisfaction of every customer in UniCredit Private Banking is reflected in active development of the Need Based Advisory approach, and the ongoing process of IT-solutions implementation.

In 2016, the central upgrade of current investment advisory services was initiated to foster Private Banking business growth. IT improvements were launched for Content Management System to engage clients in an innovative way, compiling tailor-made Client presentations running on tablets. Moreover, an advisory tool was presented to support Private Bankers in preparing investment proposals on Client’s assets, improve risk management on Client’s profiles and portfolios, perform performance calculations and provide reporting.

The efforts of UniCredit Private Banking in Russia were highly appreciated both by clients (yearly measured by Group customer satisfaction index hit all time high results) and by competitors and specialists in Private Banking field. UniCredit Private Banking was acknowledged by Frank Research Group as top-3 best banks in category Private Banking & Wealth Management. Moreover, Euromoney Private Banking and Wealth Management Survey recognized UniCredit Private Banking CEE as the best private banking service in CEE region.

In 2017, UniCredit Private Banking will continue to focus on what our clients care about the most: their well-being and confidence.

Retail Business

The year 2016 was another challenging year for the banking sector. It required UniCredit Bank's retail business to step up its efforts in order to preserve and improve its market positions. We continued to expand our product line and improve service and remote service channels as we invested in creating productive and long-term relationships with our clients.

These efforts yielded certain results: as of late 2016, the total retail business revenue amounted to about 13.5 billion roubles; the number of the Bank's retail clients exceeded 1.8 million, while the number of clients among small- and medium-sized enterprises reached 22,000. All of them are clients of not only UniCredit Bank, but also clients of One Bank, One UniCredit Group.

Retail business also continued to develop its network in the regions. New-format offices were opened in Novodvinsk, Kemerovo, Kazan, Chusovoy, and Solikamsk. In 2017, the Bank plans to open about five new offices in other regions to bring aboard more clients.

Retail Banking

In 2016, the Bank's retail business focused on streamlining the product line, including credit products (such as programmes involving government-backed mortgages and car loans), increasing the deposit portfolio, and developing transactional products, specifically endowment and unit linked life insurance programmes.

The Bank's products and services have been repeatedly praised by its clients and the professional community. In particular, according to Frank Research Group, the Cashback Programme within the Classic and Gold service packages made it to the top 10 best banking loyalty programmes. The Bank also repeatedly held leading positions in the rankings of Banki.ru portal, both in terms of its credit programmes and performance of the market participants. In particular, it topped the rating of state-backed mortgage programmes and came in fourth in terms of volume of the car loan portfolio and took the fifth place in terms of the amount and number of car loans given in the rankings of Russian banks providing car loans, as of the end of the first half of the year.

In line with the clients' request, not only does the Bank offer competitive products to its clients, but also provides them with convenient management tools. We specifically focus on developing our mobile application, since we believe that a mobile application is the most convenient way of interacting with a bank. According to the analytical agency Markswebb Rank & Report, in 2016, UniCredit Bank's mobile application Mobile.UniCredit made it to the top 10 banking applications for clients of the Russian banks. Deloitte found that the application was the fifth-best among iOS banking mobile applications.

“In 2016, we continued to expand our product line and improve service and remote service channels as we invested in creating productive and long-term relationships with our clients.”

Ivan Matveev

MEMBER OF THE MANAGEMENT BOARD

Report on the Bank's Activities (Continued)

Savings & Investments

The rapid growth of the retail fixed-term deposit portfolio, typical of the entire banking industry in 2015, was replaced by a focus on income and retention of the most valuable clients in 2016. The portfolio was significantly affected by currency revaluation in the wake of a stronger rouble exchange rate (the rouble gained 17% against the US dollar from January to December 2016). UniCredit Bank quickly adapted to the changing economic environment and behaviour patterns of its clients by making timely updates of the deposit line, while keeping track of the portfolio income.

As of late 2016, the Bank ranked 18 among Russian banks in terms of the retail deposit portfolio size. An additional 4,500 clients opted for the Bank's deposits in 2016. The deposit portfolio revenue amounted to almost 2 billion roubles.

In line with the market trends, 2016 was marked by the launch of new appealing products for managing savings and investments. In April, the Payroll Deposit was launched for clients having their salaries wired to the Bank's cards. The product boasted a higher interest rate and an option to establish a deposit account through any remote service channel. In June, new clients were offered a For Friends deposit. It was a success due to recommendations provided by both the Bank employees and the existing clients. It didn't take long to see the result – over 2,400 new clients opened a deposit by the end of the year, which was almost 50% of all new clients opening deposits with the Bank.

The year 2016 was also marked by an increased interest of clients in placing their capital using the portfolio approach. The For Life deposit was the most revealing example. This deposit is available to the clients who participate in a unit linked or saving life insurance programme. As many as 70% of unit linked life insurance (ULLI) was sold in a package with the deposit, which confirms an increased interest of the clients in diversifying their investments based not only on the terms and conditions and currencies, but also product features. The amount of funds thus deposited by clients showed an eightfold increase by the end of the year as compared with the beginning of the year. Along with the growing interest of the clients in long-term products, 2016 showed that the classical Universal deposit with an option to replenish and withdraw some of the funds was still popular. Its share in the portfolio grew from 8% in 2015 to 15% in late 2016.

Given the clients' interest in alternative investments, UniCredit Bank launched a number of attractive products: Growth Vector ULLI programme with the new provider, Ingosstrakh Life, which has a high foreign-currency return on investment potential; St George bullion coins as an option to diversify long-term savings; and a promising life insurance product (Investment in Health) which meets one of the most essential needs of our clients in protecting health of their families.

Generally, unit linked and saving life insurance performed well in 2016 with sales more than quintupling compared to 2015, whereas the total amount of premiums collected reached more than 4 billion roubles in 2016.

Banking Services

In 2016, the debit card and service packages primarily focused on offers to the customers who travel a lot around the world. The Bank card product line was supplemented with the Without Borders service package, including Visa Air as one of the best bank cards for travellers available on the market. The package includes everything a traveller may need – from free currency cards to travel insurance, as well as accumulation of bonus miles for using the card and for the balance of the card account that can be exchanged for a premium flight ticket of any airline on the tickets.unicredit.ru portal. The first person who bought a premium flight ticket with bonus miles accumulated the required amount of miles in just two months of using the card. The launch of the product was accompanied by a large-scale advertising campaign on thematic websites, in social media, at airports, and in in-flight press.

In 2016, the total sales of the four service packages of UniCredit Bank – Without Borders, Gold, Classic, and Drive – exceeded 131,000 cards. Along with the launch of this new package, the newly available features for the clients, such as instant card acquisition, full application for the package through the Bank website, and special marketing offers for new clients, made a significant contribution to successful sales.

In 2016, 9,900 clients opted for the flagship product of UniCredit Bank for affluent clients – PRIME service package. The Bank will continue improving this package in 2017, taking into account the changing needs of these clients.

The amount of transactions for payment for goods and services made with the cards included in UniCredit Bank service packages has grown by 64% compared to the previous year.

In 2016, the Bank continued promoting credit cards and improving its offers of this product. In October 2016, the Bank, in conjunction with MasterCard, launched the Champions' Choice loyalty programme which allows programme participants to accumulate bonus points for purchases made with the card and exchange accumulated points for sports goods and souvenirs from the official sponsors of the UEFA Champions League. The programme is designed to attract new clients and stimulate transaction circulation with the use of banking cards for. A total of over 14,000 cards were issued in 2016. In order to preserve the quality of the loan portfolio, the bulk of the new credit cards was issued to existing clients, including corporate client employees using

The advertisement for the «Mortgage calling!» programme

the Bank's payroll services. The volume of the credit card portfolio totalled 8 billion roubles as of the end of the year.

Credit Products

In 2016, the focus was on credit products and, in particular, on participating in programmes for state-backed mortgages and car loans. Notably, the approval rates for all credit products increased by 10–18 p.p.

The mortgage application pre-approval process has been streamlined. The new "Mortgage Calling!" mortgage programme was launched in May 2016 with an option of including insurance in the body of the mortgage loan and an additional liability insurance in the comprehensive mortgage insurance agreement. During six months following the launch of the product, its share amounted to about 20% of the total volume of issued mortgage products.

The state-run subsidy programme in the primary housing market was renewed in March 2016, which allowed the Bank to expand this area. About 100 developers and 300 real estate properties were accredited in 2016.

The mortgage interest rates in the secondary housing market fell significantly in 2016. Other lending terms improved as well, with the down payment for the clients purchasing flats in the secondary housing market reduced to 15% of the property value. Lending to business owners was resumed as well.

In 2016, the Bank was also actively restructuring its mortgage loans to improve its efficiency in this area. The practice of separating the processes of mortgage sales and deal closure that is successfully applied in Moscow and St Petersburg was effectively extended to regional divisions, which significantly improved employees' performance and increased sales. In addition, a programme for re-engineering mortgage lending was launched in the fourth quarter. The programme covers the entire cycle of attracting new clients – from filing an application to deal closure. It will make it possible to reduce the time involved in decision-making on loan applications and increase the approval level to boost mortgage sales in 2017.

Amid the negative dynamics of the auto market, UniCredit Bank increased its share in the auto loan market from 4.5 to 6.8% and retained strategic partnerships with the premium brands, such as Land Rover, Volvo, and Jaguar. The amount of issued car loans reached 21.94 billion roubles in 2016, up 28% as compared with 2015. The Bank successfully applied a segmented approach to its clients which was used to develop special offers for the best selling vehicles for major dealers. The Bank also used the direct subsidy programmes provided by automakers. Over 7,500 loans were issued under Prestige, Favourite, and Locomotive programmes, of which 7,000 loans were to new clients. Special in the auto loan programmes boosted the Bank's revenue by almost 2 billion roubles.

The Certified programme helped improve the loan terms for used cars and increase the maximum run life of used cars to 10 years. As a result, the Bank issued over 2,000 used car loans for a total of 1.5 billion roubles in 2016, which up 149% as compared to 2015.

A lending programme for pensioners and B2B sales were launched in the consumer lending segment. In 2016, the consumer loan revenue exceeded 2 billion roubles. Consumer loan sales quadrupled in 2016 compared to 2015 going from 4.9 billion roubles to 19.8 billion roubles, which was made possible, among other things, through improved staff training and the introduction of new sales tools.

Small-and Medium-Sized Enterprises

In terms of SME segment development in 2016, the focus was on the quality of services and products provided, as well as on developing long-term partnerships with the clients. Specifically, the Delo. UniCredit service was launched. It is an online business registration portal allowing entrepreneurs to create a new legal entity or register as an entrepreneur without visiting the Federal Tax Service.

Report on the Bank's Activities (Continued)

Retail Business (Continued)

Almost all SME financial service packages have been improved via access certificates covering the entire 1C product line with a nominal value ranging from 10,000 roubles to 35,000 roubles, depending on the package, with the cost of packages remaining unchanged.

The first service package developed with the needs of a particular industry in mind was launched in autumn 2016 – the Retail package intended for the clients engaged in retail trade and services. The package includes unlimited number of electronic payments, cash transactions, acquiring services (including two free POS terminals for use with turnover up to 300,000 roubles without commission) and self-collection (cash depositing using a corporate card).

Such innovations coupled with ongoing campaigns for target clients made it possible to concentrate our efforts on maintaining the volumes of transactions and credit activities. This was the case with the successful "Bring a Friend" drive which offered free service under one of the packages for two months to each new client.

Innovative pilot approaches were used for overdraft and bank guarantees, which made it possible to significantly cut the decision-making process and reduce the number of documents to be submitted by the client. Positive experience and results achieved within the framework of the pilot project will be applied and scaled in 2017. In addition, the Refinancing product was launched. A balanced approach to credit risk assessment ensured excellent quality of the decisions made – isolated instances of overdue loans issued in 2016 with the loan portfolio growing by 1.5%.

Despite ongoing market volatility and the unstable position of small businesses, their willingness to deposit their funds with a reliable bank allowed the Bank to maintain its SME liability portfolio almost unchanged. Its slight reduction (by 9%) was mainly caused by a negative revaluation of balances in foreign currencies due to the exchange rate adjustment.

Remote Service Channels

In line with the UniCredit Group strategy, promoting remote service channels continues to be on the list of retail business priorities. The Bank is continuously working to expand functionality of remote channels, making them even more client friendly, and to increase the share of retail sales through online bank, mobile application, the Bank's website, and the call centre.

In October 2016, the Bank further simplified the procedure for connecting to Enter.UniCredit online bank. It can now be accessed using the card number on the Bank's website and in the mobile application. Since the feature has been introduced, 25% of clients have been connecting to the service unassisted.

Remote services are fairly popular in selling retail products. The most popular service among clients is acquiring deposit products using online bank or the mobile application. Over 113,000 deposits and Click accounts have been opened in such a way in 2016. In addition, almost 25,000 loan products were issued under the applications filed through the website, the online bank, mobile application, or the call centre.

Card-to-Card Transfers are also very popular with our clients. Over 164,000 transfers were made using this service in 2016. In 2016, this service that includes transfers from cards issued by all banks became available on the Bank's website. In addition, the website can now be used to repay a UniCredit Bank loan using a card issued by any other bank.

Enter.UniCredit

The online banking functionality expanded rapidly in 2016. It was integrated with the State Information System of State and Municipal Payments (SIS SMP), which will allow the clients to be on top of their outstanding taxes or fines, as well as to subscribe to new fine invoicing, if any.

There is a new option to open deposits and current accounts in exotic currencies such as British pounds, Swiss francs, Japanese yen, etc. Currency exchange transactions have become more convenient. The exchange rate is now displayed on online bank's home page and customers can immediately access the conversion operation functionality.

Transaction functionality has also expanded and became more convenient. Dynamic services became available – the option of getting information about debts (e.g. for housing and utilities) using the personal account number. There are quick payment buttons using templates available on the home page. An option of obtaining details of the transfer beneficiary by the taxpayer identification number is now available. To do this, enter the beneficiary's TIN (taxpayer identification number). If any payments were made in favour of the beneficiary with this TIN via Enter.UniCredit over the past two months, the system will automatically fill in the remaining details.

In addition, the online bank redesign effort continued – many of its sections became clearer and more user friendly.

Mobile.UniCredit

Several important improvements were made for convenience of the mobile application users in 2016.

A new option was introduced allowing the clients to open a Click Account in roubles, US dollars, or euros, as well as exotic currencies, and open deposits in exotic currencies. The money transfer options

Advertisement for the unit linked life insurance programme

were expanded (new options include: currency transfers, revocation of a rouble or foreign currency transfer, and an option to save a receipt confirming an external transfer and send it to an e-mail account). Payment services have become more convenient. Now the user can see the taxes and fines and pay them commission-free, pay bills by scanning a QR code, and get information about debts, such as utilities, using the personal account number.

In addition, the mobile application users can now customise and view information about bank products, as well as change the type of the credit card transactions, review card transactions for a particular period and change login information, if need be.

Call Centre

In 2016, the call centre processed almost 1.7 million requests, including calls and requests sent via chat, e-mail, online bank, and the mobile application.

The Bank implemented and introduced a number of services aimed at streamlining call centre's client service processes in 2016. Now, it is possible to make a deposit, order a foreign currency card or remotely connect to Enter.UniCredit online banking feature through the call centre operators. In addition, clients now have an option of creating and changing PINs of their cards independently using the Phone.UniCredit service.

As part of the work to improve the service quality, the processes of call assessment and monitoring were transferred to an upgraded monitoring system. This made the process of call assessment more transparent, clear, and convenient for feedback, staff training, and processing client requests.

The Post Call Survey system was introduced for assessing interaction with the operator. Now, following a conversation with an operator, clients are invited to assess quality of the consultation and leave a comment. This makes it possible to provide a quicker response to feedback from clients.

Upon introduction of the Courtesy Callback system, the clients obtained an option to request a return call. The first available operator automatically connects to the client and provides advice consultation, which makes the service more convenient.

An e-mail account for currency control issues and a chat room for the prompt resolution of certain issues were created for legal entities in 2016. These new options positively improved the level of client satisfaction.

Service Quality and Client Satisfaction

High service quality is one of the Bank's top priorities. The Bank constantly monitors client satisfaction levels and responds to client requests using various channels, including social media and designated websites.

We continued to streamline client request processing functionality in 2016, which resulted in an 8% reduction in average response time bringing it down to seven days (three days in the affluent client sector).

With the feedback monitoring platform which allows the Bank to promptly get back to clients dissatisfied with the service quality the Bank's employees received and processed 30,000 client feedback forms, which enabled the Bank to further streamline its processes, products, and services in 2016. The Bank also introduced a process of collecting and analysing feedback from its partners and prospective clients.

The client satisfaction index (CSI) as it applied to interaction with the Bank's employees increased by one point to a total of 88 points in 2016. The net promoter score (NPS) grew by 32% and was on a par with the Bank's primary competitors as of late 2016.

Report on the Bank's Activities (Continued)

Risk Management

"UniCredit Bank's comprehensive approach to risk management ensures that all the remedial actions are taken with regard to all significant risks, and coordinates the Bank's strategic goals and business plans with the Bank's appetite for risk that the Bank is willing to take in order to achieve them."

Svetlana Zolotareva
MEMBER OF THE MANAGEMENT BOARD

The productive use of the balance sheet time structure management tools based on the risk appetite assessment enabled the Bank to develop a flexible business model oriented both towards the risk return profile and at the capability to assume additional risk. The system-based approach to managing risks, the most significant of which include the credit, market, operational and liquidity risks, provides the necessary basis for a credit institution's stable, sustainable and competitive business operation. In 2016, the Bank was consistently improving its risk and capital management performance. In 2016, as part of the Bank's activities to implement the CBR and the Basel Committee requirements, it completed conducted works designed to upgrade the credit risk assessment models, the Internal Capital Adequacy Assessment Procedures (ICAAP), and the monitoring procedures for risk appetite compliance during the implementation of its business strategy. Moreover, annual verification of the significant risks card and the coverage thereof with economic capital was carried out, and methods for direct stress testing of economic capital adequacy and allocation to business functions were implemented.

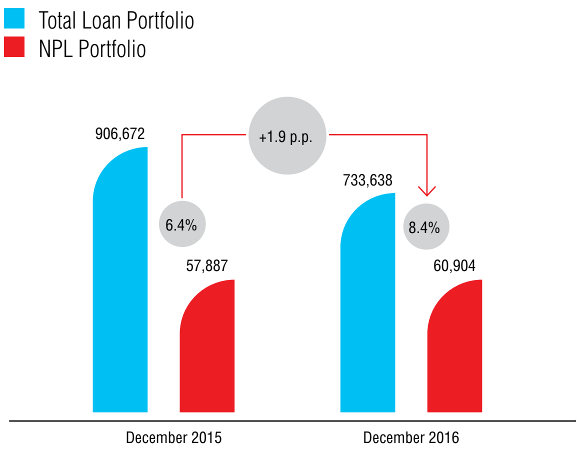
Risk management is an integral part of the Bank's corporate culture and directly covers all the Bank's processes to protect the interests of its clients, employees and shareholders. The Bank's risk management policies and procedures are designed to identify, properly assess and determine the target, warning and maximum acceptable risk levels, along with continuous monitoring thereof. This comprehensive approach ensures that all the remedial actions are taken with regard to all significant risks, and coordinates the Bank's strategic goals and business plans with the Bank's appetite for risk that the Bank is willing to take in order to achieve them.

Since the Bank's risk management system is governed by both Russian and European laws, the Bank is in a position to use the best practices in its day-to-day operations. Thus, despite minimum growth of the NPL portfolio in absolute figures, its share in the Bank's term portfolio increased by 2% in 2016 amid a decline in the Bank's total portfolio.

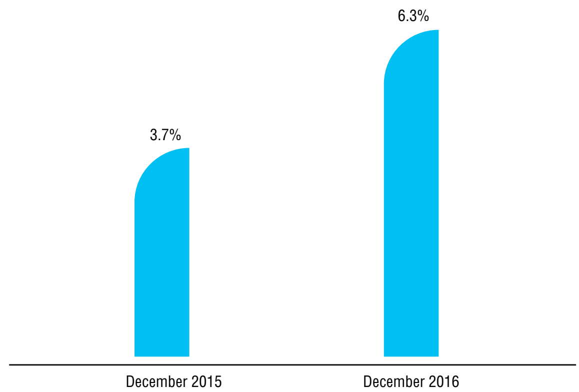
In 2016, the Bank completed drafting the Recovery Plan bringing it into compliance with the current requirements of the Central Bank of Russian Federation as well as Group and international standards. In addition, the Bank continued to work on enhancing data quality in its information systems as part of effective aggregation of risk data and reporting.

In 2016, the Bank continued to implement the risk and capital management standards set by the Central Bank of Russian Federation and the Basel Committee on Banking Supervision. All the Bank's key functions were involved in the process of implementation

BANK'S NPL PORTFOLIO*,
RUB million



IFRS LOAN PORTFOLIO COVERAGE RATIO IN 2015-2016



of the innovative risk management standards. The Bank's risk management policy is regularly reviewed to take account of the changes in the market environment, products and services and new and improved risk management methods.

As the Bank continued to develop its risk mitigation instruments, it revised and updated its collateral management strategy.

As part of the preparations for the IFRS 9 standard, which will enter into force in 2018, the Bank continued in 2016 to develop the provision calculation methodology for both retail and corporate clients, and the corresponding concurrent calculations infrastructure to be implemented in 2018.

In 2017, the Bank will continue its step-by-step development of the credit portfolio quality assessment models as part of the transition to credit risk and regulatory capital adequacy assessment based on the borrower's internal rating (IRB approach). In order to improve ICAAP, the new expanded risk appetite framework will continue to be implemented with account of the new metrics, including the amount of expected new business loss, ROAC, total amount of the problem portfolio and sensitivity of the comprehensive economic result (to changes in the market risk factors), etc. Tasks, such as using the economic capital for credit products pricing, along with upgrading the IT infrastructure and data in the Bank's information systems in line with the principles of effective aggregation of risk data and reporting, remain relevant.

Corporate Credit Risks

To assess risk in the corporate segment, a comprehensive analysis of the borrowers' financial and qualitative parameters is carried out by the Bank in order to obtain the full picture of the client's activities and enable competent bodies to make informed decisions. To assess the probability of default of corporate clients, the Bank uses rating models developed for their sub-segments with due account taken of their specific features. Clients are rated on a quarterly basis using all available information. These rating models and relevant rating processes were developed in accordance with the Basel II requirements for the purposes of internal rating-based calculation of capital requirements.

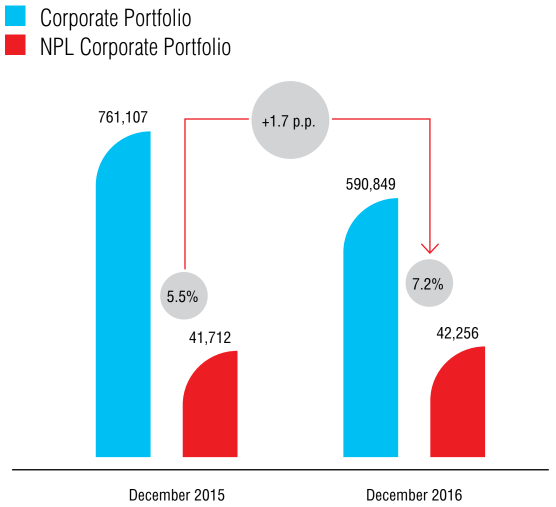
To ensure more effective risk management in terms of the corporate loan portfolio, the Bank implemented the risk management industry specialisation model and established departments, each of which is charged with analysing the risks related to specific industries/segments. This enables the Bank to quickly and accurately analyse changes in individual industries, adjust its strategies and make informed decisions. Along with the industry-based approach, effective portfolio management is facilitated by the availability of a system of regional risk managers who can collect and analyse information about the situation in the key regions of the Bank's operations and effectively manage the loan portfolio either by the industry or by the region.

Relying on UniCredit Group's common corporate portfolio management approaches, the Bank annually adopts industry-specific risk strategies that identify the loan-related areas of focus in the current year. The goal is to maintain a balanced industry structure of the loan portfolio with due account taken of the macroeconomic forecast, relevant industry/segment development prospects and borrowers' creditworthiness assessment (probability of default (PD) and expected loss (EL)).

* AO UniCredit Bank and its subsidiary

Report on the Bank's Activities (Continued)

SHARE OF THE NON-PERFORMING CORPORATE PORTFOLIO IN A FIXED-TERM CORPORATE,
RUB million



A mid relentless crisis plaguing the Russian economy in 2016, the Bank consistently implemented the set of policies contributing to rigorous selection of top-quality borrowers in specific industries and the use of credit products with account taken of the specific industry-related risks.

To ensure top performance, the Bank has implemented a decision-making system for corporate segment transactions by the level of the competent credit decision-making bodies depending on the requested credit limit and the client/client group risk level (probability of default). In 2015, the personal/collective powers to authorise corporate credit transactions were suspended and not restored in 2016. All transactions continue to be considered exclusively by collegiate bodies (Credit Committees).

At the same time, crisis that lasted throughout 2016 continued to exert direct, tangible and oftentimes extremely adverse pressure on the operations of most Russian businesses and entrepreneurs.

The following key factors were marked as the main cause behind difficulties: declining end-consumer demand/purchasing power, arrears in settlements with counterparties and formation of problem debt, FX risks and the risk of an increased loan debt burden of businesses, creditor banks' abrupt and often unpredictable steps involving cutbacks their financing of the clients, the ongoing sanctions and continuous expansion of the restrictions roster.

As a result, a number of Bank's corporate clients reported declining sales, rising costs, declining profitability, problems with liquidity, increasing debt, mounting overdue payments, along with the growing number of lawsuits and bankruptcy claims.

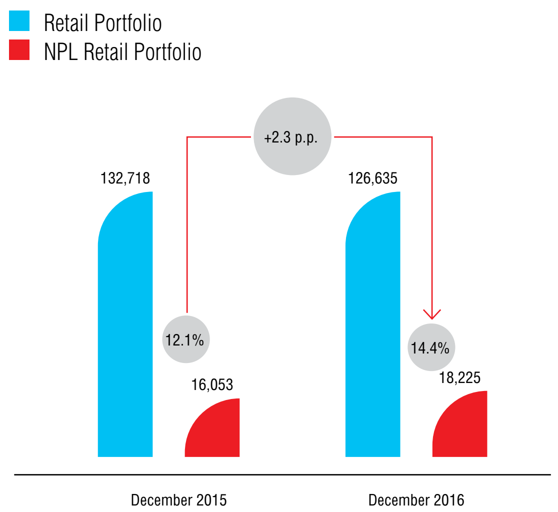
However, in spite of described above negative tendencies as the whole slowdown of the crisis was visible throughout 2016, what positively affected the financial situation of the number of Bank's corporate clients. Having overcome the peak of the crisis in 2015, most companies identified ways to stabilise their position and optimised their spending which was facilitated by a reduction of the corporate sector market interest rates. The period of major defaults in the construction industry, and among the importers and auto dealers was succeeded by a period calling for thorough financial planning, maintaining well-balanced loan portfolios, and optimisation of the working capital to maintain profitability. Cautious forecasts for stabilisation make it possible to assume that the trend towards a decrease in the number of defaults among corporate borrowers will continue.

Despite the complexity of the current situation and adverse market dynamics, the Bank consistently stuck to its strategy of keeping its positions, supporting its client business, preserving the high-quality loan portfolio, and providing the full range of lending services. It was then that all the employees involved in lending business experienced a particular growth in demand for information about the potential increase of corporate borrowers' credit risk.

In this context, the significance of the monitoring system earlier implemented by the Monitoring Unit which was designed for the Bank's potentially problem corporate clients (BD Documentum (Watch List)) grew substantially, and its use for analysing and processing incoming data, assigning different statuses to clients based on the warning signals, determining the strategy, creating and monitoring action plans by the process participants became even more widespread.

The Monitoring Unit continued to be heavily involved in modifying the Bank's approaches to monitor certain products characterised by particularly high exposure during crisis (factoring financing, overdrafts), established an ongoing monitoring of initiating bankruptcy proceedings, as well as filing of claims by other banks. Besides, in order to mitigate potential risks, the Bank implemented the procedures providing for early additional checks of the most significant risk factors as early as at the stage of executing the loan documentation with the Bank's clients.

SHARE OF THE RETAIL PROBLEM PORTFOLIO IN A FIXED-TERM RETAIL PORTFOLIO,
RUB million



Moving beyond the preventive measures of monitoring and early detection of changes in the loan portfolio quality, the Bank is proactively upgrading its internal procedures for handling non-performing borrowers.

The primary goal of working with a problem portfolio is to recover the debt with minimum losses to the Bank. The approaches to handle non-performing loans developed over the past years enable the Bank to take customised debt recovery measures, to ensure an adequate provision coverage level reflecting the expected problem loan recovery rate.

Retail Credit Risks

Despite the persistence of certain aspects of economic crisis, such as renewal of sanctions, devaluation of the national currency, inflation, etc., 2016 brought gradual stabilisation after the 2014-2015 stress period. As part of the state support of the economy, a number of support programmes targeting retail lending were launched that gave a push to the revival of the auto market and the new construction real estate market. Since lending to walk-in customers has been suspended, the banks are developing cross sales of credit products to their current clients. All of that contributed to a gradual growth of consumer demand for retail lending.

The 2015 strategy aimed at slowing down the degradation of the existing portfolio was replaced with a new strategy of prudent lending which takes account of the growing demand for retail lending and unambiguously assesses the risks of each individual business initiative. An in-depth examination of individual business initiatives from the perspective of expected loan volumes, projected level of risk exposure and ultimately the projected rate of return, as well as the newly created flexible monitoring system for risk indicators enabled the Bank to successfully achieve the budgeted risk expenditure targets.

Under the prudent lending strategy, the SME segment saw some work to soften and harmonise Bank's requirements to new and existing clients with respect to the overdraft product. The implementation of these changes resulted in launching of a successful business programme for preapproved overdrafts enabling the Bank to double the number and the amount of overdraft open limits as compared to 2015.

The centralisation and standardisation of the loan approval process designed for secured and non-secured bank guarantee bidding applications for the clients of this segment represent a new area in SME lending. Implemented as a pilot project, these measures allowed the Bank to expedite the issuance of guarantees to the clients and free up the retail network resources for selling other credit products.

The year 2016 saw the creation of the PD life-cycle model (probability of default over the entire lifecycle of a loan) for private individuals in accordance with the Group Methodology under the IFRS 9 standard. This model will be implemented in June 2017. In addition, the Bank plans to carry out concurrent provision calculation in 2017 under the IFRS 9 standard using the newly developed PD lifecycle model.

To enhance the efficiency of overdue debt collection, a new bonus system based on individual targets was developed focusing on improving the collection quality. Also, the call centre employees' specialisation was introduced allowing for proper use of their expertise. These measures combined with the ongoing upgrade of IT infrastructure enabled the Bank to considerably improve the level of early overdue debt collection and bring these figures to an all-time high level.

The year 2016 also saw the successful introduction of the scoring model data predicting the probability of a collection in the operating overdue recovery management system. This model served as the basis for developing and pilot launching of a new collection system providing for a more detailed segmentation of the portfolio and management of the intensity of impact on the debtors, and therefore, a more fine-tuned management of operating performance and resource utilisation.

To comply with Federal Law No. 230-FZ "On Protecting the Rights and Legitimate Interests of Private Individuals during Overdue Debt Collection and on Amending the Federal Law "On Microfinance Activities and Microfinance Organisations" adopted in 2016, a number of improvements were introduced to the operating system and the collection strategy making it possible to dynamically monitor the communication frequency.

The Bank is determined to proceed with streamlining the early problem debt collection in 2017 by implementing more sophisticated statistical models designed to predict the debtor's sociability and responsiveness to various forms of communication, as well as by expanding the number of client communication channels.

Work on problem and potentially problem loans was continued in 2016: the reporting on the restructured loan portfolio was complemented; three proactive campaigns for the credit card and unsecured consumer loan restructuring were modified and implemented; a campaign for proactive restructuring of variable and combined interest rate mortgage loans was developed and implemented for the first time; and the work to update the methodology, automate the processes and update data was continued. Further steps to address problem and potentially problem loans will focus on streamlining existing processes, developing new and upgrading existing restructuring options.

In 2016, the Bank continued to build up its competences in the area of retail business overdue debt. Particular attention went to upgrading the arbitration efficiency and supporting enforcement proceedings. The Bank also implemented a package of measures designed to ensure full compliance with the Federal Law No. 230-FZ "On Protecting the Rights and Legitimate Interests of Private Individuals during Overdue Debt Collection and on Amending the Federal Law "On Microfinance Activities and Microfinance Organisations". The corresponding infrastructure was put in place.

In 2016, the Monitoring Unit continued its proactive work designed to implement the extended functionality of the private individuals' monitoring under UniCredit Group project "Golden Standards: Watch List and Private Individuals Monitoring". The functional under development includes a more comprehensive fuller list of red flags pointing to the clients' potential problems; the exhaustive set of criteria for assigning various statuses to clients depending on the status of problems and credit risk exposure (helping the Bank management to obtain an adequate picture of the portfolio); and a number of measures under the action plans to be implemented in the future. The year ended with successful user testing of the first stage of works scheduled to be fully completed in the second half of 2017.

Market Risks and Liquidity Risks

In 2016, the Bank continued to upgrade the market risk and the liquidity risk management system. The Bank continues to improve the control methods for these types of risk based on the UniCredit Group's best practices and ensures the Bank's stability and reliability during market instability.

The Bank monitors both the trading operations market risk and market risks (interest rate and currency risks) arising from the Bank's general operations.

The management of the Trading Book market risk is based both on aggregated metrics (VaR, SVaR) and detailed metrics reflecting the sensitivity of financial result to changes in specific market variables.

The Banking Book interest rate gap is monitored based on both in terms of interest income sensitivity to a shift in the interest curve in a specific time frame and in terms of the Banking Book comprehensive economic value sensitivity to various moves of the interest-rate curve (including nonparallel moves).

In addition to the sensitivity tests, the Bank uses a number of market risk stress tests.

The existing system of limits and market risk metrics ensures manageability of the positions assumed by the Bank.

Particular attention is paid to maintaining data quality through verification of the Bank's information systems. In addition, the Bank regularly revises the list of risk factors affecting the market risk assessments and check the reliability of the market data. In 2016, the market data reliability monitoring was supplemented within the framework of the Group's Independent Price Verification process (IPV) and was brought in compliance with the Group's best practices.

The Bank's overall strategy with regard to the market risk and the liquidity risk is determined by the Bank's Asset-Liability Committee which includes representatives of the finance, business and risk management units. The Committee is promptly notified of all significant developments regarding the market and the liquidity risk. The Management Board and the Supervisory Board are notified of the breaches of limits and warning levels at key metrics as well.

In order to effectively manage the asset and liability time structure, the Bank conducts regular stress test for short-term liquidity in accordance with the scenarios provided by UniCredit Group and in accordance with the local methodology, which is built with account taken of the Russian market specifics. The stress tests assess both the aggregate available liquidity and the available liquidity in foreign currencies. The results of the short-term liquidity analysis, including the data obtained through stress tests, provide the basis for drafting the monthly Funding Plan approved by the Asset-Liability Management Committee. Generation of the Plan equally envisages the forecasting of liquidity coverage ratio dynamics and application of the relevant limits.

The Bank measures and limits the short-term liquidity coverage ratio (N26).

The amount of the liquidity available to the Bank remained comfortable over the course of the year.

The Bank also uses a system of metrics, limits and warning levels for structural liquidity (time structure of 1 year+ assets and liabilities). In 2017, the Bank will switch over to structural liquidity management based on NSFR approach recommended by the Basel Committee (extended subject to the Group's recommendations to ensure additional monitoring of structural liquidity denominated in various foreign currencies and with different maturities).

To assess the market risk economic capital component, the Bank uses the Value at Risk methodology (VaR) based collectively on the Trading and Banking Books. The Value at Risk for the Trading and Banking Books is also used for internal control purposes.

The business process underlying selling financial instruments to corporate clients is governed by internal policy compliant with Russian laws, the requirements of UniCredit Group and the best European practices. The use of counterparties' credit limits under the facilities involving derivatives is calculated daily using the Group's methodology and infrastructure.

Operational Risks

The Bank is continuously working to adapt operational risk management methodologies in accordance with the changes in UniCredit Group's approach to operating capital calculation and using operational risk management, monitoring and mitigation tools.

The Operational Risk Committee is heavily involved in consideration of and decision-making regarding operational issues relating to operational risks and their impact on the Bank's operations. The participation of divisional operational risk managers in the Committee's work ensures an ongoing exchange of important and relevant information between functional units (divisions) and individual units bearing or assuming the risk.

To improve and maintain the effectiveness of the Bank's operational risk management, a Permanent Workgroup (PWG) persistently identifies the most substantial operational risks and takes the necessary steps to mitigate exposure to such risks in a timely manner. This is achieved by determining the relevant remedial measures and monitoring implementation thereof based on professional experience and expertise of the Workgroup's key members from the Operational Risk Management Division and the Organisation Department.

In terms of operational risk, 2017 is typical, because for the first time ever, caps and warning levels were set for the expected loss ratio (ELOR) under the approved risk appetite (in previous years, operational risk was part of the risk appetite exclusively for monitoring purposes).

The task of perfecting the monitoring and analysis system for the cross-credit events consequentially associated with the operational nature of risk grew in relevance for 2017, providing a tool for testing the operational risk control and mitigation procedures which were implemented by the Bank.

In 2017, the Bank will ensure further consistent development of the operational risk management and monitoring process, as well as its optimisation in terms of susceptibility to internal and external changes.

Reputational Risks

As part of a leading European Group, the Bank focuses particularly on its reputation as a credit institution. Throughout 2016, the Bank was upgrading the reputational risk management system. The reputational risk arises during the credit process involving the Bank's clients, if the funds are not used in compliance with applicable laws and social conventions. In accordance with the current tasks in today's challenging circumstances, the Bank has streamlined and adjusted the monitoring mechanisms for the credit process to identify reputational risk in executing the Bank's individual transactions and the reporting system for this type of risk. The Reputational Risk Committee composed of the Management Board members took decisions on individual transactions which require a customised approach to assuming reputational risks in the economic circumstances of 2016.

Report on the Bank's Activities (Continued)

Global Banking Services

"In 2016, we successfully finished our Core Banking Transformation programme, this is a huge achievement and a strong basis for propelling innovative solutions and processes in the Bank. We will retain the speed and agility in creating competitive technology enablers to our successful business in Russia."

Ivaylo Glavchovski
MEMBER OF THE MANAGEMENT BOARD

Information Technology

In 2016, UniCredit Bank continued to upgrade its information systems in accordance with its business priorities and IT strategy. The upgrading is aimed at providing a scalable and efficient IT landscape focused on business support and development.

Migration to a new automated banking system (ABS) was successfully completed along with replacement and upgrading of the Bank's key IT systems (the Bank's general ledger, treasury systems and cash and settlement services or CSS). The Bank's main systems were switched to use of a centralised data warehouse. The Bank succeeded in completing the financial year in a new IT landscape while providing the required level of customer service and submitting mandatory reporting statements in a timely manner.

Remote banking systems (RBS) were actively developed. For legal entities, the Business Online system was provided with full functionality (including operation with digital signatures) in various browsers and on different platforms (Windows, MacOS). For individuals, the Bank continued improving the functionality of the existing web-based solution (Enter.UniCredit) and the mobile application (Mobile.UniCredit). A tax and penalty payment feature was added. The service payment process was drastically simplified, and a feature was added allowing online supplier backlog information to be received via the customer identifier. Remote activation of RBS was implemented, as well as remote login change (on the website or via the contact centre without visiting the office). Much attention was paid to RBS security enhancement efforts. In 2016, scheduled works to improve functionality were completed on the contact centre's new platform, such as intellectual call routing, conducting transactions and card PIN-code generation through the contact centre.

A substantial contribution was made to process automation. A new process for tentative mortgage decisions was introduced. The service package connection process was upgraded (the connection time was reduced from three hours to nine minutes). The Bank enhanced its collateral profile management efficiency: the process of handling successive liens was improved, and a new collateral value distribution model was implemented. This enabled the Bank to manage credit portfolio risks in a more efficient manner.

Special emphasis was placed on efforts to raise standards in countering money-laundering, including work associated with higher automation of relevant processes.

In 2017, the Bank's IT Department will channel its primary efforts towards stabilising and improving the new IT landscape after implementation of the CBT (Core Banking Transformation) programme, and meeting the requirements of regulatory bodies (including the Central Bank of the Russian Federation and Rosfinmonitoring).

Banking Operations

In 2016, the Operations Back Office Department took the leading role and successfully completed the Core Banking Transformation Project (CBT). The goal of the CBT was significant update the Bank's IT landscape and migrate to a service-oriented architecture model. Under the programme, the latest IT systems supporting the Bank's core operational processes have been implemented. Primarily, it includes Flexcube v.12, which is a new core system acquired from ORACLE. This system is used to process current accounts and administer the corporate loans portfolio. Furthermore, the processing of Treasury Back Office operations migrated to a new platform Kondor+TP acquired from MISYS. The Bank has started to use the Payment Hub system for payment processing. The implementation of these systems helped improve the service quality standards for our clients, whereby the cut-off time limitations for payments have been extended and the processing of operations has been accelerated bankwide. The new IT landscape represents a solid base for further reduction of time needed to process client operations, thus supporting further improvement of operational efficiency. The new service model also provides the possibility to considerably reduce the time involved in launching new banking products due to separation of the accounting procedures from business processes associated with handling and executing client transactions.

In particular, in the sphere of operational support of the Bank's business in the financial market in 2016, as a result of introducing the Kondor +TP system, the Bank completely transferred to this system the operations for issuing and servicing the Bank's own bonds, the money and the currency market operations and the derivative operations, including the most complex interest rate derivatives. The procedures for UTI (Unique Trade Identificator) Codes generation have been established within Kondor+TP, thus making the system compliant with EMIR and The Bank of Russia regulations. The successful implementation of Kondor+TP has led to further reduction of operational risks and overall labour commitment, and improvements in the quality of transaction processing. The Kondor+TP system embraces regulatory requirements as well as many years of the Bank's financial market experience. The new IT landscape of the Treasury Back Office has enabled fast and timely implementation of such new products as short term corporate loans, exchange-based REPO transactions denominated in USD, and the OTC REPO transactions with Federal Treasury. Furthermore, the base for implementing an Electronic Trading Platform (ETP) for corporate FX business has been put in place. The clearing of OTC Derivatives transactions has been prepared to be enabled via CCP (Central Counter-Party) in line with the Bank of Russia's requirements.

In 2016, the Operations Back Office Department improved its client services.

Customer satisfaction improvement has been achieved in the Currency Control business area. Here, additional informational services have been developed. These services help the clients to avoid mistakes and comply with existing regulations while reducing the risk of penalties on behalf of the regulators. In particular, providing reports on potential Currency Control violations to the clients in line with Article 19 of relevant federal law has been established. The Bank maintained its leading position in the Currency Control services to the clients in a complicated economic and regulatory environment.

In the area of Retail Lending Support, the upgrading of overdue debt calculation process took place. The time involved in legal proceedings has been reduced. Further streamlining of retail lending processes has helped to increase our processing efficiency, whereby new lending products with extended customisation of loan terms could be implemented. The Auto Loan processes have been improved, which resulted in providing continuous services to the clients without preliminary appointments. As a result, more clients were able to sign loan documents and go home driving a new car within one day.

In the area of administrating major corporate loans, new interaction procedures among the units of the Bank have been established. As a result, the timely and flexible counterparty credit line management has been enabled, thus improving customer service quality, whereby the operational support of launching new lending products and proposals has been ensured.

Over the past 15 years, the Bank was annually nominated for Quality Recognition Awards by its main USD correspondent bank, JPMorgan Chase Bank NA for high quality of outgoing USD denominated payment processing. For 2016, our Bank received two awards. One for high quality of the interbank SWIFT payment orders in MT202 format (98.55% STP ratio). The other Elite Quality Recognition Award - has been presented for exceptionally high 99.71% STP ratio of commercial payments in MT103 format. Nominations for the excellent STP ratios confirm the reliability and quality of the Bank's payment services in line with the best international practices.

The main goal of the Operations Back Office for 2017 is to continue re-engineering of transaction processing on the basis on the newly

Report on the Bank's Activities (Continued)

implemented IT platforms. In key operational areas, STP regimes will be implemented. The efforts to reduce transactional processing costs will continue. To achieve these goals, the Operations Back Office starts a new project, Streamlining Back Office processes. Furthermore, centralising standard operations, streamlining internal business processes and continued involvement of the Stavropol Service Centre into operational technologies will continue in 2017.

Organisational Activity

Cost control and investment management, which have always been of importance to UniCredit Group, received a boost in 2016 with the implementation of a new strategy that defined this area as one of the Group's key priorities.

In 2016, UniCredit Bank continued the policy of cost and investment optimisation not only through updating and structuring internal standards and rules, but also by improving processes and strengthening the role and responsibility of business units in the cost management system. Cost and investment optimisation is supported by the business at all the levels as a strategic competitive advantage.

Enhanced transparency and understanding of allocated costs provided a new perspective on the task of transforming the network. Current market requirements, changes in communications and decision making systems, and the development of remote and online sales and customer service channels are taken into account.

As in 2015, Core Banking Transformation projects, implementation of the Group's CEE2020 customer-oriented strategy aimed at searching for new business growth and development paths, and compliance with regulatory and legal requirements comprised the bulk of the Bank's project portfolio. The Bank succeeded in implementing the primary functionality within the CBT programme as well as a number of projects to improve the quality of services provided to the Bank's customer via remote channels (internet bank, contact centre).

In 2016, the Bank undertook measures to enhance the efficiency of core business processes. In particular, it launched an initiative to optimise retail customer mortgage lending, aimed at speeding up the process while improving quality. The optimisation initiatives are implemented using the cutting-edge Lean Six Sigma (LSS) methodology. In 2016, several dozen of the Bank's employees received professional certificates from international organisations confirming their LSS proficiency.

The Bank expanded the use of labour input standardisation, including use of the standard as one of the criteria of investment effectiveness in process optimisation.

In 2017, the Bank's major focus will be on meeting regulatory requirements, developing high-efficiency business services and bank products, and optimising internal operations.

Card Operations

In 2016, the Bank continued its efforts to optimise and upgrade the ATM network. As of the end of the reporting period, the number of self-service machines and terminals totalled 823 and 71, respectively.

By maintaining collaboration with partner banks (Raiffeisenbank, CBM, Uralsib Bank), the Bank allows its customers to withdraw cash on the same terms as with its own ATMs. In 2016, the Bank continued to extend the integrated ATM network, having signed a partner agreement with B&N Bank.

In March 2016, the Bank succeeded in completing a complex technological project to replace the Prime 2 Informix card system with a new version, Prime 4 Oracle. The project covered not only all card systems, but also about 20 IT systems of the Bank. During the transition, measures were taken to ensure that cards and card systems continued to work, as well as to ensure the stable operation of services such as SMS Service, EnterUniCredit, Phone.UniCredit and others. All the Bank's ATMs were switched to new software, and a new ATM monitoring system was implemented. The Bank took every step required to maintain a high level of customer service and ensure further process improvement.

The 3DSecure service was implemented in the Bank's own processing, making the service more accessible and raising the customer service level.

In May 2016, the Bank joined the MIR National Payment Cards System. A project for acceptance of MIR cards in UniCredit Bank's ATMs was implemented. There are plans to issue MIR cards in early 2017.

One important operational task accomplished was improving the AS25 remote service for providing an electronic insurance certificate to the Bank's customers.

For the third consecutive year, UniCredit Bank has received the Visa payment system's Global Service Quality Performance Award. The Bank was found to be the best in four categories directly affecting the Bank's income. In two of those categories it was the only Russian bank represented (Domestic AuthApproval Rate, Consumer Debit Issuer; International AuthApproval Rate, Consumer Debit Issuer; AuthApproval Rate, Visa Business Debit Issuer; International AuthApproval Rate, Consumer Debit Issuer).

In 2016, the primary vector of card product marketing was aimed at developing packaged products. An important project was the instant issue of Visa Classic+ unembossed cards to customers who have received a consumer loan. The Bank succeeded in issuing Visa Air debit and credit cards which are indispensable for travellers. In addition to cashback with any purchases made on these cards, the Bank's customers are also eligible for a package of extra services.

The Bank was also the first in Russia to implement the UEFA-MasterCard Bonus Programme allowing customers to receive bonus points and use them in their loyalty programme personal account to buy UEFA Brand goods (T-shirts, balls, football tickets, etc.).

In September 2016, continuing the tradition of issuing MasterCard World Elite premium cards with individual design, the Bank in conjunction with the Pushkin State Museum of Fine Arts launched a project for issuing cards depicting Edgar Degas' "Blue Dancers".

New card products are planned in 2017: MasterCard Standard+ package cards and new Visa Platinum for the Bank's privileged customers. Intensive work on a prepaid cards project is also under way at the Bank.

In 2017, the Bank intends to introduce innovative products (contactless payment for services and NFC) jointly with Visa and MasterCard. Efforts will be continued to implement new card technologies, improve card services and extend the period of their availability to the customers.

Real Estate & Facility Management

In 2016, Real Estate & Facility Management Department implemented all its plans for providing material and technical support of the Bank and maintaining properties of 80,733,8 square meters total floor area, including 77,891,8 square meters of 108 Bank's offices.

The RE&FM carried out the following key tasks for expanding its banking network: five new light operational bank offices were opened (in Solikamsk, Chusovoy, Novodvinsk, Kazan and Kemerovo), an operational office in Omsk and a representative office in Cheboksary were closed; a representative office in Minsk was relocated to a new space-saving and efficient office. At the same time, the Bank has improved the functionality of its branches by overhauling its additional office Dmitrovka, reorganising the depositary and creating affluent client areas in the additional office Prospekt Vernadskogo, expanding its teller halls, arranging affluent client areas, and installing client cabins at 30 retail offices.

The RE&FM carried out a number of organizational and technical support projects. The Bank's head offices were retrofitted: the building control and engineering system were upgraded, including automation of firefighting system and replacing the energy supply, ventilation and air-conditioning systems in the buildings. The offices in the Bank buildings Nagatino and Boutikovsky were replanned and renovated, and several retail bank units and LLC UniCredit Leasing relocated.

In 2016, the work under the cost streamlining and commercial programme was carried out successfully. The goal of rent cost reduction was achieved successfully with the budget savings of 11.6%. We managed to keep unchanged the average specific office lease and facility management on a level of 2015. The growth of general average specific office maintenance cost is lower than the level of annual average inflation. The programme for the efficient use of office space according to the Group's policy was developing, including leasing of vacant space to the third parties in Moscow, St Petersburg, Omsk and Yaroslavl.

The Department is actively participating in implementing the Group's programme for increasing social and environmental level of the Bank's activities. The energy efficient equipment and modern technology for property maintenance are used. The office paper and envelope consumption in the Bank is being reduced in favour of electronic document flow with the total reduction of 7.2% as compared to 2015. The Department actively participates in environmental contests and events for the employees, and the yearly WWF's Earth Hour drive.

In 2017, the RE&FM Department will continue to work on cutting costs involved in property maintenance and to provide effective maintenance support for the Bank's units and implement the banking network development projects. Plans are also in place to certify the Bank's offices as part of the system of voluntary certification by the All-Russia Society of Disabled Persons "World Accessible for All" and carry out organizational and technical measures to provide free access to the Bank's offices for physically disabled clients within the Accessible Environment State Programme.

People Development

Our success depends on the quality and commitment of our people. That's why we have such a strong commitment to developing and empowering our teams. We must make sure we can attract and retain the very best talent and we must create and nurture an environment and culture in which our staff can grow, thrive and reach their full potential.

Sustainability

Human Capital Management

Following the strategy of UniCredit Group, UniCredit Bank places particular emphasis on hiring the best professionals available in the market, developing its employees and maintaining their performance at a high level through continuous investment in the Bank's human capital. In 2016, the priorities of both the Group and the Bank in human resources management included engagement, digitalisation of our personnel training programmes, and diversity enhancement. The Bank demonstrated impressive performance in 2016 in all of the said areas.

The application by the Bank of best practices in HR management was confirmed by independent experts – according to full year results, in 2016 UniCredit Bank, for the fifth time now, was included in the list of top employers in Russia and Europe and certified as a Top Employer by the Employers Research Institute.

Staff Recruitment and Employer Brand Development

Since our Bank is interested in highly skilled staff and is an active player in the Russian labour market, we lay a great emphasis on raising the employer brand awareness and attractiveness in the eyes of candidates. A number of initiatives aimed at the development of our HR brand were launched in 2016, specifically:

- Value-oriented offer for candidates;
- Full-featured career page on the Bank's website;
- Employer brand promotion in social networks.

Particularly, posts dedicated to the Bank's employees and corporate culture are very popular in social networks as they offer the audience, including potential candidates, an informal look at the Bank's life.

In 2016, the Bank continued to focus on the engagement of students as our potential employees and clients. The first local six months' internship programme was successfully implemented, with university graduates participating in some important projects. The internship programme finished in December 2016, when a significant number of participants were hired by the Bank.

People Development

The key initiatives in Learning & Development were focused on further digitalisation of the education process and digital skills development, strengthening the leadership pipeline, expertise accumulation and knowledge management.

The year 2016 became a key year for the development of mixed learning formats with greater focus on remote learning. Furthermore, the Bank launched employee webinars and continued to expand remote

“Our Bank is gifted with highly qualified and engaged human resources. Their capabilities and passion allows the Bank to distinguish itself among competitors. It is a great pleasure to invest in supporting the continuous professional development of our valuable people.”

Gianluca Totaro
HEAD OF HUMAN RESOURCES

Sustainability (Continued)

learning programmes, with a majority of them involving e-libraries, e-testing, additional e-learning courses, etc.

In accordance with leadership development demand, customised leadership trainings for managers in regions, as well as a series of development initiatives for Head Office functions were launched. The main focus was on the managerial cycle, emotional intelligence, stress management, teamwork efficiency and new challenges.

The «Peer2Peer» project became a very important step towards effective knowledge management; it helps high level professionals of the Bank share their expertise with colleagues. As part of the project, three different formats were implemented, including traditional classroom seminars, webinars and e-learning courses. In 2016, special measures were taken to assess line and mid-tier managers of the Retail Division and to reinforce its coaching team.

Furthermore, in 2016 UniCredit Bank, alongside with other banks of the CEE Division, started promoting Agile mindset and SCRUM methodology. To this end, a leadership training programme was conducted involving the UniCredit Group's Head of CEE Agile, the development of an induction training course on Agile kicked off, and a number of pilot projects were scheduled. In 2017, further development of Agile mindset and SCRUM methodology is planned.

The year 2016 turned out to be the reboot year for remote learning. The Personnel Portal was completely upgraded and now it combines a news feed, informative articles, user-friendly calendar to sign up for educational events, and much more. The catalogue of remote-learning courses was markedly upgraded with a total of 110 courses launched in 2016. All of these resulted in 5 times more users visiting the Personnel Portal. The year 2016 saw presentation of a few key remote learning projects which are to get underway in the near future. These include the launch of massive online courses and completion of the preliminary stage of an ambitious project called "Digital Environment 2018", which aims at taking the educational process to a new level.

Internal Mobility

Our people, their experience, knowledge and expertise are of great value to the Bank. This is why we focus on retaining and promoting employees both inside the Bank and UniCredit Group.

For these purposes, in 2016 we elaborated on a career ladder for employees of the Contact Centre and Retail Network, which have traditionally been a "pipeline of quality staff" for other business units of the Bank. Besides, we enhanced a programme of references which employees can use to refer candidates they find relevant to the vacant positions within the Bank and get a reward in case the candidate they referred has successfully filled the vacancy.

Regular support and promotion of cross-functional mobility also contributes to the success: about 75% of managerial vacancies are filled with internal candidates.

Engagement

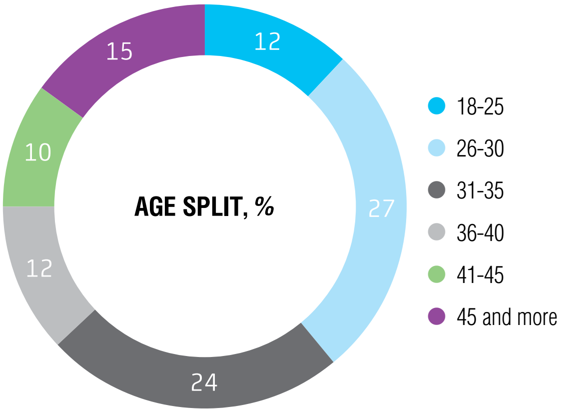
According to the results of the People Survey in 2016, Engagement Index for the Bank's employees persists at a high level of 89%.

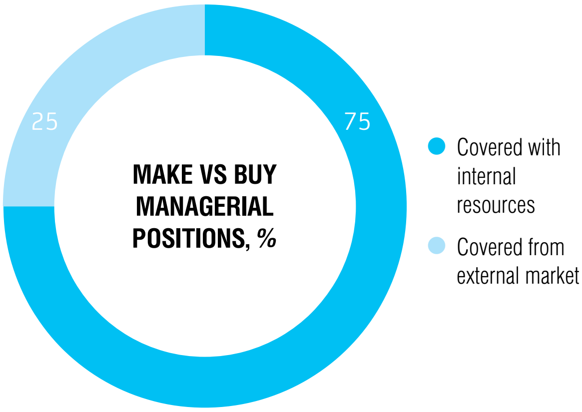
In 2016, a very relevant number of initiatives took place to support people motivation and sense of belonging to our Bank. Among them it may be worth mentioning Mobilization and HR4U DAY.

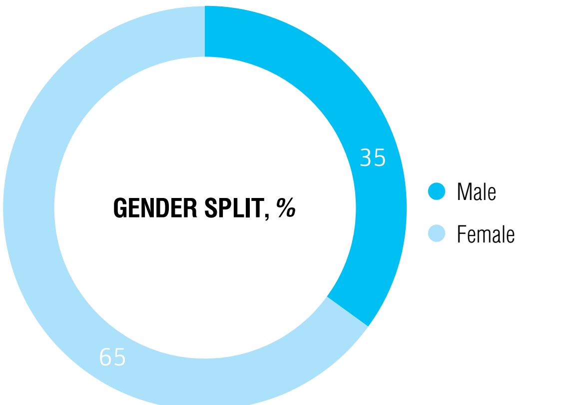
Mobilization was a structured brainstorming workshop aimed to develop initiatives to support the achievement of the Bank strategic goals until 2020. Involved in the project were more than 500 managers of different levels and talents (highly promising and self-motivated employees).

HR4U DAY is a traditional annual event conducted by the HR department for raising employee awareness of their opportunities in the Bank. In 2016, a new format comprising an interactive presentation of the Personnel Portal, workshops and QA-sessions was introduced. In addition to Moscow, the HR team visited St Petersburg, Ekaterinburg and Krasnodar.

HR team at HR4U DAY in Moscow







Diversity Management, Social Programmes and Benefits for the Staff

Effective diversity management is one of the priorities defined by UniCredit Group since several years. Following this approach, the Bank is fully committed to the principle of equal opportunities when recruiting candidates and managing its resources and therefore supporting Cultural Diversity, Gender Diversity, Geographical Diversity and Religious Diversity.

The Bank continues paying attention to such important HR aspects as social benefits supporting employees during their active career and serving as an additional recruitment incentive used by the Bank.

The Bank offers a number of highly appreciated benefits, including voluntary medical insurance (VMI), accident insurance, overseas travel insurance, a corporate pension plan, as well as additional compensation for the period of annual leave, free lunches and additional days of vacation. The social package also includes preferential terms for Bank's products for employees.

As of the end of 2016 the Bank's headcount neared 4,000. Average age of the staff was 35 years. The share of employees having 5 years of service with the Bank or longer reached 44%, thanks to low employees turnover.

In a nutshell, the Bank is gifted with young, highly qualified, motivated human capital which is professionally growing year after year and which provides the Bank with a very important competitive factor in today very challenging banking sector.

Sustainability (Continued)

Responsible Resource Management

UniCredit Bank is committed to environment protection and actively supports environmental initiatives. The Bank exercises strict control over power consumption at various facilities and utilises energy-efficient equipment in its day-to-day operations. The Bank extensively applies advanced technologies for environmentally friendlier property management.

In 2016, UniCredit Bank again took part in the Earth Hour global initiative coordinated by the World Wildlife Fund (WWF). It was the Group's ninth consecutive year of participation in this event. On March 19, 2016, the Group turned off the lights in 82 of its buildings in 14 European countries. This year the initiative involved 25 offices of the Bank in 11 cities of Russia.

While aspiring to follow most stringent environmental standards in its day-to-day activities, the Bank also holds a variety of events to promote responsible environmental attitudes. Thus, in July 2016 employees of the Bank took part in the Volunteer Day eco-event in the Arboretum of the Losiny Ostrov National Park in Moscow. The participants were engaged in weeding, bush-cutting and firewood preparation for the heating of the Arboretum's Eco Center. In the course of work, representatives of the Environmental Education Department of the Losiny Ostrov National Park told the Bank's volunteers about the park, its flora and fauna, focus areas, and answered multiple questions. For UniCredit Bank volunteers, it was the first environmental project, which we look forward to supporting again next year.

Furthermore, in the annually held internal "You Can Help" competition of charitable projects for the Bank's staff we select a winner in a special environmental nomination sponsored by the Bank's Department of Real Estate and Facility Management. Unlike other nominations, here the judges are open to consider applications submitted not only by the Bank's staff, but also by members of the Bank's communities in social networks. This is exactly the way we spotted the winning project of 2016 called "The Second Life of Things" coordinated by Charity Shop, which involves placing containers for the collection of textile waste in Moscow. In these containers people can put things they no longer need, which are subsequently sorted by the shop staff and sent for recycling, or distributed to socially vulnerable families in Russia. In December 2016, eight containers for donated clothes were made and set up at the Eco School in Kuskovo Park, Gymnasium No. 1540, A. P. Gaidar Youth Arts & Crafts Centre, Alcon Business Centre, VDNH and Artplay Design Centre. Besides, UniCredit Bank awarded a grant to Charity Shop for sponsoring one month of rent for its warehouse, with 10.5 tons of clothes sorted during this period. Some of the things were handed over to people in need through social service centres in Staritsa (Tver Region), Zhizdra (Kaluga Region), Gagarin (Smolensk Region), as well as to the Optimist society supporting families with multiple children (Moscow) and the non-for-profit organisation House of Mercy that supports the homeless.

Charity and Social Responsibility

In its social and charitable activities, UniCredit Bank is fully committed to the policy of UniCredit Group and is looking to make a worthy contribution to the well-being of the Russian regions where it is present. Since 2011, the Bank's key focus in charity have been people and health.

For many years, the Bank has been cooperating with Russia's top charitable organisations and foundations by donating to orphanages, boarding schools, medical and educational institutions, etc.

In 2016, the Bank continued to support art therapy programmes for children with disabilities. Art therapy allows the launch of communication and creativity platforms for socialisation, adaptation and inclusion of children and teenagers with special needs. Children subject to inpatient care receive regular psychological support and are offered various leisure activities. Positive emotions experienced by children in art therapy classes help them distract from the hospital routine, making it easier for them to overcome the challenges of treatment, and facilitating their recovery. In 2016, the programme involved children undergoing treatment in the Burns Center at Speransky Children's Hospital, Psycho-Neurological Hospital for Children with CNS and Mental Disorders, wards of the Wings For All foundation for social and cultural initiatives in Tula and Vladimir, and the Center for Curative Pedagogics in Moscow.

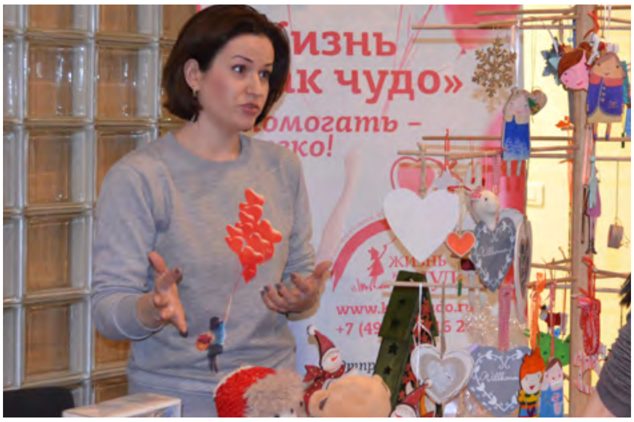
For 12 years now, the Bank has been backing a corporate charity project called "Personal Contribution of Your Heart", which gives its staff the opportunity to make personal donations to projects of their choice out of those coordinated by charitable organisations the Bank collaborates with, or give a helping hand to their vulnerable colleagues. In 2016, employees of the Bank donated around RUB 900,000 under this programme.

The following veterans' organizations were sponsored by UniCredit Bank in 2016: the Russian Public Charitable Foundation For Veterans (Pensioners) of War, Labour and Armed Forces, and the Moscow Veterans Committee. The Bank also provided support to the "Strategy" Regional Non-Governmental Association of People with Disabilities, engaged in comprehensive rehabilitation of disabled people.

Another area of charitable activities is volunteer programmes for the Bank's employees. They include "Charity Run 5275" in Moscow, where funds were raised for a number of charities, including Life Line and United Way, as well as Sports for Good in Ufa organised by the regional NGO SoDeistvie and We Are Together centre, which raise funds to support families having children with Down syndrome. The UniCredit Bank corporate team was awarded in the category The Most

Children supported by the Sunflower Charity Foundation

The Volunteer Day eco-event



Charity fair in the Head Office of UniCredit Bank

Charity campaign The Bright Day

Strategy and Results in 2016 (Continued)

Charity and Social Responsibility (Continued)

Numerous Team and came first in the team competition. All the funds raised through the event were transferred to the United Way and Life Line Funds. Furthermore, in 2016 the Bank hosted blood drives organised in cooperation with the Gift of Life charity, involving 160 employees who donated their blood to the D. Rogachev National Research Center of Pediatric Haematology, Oncology and Immunology.

UniCredit Bank boasts a long lasting cooperation with the Sunflower Charity Foundation (supporting children with immune system disorders): in particular, we collaborate in the annual charity campaign called "The Bright Day", which helps to raise public awareness of the issues involved in diagnosis and treatment of primary immunodeficiency disorders in Russia. In 2016, this campaign attracted employees from several offices of UniCredit Bank in Moscow, Nizhny Novgorod, Chelyabinsk and Yekaterinburg.

Another charity campaign, which is organised in cooperation with Charity Shop and has now become traditional, is called "Declutter Your Wardrobe". It was successfully held at the Bank's Head Office in the spring of 2016. As part of this campaign, employees donated more than 350 kg of clothes which were subsequently sold through Charity Shop or handed over to the Second Breath charity.

Within the framework of cooperation with the Embassy of Italy in Moscow, UniCredit Bank sponsored the charity Christmas fair Italian Bazaar that the Ambassador hosted in the garden of his residence. The goods offered for sale by participants included hand-made toys from UniCredit Bank. All the funds raised through the event were transferred to the D. Rogachev National Research Centre.

And, finally, another good tradition of the Bank is charity fairs held in the offices of Moscow, involving large charity foundations like Life As a Miracle, Circle, In The Name of Life, In Your Hands, and the Center for Curative Pedagogics. All funds raised from the sale of souvenirs are transferred to aid people supported by the foundations. In 2016, these fairs helped to raise more than RUB 300,000.

In order to involve employees in charity initiatives, the Bank annually holds "You Can Help" competition, where all employees are welcome to suggest ideas for projects they find meaningful. The top 5 projects are financed by the Bank (the budget for 2016 totalled around RUB 2.5 million). In 2016, the winning projects included the mobile volunteer canteen for low-mobility single seniors and disabled people supported by Sophia Charity in Tver; the project of building a sports ground at the Lyakhi Orphanage in Vladimir Region; the project "Financial Competence in the Sign Language", implemented in cooperation with the All-Russian Society of the Deaf, which involves the production of 11 videos in the sign language about financial services for voginfo.ru; "The Healing Power of Music and Arts" project of the Enjoyable Aging charity foundation, which suggests organising musical classes in senior citizens homes of Lesnoy and Ramon settlements in Voronezh Region; and the winning project in the environmental nomination called "The Second Life of Things". All of the above-mentioned projects were successfully brought to fruition till the end of 2016.

Support to Culture and Arts

For over 20 years now, the Bank's special project is the Art collection of Russian Post Avant-Garde painters. It includes numerous pieces by Daniil Cherkes, Leonid Zusman, Nadezhda Udaltsova, Antonina Sofronova, Leonid Chupyatov, Alexander Drevin, Alexandra Koltsova-Bychkova, Fedor Semenov-Amursky and many others. Their works reflect the system of cultural, artistic and moral values that emerged in the 1920s and persisted over the decades to come, undergoing change, but preserving its permanent relevance.

The pieces making part of the UniCredit Bank's art collection do not only decorate the Headquarters on Prechistenskaya Embankment in Moscow, but are regularly on display in its branches. In 2016, the Bank continued this tradition and presented Arseny Shultz's exposition in Rogozhskaya Zastava additional office that was open to all art lovers. The Bank also presented a video devoted to the artist and his beloved Adele's love story bringing his works to life. The video was created by a famous TV designer, painter and graphic designer, TEFI member Elena Kitaeva who devoted almost 20 years of her life to the visual image of Kultura TV channel as Designer-in-Chief. The video was posted in free access in the Bank's official groups in the social media.

Another exhibition was held at Myasnitskaya additional office in the run-up to the Victory Day when UniCredit Bank displayed to the public Konstantin Chebotarev's "Chistoprudny Boulevard Three Days before the War" and Rostislav Barto's "The Sky over Moscow" created in 1941. These paintings are a vivid reflection of the mood and atmosphere of those days and are of both artistic and historical value.

Apart from the exhibitions at the offices, UniCredit Bank also delivers lectures dedicated to the corporate Art collection. Yet another lecture in 2016 was delivered at the Multimedia Art Museum, Moscow (MAMM) on the occasion of the Bank's anniversary. Alexander Balashov, an art critic and the collection curator, devoted it to the special role of post-avant-garde in Russia's past and present. The attendees had a unique opportunity to learn about the history of the collection, the lives and interesting stories from the artistic careers of the painters whose works make part of the collection.

As the representative of Italian UniCredit Group in Russia, UniCredit Bank continued to provide support to important cultural events dedicated to Italy's culture and arts. Within the framework of the Bank's lasting cooperation with the Pushkin State Museum of Fine Arts, UniCredit Bank sponsored the exhibition "Giovanni Battista Piranesi. Artworks from Russian and Foreign Collections". The exposition comprised over 400 pieces, including works by Piranesi himself and by his predecessors and successors. This was the first time that the Russian art lovers had a chance to see Piranesi's plates presented by the Central Graphics Institute (Roman Calcography).

Moreover, in 2016, the Bank made the decision to sponsor the publication of the catalogue of medallic art masterpieces from the collection of the Pushkin State Museum of Fine Arts. The publication of the catalogue is scheduled for the mid-2017 by the Museum's publishing department.

Another project that the Bank implemented jointly with the Pushkin Museum in 2016 was the new UniCredit Bank's card World Elite Mastercard® for UniCredit Private Banking customers. The design is based on "The Blue Dancers" (1897) by impressionist Edgar Degas, one of the masterpieces from the collection of the Pushkin State Museum of Fine Arts. This card is the only Museum's product co-branded with a commercial bank and the second card issued jointly with UniCredit Bank.

In 2016, the Bank also sponsored the exhibition "Grand Tour: Russian Edition. Naples.", held at the Multimedia Art Museum, and exhibiting unique photographic images of Southern Italy brought by Russian travellers in the 19th century. This was the second exhibition of the project "Grand Tour: Russian edition". The first one, dedicated to Rome, was supported by the Bank a year ago.

Another event in the Multimedia Art Museum, Moscow supported by UniCredit Bank was the solo exhibition by Pino Pinelli, a famous Italian artist and an outstanding representative of "analytical painting". This exhibition entitled "Matter. Fragment. Shadow". was the first ever solo exhibition by Pino Pinelli in Russia. The exhibition introduced the Russian public to the most significant works of the Sicilian artist providing a comprehensive idea of his style.

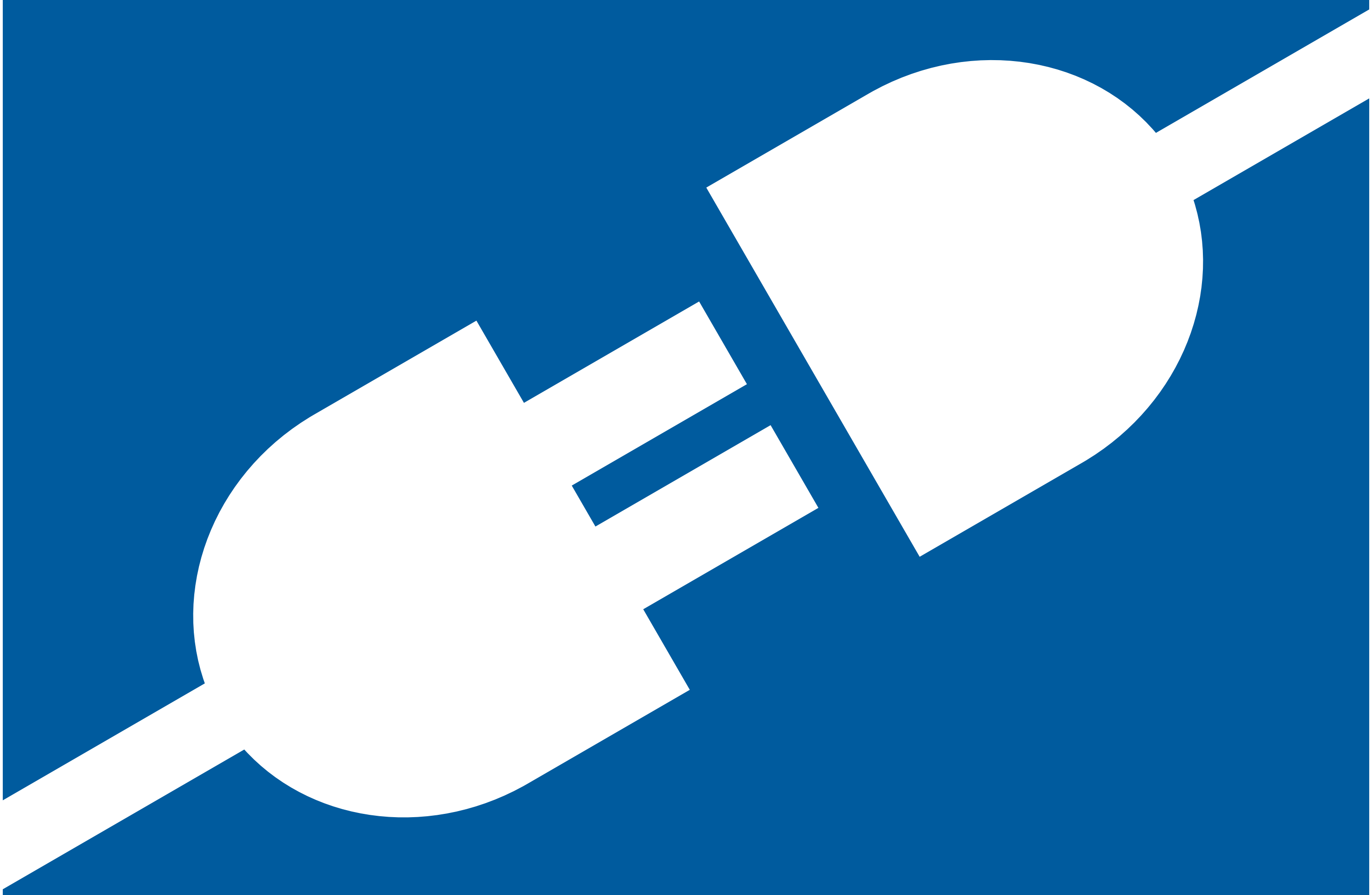
In 2016, the Bank continued its successful cooperation with the Russian-Italian film festival of features, documentaries and shorts (RIFF). The Festival was designed to strengthen the cultural links between the two countries and to promote Italian cinema in Russia. Thanks to RIFF, movie-goers from over 15 largest Russian cities were able to get acquainted both with the young film director's bright debuts and with the classics of Italian cinema in retrospect.

Another UniCredit Bank's important initiative in 2016 was sponsoring the Finance Museum of the Financial University under the Government of the Russian Federation. The support provided by the Bank envisages the creation of a cardinally new exposition and implementation of a number of museum projects designed to build financial awareness and attract attention to the finance history of our country.

"Giovanni Battista Piranesi. Artworks from Russian and Foreign Collections" at the Pushkin State Museum of Fine Arts

Mikhail Alekseev and Pino Pinelli at the opening of "Matter. Fragment. Shadow" exhibition at MAMM

Cooperation & Synergies



Our ability to cooperate and generate synergies across departments and geographies is what makes us unique and allows us to be “One Bank, One UniCredit”. We are a true pan-European bank and we work seamlessly across the Group.

Sustainability (Continued)

Support for Sports

The support for sports events makes an important part of UniCredit Bank's brand promotion.

The Group continued its cooperation with UEFA in 2016. The new seasons of UEFA Champions League and UEFA Europa League successfully kicked off. Sponsorship of the UEFA Club Competitions by UniCredit Group makes a significant contribution to our brand visibility and to customers' and employees' engagement.

UniCredit Bank is consistently supporting employees' participation in sports events. In 2016, the Bank's football team came in first in the regular championship and won the Cup of the Business Champions League.

In October, VDNH hosted the fifth anniversary charity marathon "Race 5275" with over 400 representatives of the UniCredit Bank's corporate team.

The Bank is traditionally supporting winter sports: the ski open championship in Bitsa Park and Ski Meeting – UniCredit Group's competitions in mountain skiing, snowboard and cross-country skiing. Our colleagues won medals in singles, as well as came third in team competitions in cross-country skiing and snowboard.

UniCredit Bank team at the charity marathon "Race 5275"

Management

Supervisory Board of AO UniCredit Bank (as of January 1, 2017)

Erich Hampel, Chairman of the Supervisory Board

Born on 25.02.1951. Graduate of University of Economics and Business Administration in Vienna with master degree in Commerce and Trade in 1974, became doctor of social sciences and economics in 1975. He has worked in banking business for more than 35 years. From 2004 to 2009 he was Chairman of the Managing Board of Bank Austria Creditanstalt AG. In 2005 he was appointed Head of CEE Division of UniCredito Italiano S.p.A. From 1997 to 2015 he was Deputy Chairman of the Supervisory Board of Donau Chemie AG, from 19.04.2006 to 29.04.2014 he was Chairman of the Supervisory Board of ÖRAG Österreichische Realitäten AG, from 28.03.2009 to 27.08.2014 he was Chairman of the Supervisory Board of B & C Industrieholding Holding GmbH, from 21.03.2008 to 30.04.2013 he was Chairman of the Supervisory Board of JSC "ATF Bank" Kazakhstan. At the present time Mr. Hampel serves as Member of the Supervisory Boards of the following companies: Sparkassen-Pruefungsverband since 17.11.2016, Österreichische Lotterien GmbH since 19.03.2010, UniCredit Bank Hungary Zrt since 18.11.2009, Österreichisches Verkehrsbüro AG since 24.06.1999, BWA Beteiligungs- und Verwaltungs AG since 03.07.1998. He has been Deputy Chairman of the Supervisory Board of Bausparkasse Wüstenrot AG since 12.12.2008. At the present time Mr. Hampel also serves as Chairman of the Supervisory Boards of the following companies: UniCredit Bank Austria AG since 01.10.2009, Österreichische Kontrollbank AG since 15.12.2009, Zagrebačka banka d.d. since 17.04.2007, UniCredit Bank Serbia JSC since 02.03.2007. From 20.02.2007 to 20.12.2007 he was Chairman of the Board of Directors of CJSC International Moscow Bank; from 20.12.2007 till now he is Chairman of the Supervisory Board of AO UniCredit Bank (before the end of 2014 – ZAO UniCredit Bank).

Carlo Vivaldi, Member of the Supervisory Board

Born on 02.12.1965. After graduating from the University of Ca' Foscari (Venice), Department of Business Administration, Carlo Vivaldi started his career in 1991 as teller in Cassamarca, which merged into UniCredit in 1998. In 2000 he moved under New Europe Division of UniCredit. In 2002, he pursued the position of CFO and Executive Vice President at KFS and Yapı Kredi, Turkey. In October 2007, he was appointed as Member of the Management Board and Chief Financial Officer at UniCredit Bank Austria AG and started to serve in several other Supervisory Boards in CEE subsidiaries of UniCredit Group. From 15.05.2009 to 31.03.2017 Carlo Vivaldi has been Member of the Board of Directors at Yapı Kredi, and from 03.11.2009 to 31.03.2017 he has been Member of the Board of Directors at Koç Financial Services. He also served as Deputy Chairman of the Board of Directors in all Yapi Kredi subsidiaries and Allianz Pension Fund company, and Member of the Board of Directors at Yapı Kredi Koray and Yapi Kredi Bank Malta LTD since March 2011 to February 2015. From 22.03.2011 to 12.07.2013 he was Deputy Chairman of the Board of Directors at Yapı Kredi Sigorta A.Ş., from 17.03.2011 to 04.12.2014, he was Deputy Chairman of the Board of Directors at Yapı Kredi Portföy Yönetimi A.Ş. Since February 16, 2015 to September 30, 2016, Vivaldi served as Head of CEE Division of UniCredit and Deputy Chairman of the Management Board of UniCredit Bank Austria, since October 1, 2016, he has served as the Head of Central & Eastern Europe Division at UniCredit S.p.A., Vienna. At the present time Mr. Vivaldi has occupied the following positions: Senior Executive Vice President, Member of Executive Management Committee, Head of CEE Division at UniCredit S.p.A. since 16.02.2015, Member of Advisory Board at UniCredit Turn-Around Management CEE GmbH since 23.02.2015, Deputy Chairman at Yapı ve Kredi Bankası A.Ş. and Deputy Chairman at Koç Financial Services since 16.02.2015, Member of Administrative boards at UniCredit & Universities Knight of Labor Ugo Foscolo Foundation since 11.02.2015 and Member of Administrative boards at UniCredit Foundation (UNIDEA) since 18.03.2016.

Enrico Minniti, Member of the Supervisory Board

Born on 07.06.1970. Enrico Minniti graduated from Palermo University, Italy in 1996, has degree in Economics and Business Administration. He also graduated from INSEAD, a graduate business school, Fontainebleau, France, the Management Program, short course in 2014. He started his career in 1997 at Credito Italiano and then, in 2000, taking over managerial responsibilities at Structured Finance Dept. In 2003 Enrico moved to UniCredit Bank Milano as Vice President within the Structured Finance Department, and then he moved to Bank Austria as Head of Specialized Lending Unit. In July 2008 he joined Ukrsotsbank (Ukraine) where he served as Head of Financing up to July 2010. Then from 08.2010 to 03.2015 he was Head of Financing in CEE at UniCredit Bank Austria AG. At that time he also served as the Member of Supervisory Board of Joint-Stock Company "UniCredit Securities"(2011 – 2012), the Member of the Supervisory Board at LLC Al Line from 29.09.2011 to 10.08.2012. On 15.04.2015 he was appointed Head of CEE CIB at UniCredit Bank Austria AG. At the present time he also served as Member of Audit Committee of UniCredit Bank Hungary ZRT since 20.10.2015, Member of the Supervisory Board of UniCredit Bank Czech Republic and Slovakia since 03.11.2015, Member of the Supervisory Board of AO UniCredit Bank since 11.11.2015.

Marco Radice, Member of the Supervisory Board

Born on 28.08.1957. Graduate of J.D., Parma Law School, 1980, Accademia Guardia di Finanza, Rome, 1982, New York Law School, New York, 1983. From 1992 up to 2006 he occupied position Non executive director, Itas S.p.A., Insurance Company, Trento. From 04.1995 to 05.2015 was Member of the Board of Directors of Itas Mutua, Insurance Company. From 1994 up to 2001 was Chairman of the Board of Statutory Internal Auditors, Cassa di Risparmio di Trento e Rovereto, Member/Chairman of the Board of Statutory Internal Auditors of Industrial and Financial Services Companies (Pioneer Alternative Investments S.g.r.p.A., Milano Innovazione S.g.r.p.A., Vivacity S.p.A., Iniziative Urbane S.p.A., Valore S.I.M. S.p.A., Metalsistem S.p.A., Rovimpex s.p.a. and others). From 1998 up to 2006 he was Professor of Financial Services Regulation Law, University of Trento. From April 2010 to May 2012 was Member of the Board of Directors of UniCredit Audit S.p.A. Since 04.1994 he has been Co-Principal at Radice & Cereda. He has been also Member of Audit Committee of Bulbank, Bulgaria since 10.05.2012, Chairman of Audit Committee of UniCredit Bank Serbia since 23.06.2008, Chairman of the Board of Directors of Itas Vita S.p.A., Insurance Company. Since 27.04.2012 he is a member of the Supervisory Board of AO UniCredit Bank.

Giuseppe Scognamiglio,
Member of the Supervisory Board

Born on 16.07.1963. Graduated from L'Università degli Studi di Napoli Federico II, Italy, in 1987 with degree in Law. Mr. Scognamiglio also passed the public exam to enter diplomacy in Italian International Organizations Society under the Diplomatic Academy in 1988. Since 2003, he has served as Executive Vice President on Institutional & International Affairs at UniCredit S.p.A. Since 2011, he has worked as diplomat. Since 2012 has occupied position Chairman of Europeye Srl, publishing house, and since 2016 has served as editor of Eastwest magazine. From 31.03.2016 to 31.03.2017, Mr. Scognamiglio has been Member of the Board of Directors at Koç Financial Hizmetler AS and Yapı ve Kredi Bankası A.Ş. At the present moment he occupies the following positions: Presidente Conitato Technico per la Communicazione Istituzionale at Assosiazone Bancaria Italiana (ABI) since 20.07.2016, Membro Del Consiglio Di Amministrazione e Membro Del Comitato Esecutivo ABI since 16.03.2011, Membro Del Consiglio Di Amministrazione at Federazione Delle Banche Delle Assicurazioni e della Finanza since 30.05.2012. Member of the Supervisory Board of AO UniCredit Bank since 28.04.2016.

Ljiljana Cortan,
Member of the Supervisory Board

Born on 14.07.1971. Graduated from University of Zagreb, Croatia, in 1995, has degree in Banking and Finance. From 2007 up to 2009 she served as Head of Credit Risk Underwritnig at Zagrebačka banka, then from 2009 to 2014, she he occupied position Head of Strategic Marketing and Commercial Planing, CEE CIB, at Bank Austria AG. From 2014 up to 2015, she was Global Head of Financial Istitutions, Banks and Sovereigns at UniCredit S.p.A., Co-Head of Group Credit Transactions at CRO Division. Since 2016, she has served as Head of Group Credit Transactions at UniCredit S.p.A., Italy, at CRO Division Member of the Supervisory Board of AO UniCredit Bank since 28.04.2016.

Anna Maria Ricco,
Member of the Supervisory Board

Born on 14.04.1969. Graduated from Universita degli Studi di Milano, has degree in Computer Science. Anna Maria Ricco started her professional career in 1993 at Origin Italy. After an experience in Andersen Consulting, she worked at McKinsey & Co since 2000 up to 2005. Soon after she joined UniCredit Global Banking Services Division in Organization, covering key positions in several initiatives about integration, including the One4C Project. From October 2007 to January 2011, she was head of staff of UniCredit Chief Operating Officer as well as of Internal Customer Satisfaction Unit. In February 2011 she joined i-Faber with the role of General Manager, then becoming CEO, Member of the Board of Directors. From 2011 to 2013 was the Chairman of the Board of Directors at Joinet Srl, UniCredit. From 03.07.2014 to 29.06.2015 she served as Member of the Board of Directors at SaloneN. 1 S.p.A., UniCredit Group. At the present time she has occupied the following positions: Member of the Board of Directors at Unicredit Subito CaSa S.p.A. since 11.03.2014, Member of the Management Committee of Fondo Andromeda since 31.10.2014, Member of the Management Committee of IDeA Fimit SGR, Fondo Sigma Immobiliare since 31.03.2014, Head of SL Real Estate, Italy, UniCredit Business Integrated Solutions S.C.p.A since 01.01.2014. Since 11.08.2014 she is a member of the Supervisory Board of AO UniCredit Bank.

In 2016, Alessandro Maria Decio resigned from the Supervisory Board, while Ljiljana Cortan and Giuseppe Scognamiglio were appointed to the Supervisory Board.
No shares of AO UniCredit Bank are held by any member of the Supervisory Board.

Management (Continued)

Management Board of AO UniCredit Bank (as of January 1, 2017)

Mikhail Yurievich Alekseev, Chairman of the Management Board

Born on 04.01.1964. Mr. Alekseev graduated cum laude from Moscow Finance Institute in 1986. In 1989 he defended a dissertation and received PhD in Economics and in 1992 he defended a dissertation and received PhD (full Doctor) in Economics. Mr. Alekseev started his career in the USSR Ministry of Finance. In 1992 he was elected to the Management Board of Mezhkombank. In 1995, he moved to UNEXIM Bank to the position of the Deputy Chairman of the Management Board. From 1999 to 2006 Mikhail Alekseev held the positions of Senior Vice-President and Deputy Chairman of the Management Board of Rosbank. His next place of employment was Rosprombank (from 2006), where he held the position of President and Chairman of the Board. In July 2008, in accordance with resolution of the Supervisory Board he was appointed Chairman of the Management Board at UniCredit Bank and is responsible for general management of the Bank's operations. At the present time he has served as Chairman of the Board of Directors of RN Bank since 05.09.2013, Member of the Board of Directors of PJSC Aeroflot since 24.06.2013, Chairman of the Board of Directors of BARN B.V., Netherlands since 15.04.2013, Member of the Board of Directors of TMK since 28.06.2011, Chairman of the Supervisory Board of OOO «UniCredit Leasing» since 10.03.2011, Member of the Management Board of the Russian Union of Industrialists and Entrepreneurs since 11.11.2009.

Ivaylo Glavchovski, Member of the Management Board, Senior Vice President

Born on 12.04.1969. Ivaylo Glavchovski graduated from Technical University of Sofia in 1995, has degree in engineering in electronics and automation, Information and measuring equipment. Ivaylo Glavchovski joined UniCredit in 2008 and had held various positions in UniCredit Bulbank. From 2008 till 2011 Mr. Glavchovski was working as a Director of IT of UniCredit Bulbank. In 2011 he was appointed Member of the Board in charge of Global Banking Services till 2014. In 2014 Ivaylo Glavchovski was appointed Senior Vice President in charge of Global Banking Services of UniCredit Bank Russia. Starting from January 2015 Ivaylo Glavchovski was appointed Member of the Management Board of AO UniCredit Bank. Mr. Glavchovski's responsibilities include Global Banking Services.

Kirill Zhukov-Emelyanov, Member of the Management Board, Senior Vice President

Born on 22.01.1970. Mr. Zhukov-Emelyanov graduated from the Moscow State Institute of International Relations (MGIMO-University), International Economic Relations in 1993. He started his career in 1994 with UniCredit Bank (former International Moscow Bank) in the field of corporate finance. From 1999 he managed credit business of Bank Austria Creditanstalt Russia. Following its merger with International Moscow Bank in 2001, he held executive positions at corporate banking division of International Moscow Bank. From 2003, he was responsible for the development of the regional network and corporate business of International Moscow Bank, and then of UniCredit Bank in regions. In December 2008, in accordance with resolution of the Supervisory Board he was appointed Member of the Management Board responsible for corporate banking business of AO UniCredit Bank.

Svetlana Zolotareva, Member of the Management Board, Senior Vice President

Born on 16.01.1979. Svetlana Zolotareva graduated from the Moscow State University, Economics Faculty in 2002, with honors and holds MBA from London Business School & Columbia Business School (2013). Svetlana has worked at UniCredit Bank since September 2002. For this period, Svetlana got experience in various units of the Bank in the area of risk management and corporate banking business. Since 2009, she occupied the position of Head of Mid-Market/ Regions Department. Since 2013 she has also supervised the development of Private Banking business area. In July 2016, Svetlana Zolotareva was appointed Member of the Management Board of AO UniCredit Bank responsible for the Risk Division.

Graziano Cameli,

Member of the Management Board, Chief Operating Officer, Executive Vice President

Born on 18.08.1967. Graziano Cameli holds a degree in Economics from the University of Trieste (Italian Università degli Studi di Trieste, UNITS), 1992. Graziano Cameli has gained a solid international and professional experience in the finance and banking industry. He started his career path at Assicurazioni Generali and then at McKinsey, joining the Group later in 2005 at Banca di Roma as Head of Planning & Control; further on, he continued his path as Head of Retail & Private Sales. In 2008, Graziano became Head of CEE Retail at Bank Austria. Since 2010 Mr. Cameli held the position of the General Manager and First Deputy Chairman of the Management Board and then from August 2013 the position of CEO at Ukrsotsbank (UniCredit Bank™) in Ukraine. In August 2015 was appointed Chief Operating Officer, Executive Vice President of AO UniCredit Bank, in October 2015 became Member of the Management Board of AO UniCredit Bank.

Ivan Matveev,

Member of the Management Board, Senior Vice President

Born on 06.08.1979. Ivan holds a Master Degree in Strategic Management from State University Higher School of economics (Moscow, Russia), received in 2002, and Master of Business Administration from European School of Business (Munich, Germany). From 1999 to 2004, Ivan Matveev had held various positions in OJSC RAO "Unified Energy Systems of Russia", then he held management positions in IT and retail sectors. Mr. Matveev joined UniCredit Bank in January 2011. From 2011 to 2012, he was Head of the Organization Department then, since 2012 he had been Head of Retail Sales Department. In September 2015, Ivan Matveev was appointed Member of the Management Board of AO UniCredit Bank responsible for retail business.

In 2016, Dmitry Viktorovich Mokhnachev and Michele De Capitani resigned from the Management Board, while Svetlana Zolotareva joined the Management Board.
No shares of AO UniCredit Bank are held by any member of the Management Board.

Risk Management

In order to be successful in what we do we must take risks, but we must rigorously manage our risks. We must be fully aware of the impacts of our decisions, we must take risks but we must take the right risks. And to do that, we must apply strong risk management to everything we do.

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Execution & Discipline

We know that to do well we must be extremely disciplined in the execution of everything we do. In addition to our strategic plan, we have performance measures in place which provide all our teams with clear targets and regularly follow-up on progress to ensure we are always on track.

Consolidated Financial Statements

and Independent Auditor's Report for the year ended 31 December 2016

Statement of Management's Responsibilities for the Preparation and Approval of the Consolidated Financial Statements for the Year Ended 31 December 2016

Management of AO UniCredit Bank is responsible for the preparation of the consolidated financial statements that present fairly the financial position of AO UniCredit Bank and its subsidiary (collectively – the "Group") as at 31 December 2016, and the related consolidated statements of comprehensive income for the year then ended, changes in shareholder's equity and cash flows for the year then ended, and of significant accounting policies and notes to the consolidated financial statements (the "consolidated financial statements") in compliance with International Financial Reporting Standards ("IFRS").

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

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

Management is also responsible for:

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

The consolidated financial statements for the year ended 31 December 1016 were approved by the Supervisory Board of AO UniCredit Bank on 10 March 2017 based on the decision of Board of Management of AO UniCredit Bank dated 7 March 2017.

M. Alekseev
Chairman of the Board of Management

10 March 2017

V. Starovoytov
Acting Chief Accountant

Deloitte.

To the Shareholder and Supervisory Board of AO UniCredit Bank

Opinion

We have audited the consolidated financial statements of AO UniCredit Bank and its subsidiary (collectively – the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016 and the consolidated statements of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for *Accountants' Code of Ethics for Professional Accountants* (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the consolidated 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 consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditor's Report (Continued)

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit

Impairment of loans to customers

We focused on this area because the Management makes complex and subjective judgements over both timing of recognition of impairment and the estimation of the size of any such impairment.

Certain part of impairment for loan portfolio to corporate customers is individually calculated. For retail customers the impairment is calculated on a modelled basis for portfolios of loans.

In particular we focused on:

- the principal assumptions underlying the calculation of impairment for portfolios of loans, the operation of the models to make those calculations and the application of adjustments to the results produced by those models;
- the principal assumptions underlying the calculation of discounted cash flows for loans for which impairment is identified on an individual basis;
- how impairment events that have not yet resulted in a payment default are identified and measured.

See Note 9 to the consolidated financial statements on pages 100-105 respectively.

We assessed the design and implementation, and tested the operating effectiveness of relevant controls over management's processes for establishing and monitoring the levels of both specific and collective provisions, impairment data and calculations. These controls included those over the identification of which loans to customers were impaired and the calculation of the impairment provisions. We determined that we could rely on these controls for the purposes of our audit.

In addition, we examined a sample of loans, which had not been identified by management as potentially impaired and formed our own judgement as to whether that was appropriate including using external evidence in respect of the relevant counterparties. We found no material exceptions in these tests.

Where impairment was individually calculated, we tested a sample of loans to ascertain whether the loss event (that is the point at which impairment is recognized) had been identified in a timely manner including, where relevant, how forbearance had been considered. Where impairment had been identified, we examined the forecasts of future cash flows prepared by management to support the calculation of the impairment, challenging the assumptions and comparing estimates to external evidence where available. We found no material exceptions in these tests.

Where impairment was calculated on a modelled basis, we tested the basis and operation of those models and the data and assumptions used. Our work included the following:

- we compared the principal assumptions made with our own knowledge of other practices and actual experience;
- we tested the operation of the models used to calculate the impairment including, in some cases, rebuilding those models independently and comparing the results;
- we considered the potential for impairment to be affected by events which were not captured by management's models and evaluated how management had responded to these by making further adjustments where appropriate.

In the certain cases, we formed a different view on impairment provisions from that of management, but in our view, the differences were within a reasonable range of outcomes in the context of the overall loans and advances and the uncertainties are disclosed in the consolidated financial statements.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Valuation of derivative financial instruments and hedge accounting The Group has a portfolio of derivative financial instruments, which are used for trading and hedging purposes, many of which are designated in hedge accounting relationships. We focused on this area because of complexity of derivatives and hedging accounting. The application of hedge accounting under IAS 39 "Financial Instruments: Recognition and Measurement" ("IAS 39") requires that the Group values hedged items for hedged risks only and then accurately identifies all sources of hedge accounting ineffectiveness that arise. In particular, we focused on: • key relevant controls for derivative and hedge accounting; • the valuation model of derivative instruments; • the assessment of hedge documentation, hedge relationship and hedge designation for compliance with the requirements of IAS 39; • the assessment of hedging accounting effectiveness. See Note 8 to the consolidated financial statements on pages 98-100.	We assessed the design and implementation, and tested the operating effectiveness of relevant controls over management's process for monitoring the Group's treasury related activities. We determined that we could rely on these controls for the purposes of our audit. We assessed valuations of derivative instruments and hedge accounting. We assessed the methodologies used, judgements and assumptions made. We tested the Group's calculation of hedge accounting effectiveness to assess whether the Group had appropriately calculated hedge ineffectiveness to be recorded in the income statement and to assess whether there were any hedge relationships that should be discontinued. For selected significant financial instruments, we made our own valuations using independent source of information and compared the results of our work to that of the Group. Overall, in our view, in the context of the inherent uncertainties, these valuations were within a reasonable range of outcomes.
Information Technology systems and controls We focused on this area because the Group's financial accounting and reporting systems are heavily dependent on complex systems and there is a risk that automated accounting procedures and related information technology (the "IT") dependent manual controls are not designed and operating effectively. A particular area of focus related to migration process to the new IT systems.	We assessed and tested the design and operating effectiveness of the controls over the continued integrity of the IT systems that are relevant to financial reporting. We examined the framework of governance over the Group's IT and the controls over program development and changes, access to programs and data and IT operations, including compensating controls where required. We tested the migration process to the new IT systems and data transition between the systems, including specific audit procedures to cover completeness and correctness of the data. Where necessary we also carried out direct tests of certain aspects of the security of the Group's IT systems including access management and segregation of duties. In some cases certain deficiencies in data migration process were identified, however, the combination of the tests of the controls and the direct tests that we carried out gave us sufficient evidence to enable us to rely on the Group's IT systems for the purposes of our audit.

(Continued)

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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.
- 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group'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 consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide 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 consolidated financial statements of the current period and are therefore the key audit matters.

Report on procedures performed in accordance with the Federal Law No. 395-1 "On Banks and Banking Activities" dated 2 December 1990

Management of the Group is responsible for compliance with the obligatory ratios established by the Bank of Russia (the "obligatory ratios"), as well as for compliance of the Group's internal control and risk management systems with the Bank of Russia (the "CBRF") requirements.

According to Article 42 of the Federal Law No. 395-1 "On Banks and Banking Activities" (the "Federal Law") in the course of our audit of the Group's annual financial statements for 2016 we performed procedures with respect to the Group's compliance with the obligatory ratios as at 1 January 2017 and compliance of its internal control and risk management systems with the CBRF requirements.

We have selected and performed procedures based on our judgment, including inquiries, analysis and review of documentation, comparison of the Group's policies, procedures and methodologies with the CBRF requirements, as well as recalculations, comparisons and reconciliations of numeric values and other information.

We report our findings below:

1. with respect to the Group's compliance with the obligatory ratios: the obligatory ratios as at 1 January 2017 were within the limits established by the CBRF.

   We have not performed any procedures with respect to the Group's financial information other than those we considered necessary to express our opinion on whether the annual financial statements of the Group present fairly, in all material respects, the financial position of the Group as at 31 December 2016, its financial performance and its cash flows for 2016 in accordance with International Financial Reporting Standards.

2. with respect to compliance of the Group's internal control and risk management systems with the CBRF requirements:
   (a) in accordance with the CBRF requirements and recommendations as at 31 December 2016 the Group's internal audit department was subordinated and accountable to the Group's Supervisory Board and the Group's risk management departments were not subordinated or accountable to the departments undertaking the respective risks, the heads of the Bank's risk management and internal audit departments comply with qualification requirements established by the CBRF;
   (b) as at 31 December 2016, the Group had duly approved in accordance with the CBRF requirements and recommendations the internal policies regarding identification and management of significant risks, including credit, operating, market, interest rate, legal, liquidity, and reputational risks, as well as regarding performance of stress-testing;
   (c) as at 31 December 2016, the Group had a reporting system with regard to the Group's significant credit, operating, market, interest rate, legal, liquidity and reputational risks, and with regard to the Group's capital;
   (d) frequency and sequential order of reports prepared by the Group's risk management and internal audit departments in 2016 on management of credit, operating, market, interest rate, legal, liquidity and reputational risks were in compliance with the Group's internal policies; these reports included results of monitoring by the Group's risk management and internal audit departments of effectiveness of the Group's respective methodologies and improvement recommendations;
   (e) as at 31 December 2016, the authority of the Group's Supervisory Board and the Group's executive bodies included control over compliance with the risk limits and capital adequacy ratios established by the Group. In order to control effectiveness and consistency of application of the Group's risk management policies, during 2016 the Group's Supervisory Board and the Group's executive bodies have regularly discussed reports prepared by the risk management and internal audit departments and have considered proposed corrective measures.

We have carried out the procedures with respect to the Group's internal control and risk management systems solely to report on the findings related to compliance of the Group's internal control and risk management systems with the CBRF requirements.

Neklyudov Sergei Vyacheslavovich,
Engagement partner

13 March 2017

Audited entity: AO UniCredit Bank

Licensed by the Central Bank of the Russian Federation on 22 December 2014, License #1.

Primary State Registration Number: 1027739082106

Certificate of registration in the Unified State Register series 77 #. 007773325 of 19.08.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39

9, Prechistenskaya emb., Moscow, Russia 119034.

Audit Firm: ZAO "Deloitte & Touche CIS"

Certificate of state registration # 018.482, issued by the Moscow Registration Chamber on 30.10.1992.

Primary State Registration Number: 1027700425444

Certificate of registration in the Unified State Register series 77 No. 004840299 of 13.11.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation # 39.

Member of Self-regulated organization of auditors "Russian Union of auditors" (Association), ORNZ 11603080484.

Consolidated Statement of Financial Position

as at 31 December 2016
(in thousands of Russian Roubles)

	Notes	31 December 2016	31 December 2015
ASSETS			
Cash and cash balances	5	58 588 565	22 730 813
Trading securities	6		
- held by the Group		1 154 603	3 652 106
- pledged under repurchase agreements		1 251 058	-
Amounts due from credit institutions	7	269 500 170	336 744 808
Derivative financial assets	8	41 257 596	65 526 002
Derivative financial assets designated for hedging	8	12 738 828	7 042 056
Changes in fair value of portfolio hedged items	8	1 695 189	998 710
Loans to customers	9	677 010 924	867 295 074
Investment securities:	10		
- available-for-sale			
- held by the Group		40 921 909	54 895 759
- pledged under repurchase agreements		19 704 611	14 841 932
- held-to-maturity			
- held by the Group		30 704 604	16 130 748
- pledged under repurchase agreements		212 666	-
Fixed assets	12	5 207 034	5 612 240
Intangible assets	13	6 510 549	5 350 637
Current income tax assets		14 113	1 858 930
Other assets	15	5 777 354	4 445 843
TOTAL ASSETS		**1 172 249 773**	**1 407 125 658**
LIABILITIES			
Amounts due to credit institutions	16,19	152 108 660	193 922 309
Financial liabilities held for trading	7,9	4 344 152	-
Derivative financial liabilities	8	16 857 167	49 246 075
Derivative financial liabilities designated for hedging	8	12 338 707	19 306 086
Changes in fair value of portfolio hedged items	8	(146 303)	404 256
Amounts due to customers	17	779 101 902	931 426 988
Debt securities issued	18	6 507 846	32 979 085
Deferred income tax liabilities	14	7 573 053	7 390 616
Current income tax liabilities		1 624 170	-
Other liabilities	15	10 265 514	7 922 980
TOTAL LIABILITIES		**990 574 868**	**1 242 598 395**

	Notes	31 December 2016	31 December 2015
EQUITY			
Share capital	20	41 787 806	41 787 806
Share premium		437 281	437 281
Cash flow hedge reserve		15 759	(765 540)
Revaluation reserve for available-for-sale securities		(559 841)	(2 902 933)
Retained earnings		139 993 900	125 970 649
TOTAL EQUITY		**181 674 905**	**164 527 263**
TOTAL LIABILITIES AND EQUITY		**1 172 249 773**	**1 407 125 658**

M. Alekseev
Chairman of the Board of Management

10 March 2017

V. Starovoytov
Acting Chief Accountant

The accompanying notes on pages 82 to 135 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

for the Year Ended 31 December 2016
(in thousands of Russian Roubles)

	Notes	2016	2015
Interest income and similar revenues			
Loans to customers		67 969 146	72 099 950
Derivative financial instruments		22 888 291	30 455 475
Amounts due from credit institutions		11 634 977	11 861 813
Margin from derivative financial instruments designated for hedging	8	7 965 385	9 837 917
Trading and investment securities		6 996 042	5 686 136
		117 453 841	**129 941 291**
Interest expense and similar charges			
Amounts due to customers		(39 291 263)	(44 980 932)
Derivative financial instruments		(20 958 490)	(26 826 598)
Amounts due to credit institutions		(10 175 531)	(13 731 620)
Debt securities issued		(1 928 718)	(4 041 374)
		(72 354 002)	**(89 580 524)**
Net interest income		**45 099 839**	**40 360 767**
Fee and commission income	23	9 944 134	8 704 076
Fee and commission expense	23	(3 967 626)	(4 324 696)
Net fee and commission income		**5 976 508**	**4 379 380**
Dividend income		4	3
Gains on financial assets and liabilities held for trading	22	2 147 321	5 257 463
Fair value adjustments in portfolio hedge accounting	8	(369 734)	(960 816)
Gains/ (losses) on disposal of:			
- loans		99 294	53 118
- available-for-sale financial assets		233 863	(118 562)
OPERATING INCOME		**53 187 095**	**48 971 353**
(Impairment) / recovery on:			
- loans	9	(17 218 380)	(14 620 828)
- other financial transactions		(369 951)	11 781
NET INCOME FROM FINANCIAL ACTIVITIES		**35 598 764**	**34 362 306**
Personnel expenses	24	(8 747 579)	(7 793 018)
Other administrative expenses	24	(6 433 723)	(5 553 486)
Depreciation of fixed assets	12	(637 604)	(716 931)
Amortization of intangible assets	13	(1 223 895)	(879 794)
Other provisions		(622 547)	(180 976)
Net other operating expenses		(343 056)	(263 268)
Operating costs		**(18 008 404)**	**(15 387 473)**
Gains on disposal of fixed assets		11 686	8 264
PROFIT BEFORE INCOME TAX EXPENSE		**17 602 046**	**18 983 097**
Income tax expense	14	(3 578 795)	(3 465 103)
PROFIT FOR THE YEAR		**14 023 251**	**15 517 994**

	Notes	2016	2015
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit and loss			
Cash flow hedge reserve – effective portion of changes in fair value, net of tax:			
- fair value changes;	14	751 708	662 625
- reclassification adjustment relating to financial assets and liabilities designated for hedging disposed of in the year;	14	29 591	113 322
Revaluation reserve for available-for-sale securities, net of tax:			
- fair value changes;	14	2 051 958	5 814 273
- reclassification adjustment relating to available-for-sale financial assets disposed of in the year.	14	291 134	353 025
Other comprehensive income for the year, net of tax		**3 124 391**	**6 943 245**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**17 147 642**	**22 461 239**

M. Alekseev
Chairman of the Board of Management

10 March 2017

V. Starovoytov
Acting Chief Accountant

The accompanying notes on pages 82 to 135 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

for the Year Ended 31 December 2016
(in thousands of Russian Roubles)

	Share capital	Share premium	Cash flow hedge reserve	Revaluation reserve for available-for-sale securities	Retained earnings	Total equity
1 January 2015	**41 787 806**	**437 281**	**(1 541 487)**	**(9 070 231)**	**110 452 655**	**142 066 024**
Total comprehensive income						
Profit for the year	-	-	-	-	15 517 994	15 517 994
Other comprehensive income						
Change in cash flow hedge reserve, net of tax (Note 14)	-	-	775 947	-	-	775 947
Net change in revaluation reserve for available-for-sale securities, net of tax (Note 14)	-	-	-	6 167 298	-	6 167 298
Total other comprehensive income	**-**	**-**	**775 947**	**6 167 298**	**-**	**6 943 245**
TOTAL COMPREHENSIVE INCOME	**-**	**-**	**775 947**	**6 167 298**	**15 517 994**	**22 461 239**
31 December 2015	**41 787 806**	**437 281**	**(765 540)**	**(2 902 933)**	**125 970 649**	**164 527 263**
1 January 2016	**41 787 806**	**437 281**	**(765 540)**	**(2 902 933)**	**125 970 649**	**164 527 263**
Total comprehensive income						
Profit for the year	-	-	-	-	14 023 251	14 023 251
Other comprehensive income						
Change in cash flow hedge reserve, net of tax (Note 14)	-	-	781 299	-	-	781 299
Net change in revaluation reserve for available-for-sale securities, net of tax (Note 14)	-	-	-	2 343 092	-	2 343 092
Total other comprehensive income	**-**	**-**	**781 299**	**2 343 092**	**-**	**3 124 391**
TOTAL COMPREHENSIVE INCOME	**-**	**-**	**781 299**	**2 343 092**	**14 023 251**	**17 147 642**
31 December 2016	**41 787 806**	**437 281**	**15 759**	**(559 841)**	**139 993 900**	**181 674 905**

M. Alekseev
Chairman of the Board of Management

10 March 2017

V. Starovoytov
Acting Chief Accountant

АО UniCredit Bank

The accompanying notes on pages 82 to 135 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

for the Year Ended 31 December 2016
(in thousands of Russian Roubles)

	Notes	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		116 243 579	128 650 468
Interest paid		(81 879 165)	(72 552 924)
Fees and commissions received		10 347 433	8 835 164
Fees and commissions paid		(4 091 289)	(4 224 189)
Net receipts from trading securities		8 492	408 153
Net payments from derivatives and dealing in foreign currencies		(17 446 453)	(53 202 919)
Salaries and benefits paid		(7 301 010)	(7 212 036)
Other operating expenses paid		(5 352 150)	(5 472 350)
Cash flows from / (used in) operating activities before changes in operating assets and liabilities		**10 529 437**	**(4 770 633)**
Net (increase) /decrease in operating assets			
Obligatory reserve with the CBR		(2 407 050)	2 019 558
Trading securities		1 233 616	926 595
Amounts due from credit institutions		14 812 462	49 511 762
Loans to customers		99 920 590	68 619 686
Other assets		(2 737 183)	1 087 152
Net (decrease) / increase in operating liabilities			
Amounts due to credit institutions		(8 456 708)	(71 041 904)
Financial liabilities held for trading	7,9	4 344 152	-
Amounts due to customers		(33 527 471)	(40 631 443)
Other liabilities		3 667 077	15 282
Net cash from operating activities before income tax		**87 378 922**	**5 736 055**
Income tax paid		(708 469)	(2 596 717)
Net cash from operating activities		**86 670 453**	**3 139 338**
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividends received		4	3
Purchase of available-for-sale investment securities		(8 625 544)	(17 877 038)
Proceeds from redemption and sale of available-for-sale investment securities		17 739 270	11 403 471
Purchases of held-to-maturity investment securities		(16 258 912)	(15 875 673)
Proceeds from sale of fixed and intangible assets		6 815	9 005
Purchase of fixed and intangible assets		(2 323 413)	(2 319 113)
Net cash used in investing activities		**(9 461 780)**	**(24 659 345)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of bonds		-	4 000 000
Redemption of bonds issued on maturity		(15 205 218)	(626 813)
Redemption of bonds issued under put option		(10 711 307)	(31 736 538)
Redemption of subordinated debt		(14 233 680)	-
Proceeds from subordinated debt received		-	27 761 347
Net cash used in financing activities		**(40 150 205)**	**(602 004)**
Effect of exchange rates changes on cash and cash balances		(1 200 716)	1 979 428
Net increase / (decrease) in cash and cash balances		**35 857 752**	**(20 142 583)**
CASH AND CASH BALANCES, beginning of the year	**5**	**22 730 813**	**42 873 396**
CASH AND CASH BALANCES, ending of the year	**5**	**58 588 565**	**22 730 813**

M. Alekseev
Chairman of the Board of Management

V. Starovoytov
Acting Chief Accountant

10 March 2017

The accompanying notes on pages 82 to 135 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

(in thousands of Russian Roubles)

1. Principal activities

These consolidated financial statements include the financial statements of AO UniCredit Bank (hereinafter – the "Bank") and it's subsidiary. AO UniCredit Bank and its subsidiary are hereinafter collectively referred to as the "Group".

The Bank (the former International Moscow Bank) was established in 1989 as a closed joint-stock company under the laws of the Russian Federation. The Bank operates under General Banking License of the Central Bank of Russia (hereinafter – the "CBR") for banking operations as well as the license of the CBR for operations with precious metals, both issued on 22 December 2014 for No. 1. The Bank also possesses licences of the professional securities market participant for dealing, brokerage and depository activities issued by the Federal Securities Commission on 25 April 2003, as well as authorized to speak to the customs authorities as a guarantor. The Bank is a member of the state deposit insurance system in the Russian Federation.

As at 31 December 2016 the Group comprises the Bank, the leading operating entity of the Group, and LLC UniCredit Leasing, a leasing company as it's subsidiary. LLC UniCredit Leasing owns 100% of the shares in ZAO Locat Leasing Russia. Both companies operate in the financial leasing industry on the local market.

The consolidated financial statements include the following subsidiary:

	Ownership, %			
Entities	**2016**	**2015**	**Country**	**Industry**
LLC UniCredit Leasing	100%	100%	Russia	Finance

The primary activities of the Group are deposit taking, lending, providing payments and settlement services, transactions with foreign currencies and securities and providing finance leases.

As at 1 October 2016 the reorganization of UniCredit Group Division responsible for the Central and Eastern Europe has been successfully completed. Under this reorganization, the transfer of the participations in subsidiaries based in the Central and Eastern Europe from UniCredit Bank Austria AG to UniCredit S.p.A. has taken place. As a result, the immediate parent of the Group has changed to UniCredit S.p.A. with legal validity from 1 October 2016 and accounting effects retroactive from 1 January 2016 (see Note 28 for details). This reorganization allowed to simplify the structure and strengthen the central steering functions under the direct supervision of UniCredit Group while preserving the existing know-how and customers' relationships.

Thus, UniCredit Bank Austria AG has ceased to exist as sub-holding but remained a member of UniCredit Group. As at 31 December 2016 the sole shareholder of the Group is UniCredit S.p.A.

As at 31 December 2016 the Bank has 13 branches and 11 representative offices throughout the Russian Federation and one representative office in the Republic of Belarus (as at 31 December 2015: 13 branches and 12 representative offices throughout the Russian Federation and one representative office in the Republic of Belarus).

The Bank's registered legal address is 9, Prechistenskaya Embankment, Moscow, Russian Federation, 119034.

2. Significant accounting policies

Statement of compliance. These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (hereinafter – "IFRS").

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

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

Basis of measurement. These consolidated financial statements are prepared on the historical cost basis except that financial instruments held for trading, available-for-sale assets and derivative financial instruments are stated at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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

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

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

Accounting standards. The Bank and its consolidated companies, registered in the Russian Federation, maintain their accounting records in accordance with Russian Accounting Standards (hereinafter – "RAS"). These consolidated financial statements have been prepared from the statutory accounting records and have been adjusted to conform to IFRS.

Presentation currency. These consolidated financial statements are presented in Russian Roubles ("RUB"). Amounts in Russian Roubles are rounded to the nearest thousand.

Principles of consolidation. These consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank. Control is achieved when the Bank:

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

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

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

- the size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Bank, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

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

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

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

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

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

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

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated using the equity method of accounting. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

Unrealised gains resulting from transactions with associates are eliminated against the investment in the associates. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

Financial assets

Initial recognition. Financial assets in the scope of International Accounting Standard 39 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets upon initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loan and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the entity has an intention and ability to hold it for the foreseeble future or until maturity. Other financial instruments may be reclassified out of fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

The Group recognises financial assets and liabilities on its consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets and liabilities are recognised at the settlement date.

Financial instruments at fair value through profit or loss. Financial instruments at fair value through profit or loss are financial assets or liabilities that are:
- Acquired or incurred principally for the purpose of selling or repurchasing in the near term;
- 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-taking;
- Derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments); or,
- Upon initial recognition, designated by the Group as at fair value through profit or loss.

The Group designates financial assets and liabilities at fair value through profit or loss where either:
- The assets or liabilities are managed and evaluated on a fair value basis;
- The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- The asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

Gains or losses on financial assets held for trading are recognised in profit or loss.

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

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

Loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group:
- Intends to sell immediately or in the near term;
- Upon initial recognition designates as at fair value through profit or loss;
- Upon initial recognition designates as available-for-sale; or,
- May not recover substantially all of its initial investment, other than because of credit deterioration.

Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets. Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised as other comprehensive income in equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in profit or loss. Interest income calculated using the effective interest method is recognised in profit or loss.

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

Determination of fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. The fair value for financial instruments traded in an active market at the reporting date is based on their quoted market price or dealer price quotations. If a quoted market price is not available, the fair value of the instrument is estimated using valuation techniques with a maximum use of market inputs. Such valuation techniques include reference to recent arm's length market transactions, current market prices of substantially similar instruments, discounted cash flow and option pricing models and other techniques commonly used by market participants to price the instrument.

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 reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the reporting date.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Group would receive or pay to terminate the contract at the reporting date taking into account current market conditions and the current creditworthiness of the counterparties.

Offsetting. Financial assets and financial liabilities are offset and the net amount is reported in the consolidated 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 to realise the asset and settle the liability simultaneously. Income and expense is not offset in the consolidated statement of comprehensive income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

Cash and cash balances. The Group considers cash and nostro accounts with the CBR to be cash and cash balances. The obligatory reserve deposit with the CBR is not considered to be in this category due to restrictions on its availability.

Obligatory reserve with the CBR. Obligatory reserve with the CBR represent obligatory reserve deposits with the CBR, which are not available to finance the Group's day-to-day operations.

Derivative financial instruments. In the normal course of business, the Group enters into various derivative financial instruments including futures, forwards, interest rate swaps and cross-currency interest rate swaps. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments, except for derivatives designated for hedging, are included in profit or loss as gains or losses on financial assets and liabilities held for trading.

The Group books the credit risk of the counterparty as a fair value adjustment for those over-the-counter derivative trades, where master netting agreement exist. Credit risk expressed in the form of credit value adjustment (hereinafter – "CVA") and debit value adjustment (hereinafter – "DVA") is determined on a portfolio basis with the counterparty. Determining CVA/DVA on a net portfolio basis has resulted in adjustments booked individually for derivative financial assets and derivative financial liabilities held for trading (see Note 8 for details).

Hedge accounting. In hedge accounting, the Group distinguishes between cash flow hedges and fair value hedges. To qualify for hedge accounting in accordance with IAS 39, hedges must be highly effective. Derivatives used for hedging purposes are measured at fair value in the consolidated statement of financial position.

At inception of the hedge relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. Hedges are formally assessed for effectiveness on monthly basis. A hedge is regarded as highly effective if the changes in the fair value of cash flows attributable to the hedged risk are expected to offset in a range of 80% to 125% during the hedging period.

Where a derivative is designated as a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised as other comprehensive income in equity. The amount recognised in equity is removed and included in profit or loss in the same period as the hedged cash flows affect profit or loss. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

If the derivative expires or is sold, terminated, or exercised, or no longer meets the criteria for cash flow hedge accounting, or the designation is revoked, hedge accounting is discontinued and the amount recognised in equity remains in equity until the forecast transaction affects profit or loss. If the forecast transaction is no longer expected to occur, hedge accounting is discontinued and the balance in equity is recognised immediately in profit or loss.

Fair value hedge is defined as a hedge of the exposure to changes in fair value of a recognised asset or liability that is attributable to a particular risk and could affect profit or loss. In a fair value hedge assets or liabilities are hedged against future fair value changes, if those changes affect the Group's results and are caused by a determinable risk. The hedging instrument is stated at its fair value, and any gains or losses on the hedging instrument are recognised in profit or loss as fair value adjustments in portfolio hedge accounting. Gains and losses which are attributable to the hedged risk adjust the carrying value of the hedged item. Changes in the fair value of portfolio hedged items are presented separately in the consolidated statement of financial position and recognized in the consolidated statement of comprehensive income as fair value adjustments in portfolio hedge accounting.

Credit risk expressed in the form of CVA and DVA is also incorporated in the calculation of the fair value of derivative financial assets and derivative financial liabilities designated for hedging (see Note 8 for details).

Repurchase and reverse repurchase agreements and securities lending. Repurchase and reverse repurchase agreements are utilized by the Group as an element of its treasury management and trading business. These agreements are treated as secured financing transactions. Securities sold under repurchase agreements are retained in the consolidated statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from credit institutions or loans to customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repurchase agreements using the effective interest method.

Securities lent to counterparties are retained in the consolidated statement of financial position. Securities borrowed are not recorded in the consolidated statement of financial position, unless they are sold to third parties, in which case the purchase and sale are recorded within net gains or losses from trading securities in profit or loss. The obligation to return them is recorded at fair value as a trading liability.

Securities purchased under agreements to resell ("reverse repo") and then sold under repurchase agreements are not recorded in the consolidated statement of financial position.

Borrowings. Financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity instruments. Such instruments include amounts due to credit institutions, amounts due to customers, subordinated debt and debt securities issued. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the borrowings are derecognised as well as through the amortisation process.

If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognised in profit or loss.

Leases

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

When the Group enters into finance lease as a lessor the present value of lease payments are recognised as loans to customers at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Operating lease. Where the Group is the lessee in a lease agreement where the lessor does not transfer substantially all of the risks and rewards incidental to ownership of the asset, the arrangement is accounted for as an operating lease. The leased asset is not recognised in the consolidated financial statements, and lease payments are recognised in profit or loss on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Impairment of financial assets. The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Amounts due from credit institutions and loans to customers. For amounts due from credit institutions and loans to customers carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the allowance account in profit or loss.

The Group estimates impairment for loans to corporate customers based on the following approach:

- For exposures for which no identifications of impairement has been identified on an individual basis, the calculation is based on portfolio (statistical) assessment which takes into account historical loss experience, probability of default and loss given default.
- For impaired exposures the calculation is done on individual assessment and is based on the analysis of discounted future cash flows.

The Group estimates impairement for loans to retails customers based on portfolio (statistical) assessment which takes into account historical loss experience for each type of loans, probability of default and loss given default.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral. For purposes of impairment calculation the Group takes into account liquid collateral, reduced by haircut for certain type of collateral.

Held-to-maturity financial investments. For held-to-maturity investments the Group assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to profit or loss.

Available-for-sale financial investments. For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

Impairment losses on available-for-sale financial assets are recognised by transferring the cumulative loss that is recognised in other comprehensive income to profit or loss as a reclassification adjustment.

The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in profit or loss. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

Renegotiated loans. Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an impairment assessment, calculated using the loan's original effective interest rate.

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

Repossessed assets. In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. Repossessed assets are measured at the lower of carrying amount and fair value less costs to sell.

Non-financial assets. Other 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 recognised in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed 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 amortisation, if no impairment loss had been recognised.

Derecognition of financial assets and liabilities

Financial assets. A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- The rights to receive cash flows from the asset have expired;
- The Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "'pass-through"' arrangement; and
- The Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another financial liability from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Taxation. Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognised directly in equity, in which case it is recognised within other comprehensive income or directly within equity.

The current income tax expense is calculated in accordance with the regulations of the Russian Federation and of the regions in which the Group has offices, or where its branches, subsidiaries and associates are located. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefits will be realised.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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

There are various operating taxes in the Russian Federation that are assessed on the Group's activities. These taxes are included as a component of other administrative expenses in the consolidated statement of comprehensive income.

Fixed assets. Fixed assets are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	20-30
Furniture and fixtures	5
Computer equipment	5
Leasehold improvements	lesser of the useful life of the asset and period of lease
Other fixed assets	3-5

Costs related to repairs and renewals are charged when incurred and included in other administrative expenses, unless they qualify for capitalization.

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

Intangible assets. Intangible assets include licenses and computer software. Licenses are stated at historical cost net of accumulated amortisation and any accumulated impairment losses. Amortisation is provided so as to write down the cost of an asset on a straight-line basis over its estimated useful economic life. The useful life is currently assessed as not more than 10 years. In case of license obtaining with actual usage for a period of more than 10 years, the useful life is considered till the date, fixed in the contract.

Software development costs (relating to the design and testing of new or substantially improved software) are recognised as intangible assets only when the Group can demonstrate the technical feasibility of completing the software so that it will be available for use or sale, its intention to complete and its ability to use the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during the development. Other software development costs are recognised as an expense as incurred. Computer software development costs recognised as intangible assets, as well as acquired computer software, are initially recorded at historical cost and are subsequently amortised using the straight-line method over their useful lives, but not exceeding a period of ten years.

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

Credit related commitments. In the normal course of business, the Group enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Impairment for credit-related commitments is recognized on exposures with customers, for which the probability of default is within the range from 50% to 100%.

Financial guarantee liabilities and provisions for other credit related commitment are included in other liabilities.

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

Collateral. The Group obtains collateral in respect of customer liabilities where this is considered appropriate.

The collateral normally takes the form of a lien over the customer's assets and gives the Group a claim on these assets for both existing and future customer liabilities.

Other provisions. Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Retirement and other employee benefit obligations. The Group makes contributions to the State Pension System of the Russian Federation, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned.

The Group also provides defined contribution pension coverage for employees. The coverage provided does not represent contributions into a separate legal entity, nor are its assets and liabilities segregated from the assets and liabilities of the Group. Contributions accrued by the Group during the period are included in profit or loss as personnel expenses, and related liabilities to employees are recorded within other liabilities.

Share capital. Ordinary shares are classified as equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as share premium.

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

Segment reporting. An operating segment is a component of a Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same Group); whose operating results are regularly reviewed by the chief operating decision maker

Notes to Consolidated Financial Statements (Continued)

2. Significant accounting policies (Continued)

to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

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

Recognition of income and expenses. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

Interest and similar income and expense. For all financial instruments measured at amortised cost and interest bearing securities classified as trading or available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Fee and commission income. The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

<u>Fee income earned from services that are provided over a certain period of time.</u> Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

<u>Fee income from providing transaction services.</u> Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Dividend income. Dividend income is recognised in profit or loss on the date when the dividend is declared.

Foreign currency translation. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Management determined the functional currency for all Group entities to be the RUB as it reflects the economic substance of the underlying events and circumstances of the Group. Transactions in foreign currencies are translated to the functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in profit or loss as gains or losses on financial assets and liabilities held for trading. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Differences between the contractual exchange rate of a transaction in a foreign currency and the CBR exchange rate on the date of the transaction are included in gains or losses on financial assets and liabilities held for trading.

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

	31 December 2016	31 December 2015
RUB/1 US Dollar	60.6569	72.8827
RUB/1 Euro	63.8111	79.6972

New standards effective starting from the current reporting period. The following new and revised standards and interpretations became effective for the Group from 1 January 2016.

- Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception;
- Amendments to IAS 1 Disclosure Initiative;
- Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation;
- Annual Improvements to IFRSs 2012-2014 Cycle.

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception. The amendments clarify that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with IFRS 10. The amendments also clarify that the requirement for an investment entity to consolidate a subsidiary providing services related to the former's investment activities applies only to subsidiaries that are not investment entities themselves.

The application of these amendments has had no impact on the Group's consolidated financial statements as the Group is not an investment entity and does not have any holding company, subsidiary, associate or joint venture that qualifies as an investment entity.

Amendments to IAS 1 Disclosure Initiative. The amendments clarify that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, and give guidance on the basis of aggregating and disaggregating information for disclosure purposes. However, the amendments reiterate that an entity should consider providing additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the entity's financial position and financial performance.

In addition, the amendments clarify that an entity's share of the other comprehensive income of associates and joint ventures accounted for using the equity method should be presented separately from those arising from the Group, and should be separated into the share of items that, in accordance with other IFRSs: (i) will not be reclassified subsequently to profit or loss; and (ii) will be reclassified subsequently to profit or loss when specific conditions are met.

As regards the structure of the consolidated financial statements, the amendments provide examples of systematic ordering or grouping of the notes.

The application of these amendments has not resulted in any impact on the financial performance or financial position of the Group.

Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation. 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 amortisation 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.

As the Group already uses the straight-line method for depreciation and amortisation for its property, plant and equipment, and intangible assets respectively, the application of these amendments has had no impact on the Group's consolidated financial statements.

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 summarised 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 quality 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.

The application of these amendments has had no effect on the Group's consolidated financial statements.

New and revised IFRSs in issue but not yet effective. The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

- IFRS 9 *Financial Instruments*[2]*;*
- IFRS 15 *Revenue from Contracts with Customers (and the related Clarifications)*[2]*;*
- IFRS 16 *Leases*[3]*;*
- Amendments to IFRS 2 – *Classification and Measurement of Share-based Payment Transactions*[2]*;*
- Amendments to IFRS 10 and IAS 28 – *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]*;*
- Amendments to IAS 7 – *Disclosure Initiative*[1]*;*
- Amendments to IAS 12 – *Recognition of Deferred Tax Assets for Unrealised Losses*[1]*;*
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*[2]*;*
- Annual Improvements to IFRSs 2014-2016 Cycle.

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' (hereinafter – "FVTOCI") measurement category for certain simple debt instruments.

1 Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.

2 Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

3 Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.

4 Effective for annual periods beginning on or after a date to be determined. Earlier application is permitted.

2. Significant accounting policies (Continued)

The key requirements of IFRS 9 are:

- **Classification and measurement of financial assets.** All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised 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 nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- **Classification and measurement of financial liabilities.** 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 a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes 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.
- **Impairment.** 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 recognised.
- **Hedge accounting.** 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.

Based on an analysis of the Group's financial assets and financial liabilities as at 31 December 2016 on the basis of the facts and circumstances that exist at that date, the management of the Group has performed a preliminary assessment of the impact of IFRS 9 to the Group's consolidated financial statements as follows:

<u>Classification and measurement</u>

- Debt securities classified as held-to-maturity investments and loans carried at amortised cost: these are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets will continue to be subsequently measured at amortised cost upon the application of IFRS 9;
- Listed debt securities classified as available-for-sale investments carried at fair value: these are held within a business model whose objective is achieved both by collecting contractual cash flows and selling the notes in the open market, and the notes' contractual terms give rise to cash flows on specified dates that are solely payments of principal and interest on the principal outstanding. Accordingly, the listed debt securities will continue to be subsequently measured at FVTOCI upon the application of IFRS 9, and the fair value gains or losses accumulated in the revaluation reserve will continue to be subsequently reclassified to profit or loss when the listed debt securities are derecognised or reclassified;
- All other financial assets and financial liabilities will continue to be measured on the same bases as is currently adopted under IAS 39.

<u>Impairment.</u> Financial assets measured at amortised cost, listed debt securites that will be carried at FVTOCI under IFRS 9, finance lease receivables and financial guarantee contracts will be subject to the impairment provisions of IFRS 9.

In general, the management anticipates that the application of the expected credit loss model of IFRS 9 will result in earlier recognition of credit losses for the respective items and are currently assessing the potential impact.

It should be noted that the above assessments were made based on an analysis of the Group's financial assets and financial liabilities as at 31 December 2016 on the basis of the facts and circumstances that existed at that date. As facts and circumstances may change during the period leading up to the initial date of application of IFRS 9, which is expected to be 1 January 2018 as the Group does not intend to early apply the standard, the assessment of the potential impact is subject to change.

IFRS 15 Revenue from Contracts with Customers. IFRS 15 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 recognise 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:
- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts;
- Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises 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.

In April 2016, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

IFRS 16 Leases. IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions. The amendments clarify the following:

1. In estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments.
2. Where tax law or regulation requires an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employee's tax liability which is then remitted to the tax authority, i.e. the share-based payment arrangement has a 'net settlement feature', such an arrangement should be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature.
3. A modification of a share-based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows:
   (a) the original liability is derecognised;
   (b) the equity-settled share-based payment is recognised at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date; and
   (c) any difference between the carrying amount of the liability at the modification date and the amount recognised in equity should be recognised in profit or loss immediately.

The amendments are effective for annual reporting periods beginning on or after 1 January 2018 with earlier application permitted. Specific transition provisions apply. The management of the Company does not anticipate that the application of the amendments in the future will have a significant impact on the Group's consolidated financial statements.

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 recognised 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 recognised 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 effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted. The management of the Group anticipates that the application of these amendments may have an impact on the Group's consolidated financial statements in future periods should such transactions arise.

Amendments to IAS 7 Disclosure Initiative. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The amendments apply prospectively for annual periods beginning on or after 1 January 2017 with earlier application permitted. The management of the Group does not anticipate that the application of these amendments will have a material impact on the Group's consolidated financial statements.

Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses. The amendments clarify the following:

1. Decreases below cost in the carrying amount of a fixed-rate debt instrument measured at fair value for which the tax base remains at cost give rise to a deductible temporary difference, irrespective of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use, or whether it is probable that the issuer will pay all the contractual cash flows;
2. When an entity assesses whether taxable profits will be available against which it can utilise a deductible temporary difference, and the tax law restricts the utilisation of losses to deduction against income of a specific type (e.g. capital losses can only be set off against capital gains), an entity assesses a deductible temporary difference in combination with other deductible temporary differences of that type, but separately from other types of deductible temporary differences;
3. The estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this; and
4. In evaluating whether sufficient future taxable profits are available, an entity should compare the deductible temporary differences with future taxable profits excluding tax deductions resulting from the reversal of those deductible temporary differences.

The amendments apply retrospectively for annual periods beginning on or after 1 January 2017 with earlier application permitted. The management of the Group does not anticipate that the application of these amendments will have a material impact on the Group's consolidated financial statements.

IFRIC 22 Foreign Currency Transactions and Advance Consideration. The Interpretation clarifies that when an entity pays or receives consideration in advance in a foreign currency, 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 is the date of the advance consideration, i.e. when the prepayment or liability in respect of the income received in advance was recognised. If there is more than one advance payment or receipt the date of the transaction for each payment of receipt of advance consideration should be determined. The amendments apply to annual periods beginning on or after 1 January 2018 with earlier application permitted. Entities may elect to apply amendments either retrospectively or prospectively. The management of the Company does not anticipate that the application of this IFRIC will have a material impact on the Group's consolidated financial statements as the Group currently uses the approach prescribed in IFRIC 22.

Annual Improvements to IFRSs 2014-2016 Cycle. This annual improvements package amended three standards:

The Amendments to IFRS 1 delete the short-term exemptions that related to disclosures about financial instruments, employee benefits and investment entities as the reporting period to which the exemptions applied have already passed and as such, these exemptions are no longer applicable. The amendments are effective for annual periods beginning on or after 1 January 2018.

The amendments to IFRS 12 clarify that concession from the requirement to provide summarised financial information in respect of interests in subsidiaries, associates or joint ventures classified as held for sale or included in a disposal group is the only concession available for such interests. The amendments apply retrospectively and are effective for annual periods beginning on or after 1 January 2017.

In accordance with IAS 28, a venture capital organisation and other similar entities may elect to measure investments in associates and joint ventures at FVTPL. In addition, an entity that is not an investment entity but has an interest in an associate or joint venture that is an investment entity, may, when applying the equity method, elect to retain the fair value measurement applied by that associate or joint venture to its own interests in subsidiaries. Amendments to IAS 28 clarify that such election should be made separately for each associate or joint venture at initial recognition. The amendments apply retrospectively and are effective for annual periods beginning on or after 1 January 2018. Early application is permitted.

The management does not anticipate that the application of these amendments will have a material impact on the Group's consolidated financial statements.

3. Significant accounting judgements and estimates

Under the IFRS, management must make judgments, estimates and assumptions that affect the application of accounting principles and the amounts of assets and liabilities and income and expenses reported in the accounts, as well as the disclosure concerning potential assets and liabilities. Estimates and related assumptions are based on previous experience and other factors considered reasonable under the circumstances and have been used to estimate the carrying values of assets and liabilities not readily available from other sources.

Estimated figures have been used for the recognition of some of the largest value-based items in the consolidated financial statements as at 31 December 2016, as required by the accounting policies and regulations. The processes adopted confirm the carrying values as at 31 December 2015. Valuation is particularly difficult because of the uncertainty in the macroeconomic and market environment. The parameters and information used to check the above-mentioned values were therefore significantly affected by such factors, which could change rapidly in ways that are currently unforeseeable, such that further effects on future carrying values cannot be ruled out.

Uncertainty affecting estimates is generally inherent in the measurement of:
- fair value of financial instruments not listed in active markets;
- loans and receivables, investments and, in general, any other financial assets/liabilities;
- provisions for risks and charges;
- deferred tax assets and liabilities;
- whose assessment may significantly change over time according to the trend in: domestic and international socioeconomic conditions and subsequent impact on the Group's profitability and customers' creditworthiness; financial markets which affect changes in interest rates and prices; real estate market affecting the value of property received as collateral.

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

4. Operating segments

For management purposes, the Group has four reporting business segments:

Corporate and Investment banking (hereinafter – "CIB") includes corporate lending, project and commodity and corporate structured finance, corporate sight and term deposit services, securities, foreign currency and derivatives trading and custody services.

Retail banking comprises banking services to private individuals and Small and Medium Entities (hereinafter – "SME"), credit and debit card services, retail sight and term deposit services, lending to SME and retail lending (consumer loans, car loans and mortgages).

Leasing **–** represents the leasing activities of the Group.

Other **–** represents the Group's funding activities and other unallocated items.

Information about each segment is measured on the same basis as the information used for decision making purposes for allocating resources to segments and assessing segment performance and is prepared on the same basis as the consolidated financial statements.

Transactions between the business segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between segments, resulting in funding cost transfers included in segment revenue. Interest charged for these funds is based on the Group's funds transfer pricing policy.

Segment breakdown of assets and liabilities is set out below:

	31 December 2016	31 December 2015
Assets		
CIB	795 402 685	1 015 688 084
Retail banking	112 704 869	120 721 231
Leasing	17 240 438	14 001 241
Other	246 901 781	256 715 102
Total assets	**1 172 249 773**	**1 407 125 658**
Liabilities		
CIB	718 941 087	855 887 223
Retail banking	213 138 287	224 639 697
Leasing	14 095 700	11 186 533
Other	44 399 794	150 884 942
Total liabilities	**990 574 868**	**1 242 598 395**

Notes to Consolidated Financial Statements (Continued)

4. Operating segments (Continued)

Segment information for the operating segments for the year ended 31 December 2016 is set out below:

	CIB	Retail Banking	Leasing	Other	Total
Net interest income from external customers	30 289 044	7 675 323	1 048 145	6 087 327	45 099 839
Inter-segment income/ (expense)	709 659	1 523 157	-	(2 232 816)	-
Net interest income	**30 998 703**	**9 198 480**	**1 048 145**	**3 854 511**	**45 099 839**
Net fee and commission income from external customers	2 174 562	3 787 059	14 887		5 976 508
Dividend income	-	-	-	4	4
Gains on financial assets and liabilities held for trading from external customers	739 408	1 141 348	3 408	263 157	2 147 321
Fair value adjustments in portfolio hedge accounting	-	-	-	(369 734)	(369 734)
Gains on disposals of financial assets	290 233	42 924	-	-	333 157
Operating income	**34 202 906**	**14 169 811**	**1 066 440**	**3 747 938**	**53 187 095**
Impairment on loans and other financial transactions	(13 371 855)	(4 033 539)	(178 813)	(4 124)	(17 588 331)
Net income from financial activities	**20 831 051**	**10 136 272**	**887 627**	**3 743 814**	**35 598 764**
Operating costs including:	(6 397 716)	(9 867 285)	(453 259)	(1 290 144)	(18 008 404)
depreciation of fixed assets and amortization of intangible assets	(675 145)	(1 180 908)	(5 446)	-	(1 861 499)
Gains on disposal of fixed assets	-	-	-	11 686	11 686
Profit before income tax expense	**14 433 335**	**268 987**	**434 368**	**2 465 356**	**17 602 046**
Income tax expense					(3 578 795)
Profit for the year					**14 023 251**
Cash flow hedge reserve					781 299
Revaluation reserve for available-for-sale securities					2 343 092
Total comprehensive income					**17 147 642**

Segment information for the operating segments for the year ended 31 December 2015 is set out below:

	CIB	Retail Banking	Leasing	Other	Total
Net interest income from external customers	26 128 113	10 309 738	836 617	3 086 299	40 360 767
Inter-segment income/ (expense)	485 389	(101 449)	-	(383 940)	-
Net interest income	**26 613 502**	**10 208 289**	**836 617**	**2 702 359**	**40 360 767**
Net fee and commission income/ (expense) from external customers	1 556 945	2 981 431	15 612	(174 608)	4 379 380
Dividend income	-	-	-	3	3
Gains/ (losses) on financial assets and liabilities held for trading from external customers	3 216 072	1 404 603	(5 772)	642 560	5 257 463
Fair value adjustments in portfolio hedge accounting	-	-	-	(960 816)	(960 816)
(Losses)/ gains on disposals of financial assets	(93 228)	27 784	-	-	(65 444)
Operating income	**31 293 291**	**14 622 107**	**846 457**	**2 209 498**	**48 971 353**
Impairment on loans and other financial transactions	(11 309 225)	(3 220 771)	(76 104)	(2 947)	(14 609 047)
Net income from financial activities	**19 984 066**	**11 401 336**	**770 353**	**2 206 551**	**34 362 306**
Operating costs including:	(5 419 716)	(8 876 262)	(417 198)	(674 297)	(15 387 473)
depreciation of fixed assets and amortization of intangible assets	(524 792)	(1 068 996)	(2 937)	-	(1 596 725)
Gains on disposal of fixed assets	-	-	-	8 264	8 264
Profit before income tax expense	**14 564 350**	**2 525 074**	**353 155**	**1 540 518**	**18 983 097**
Income tax expense					(3 465 103)
Profit for the year					**15 517 994**
Cash flow hedge reserve					775 947
Revaluation reserve for available-for-sale securities					6 167 298
Total comprehensive income					**22 461 239**

Information about major customers and geographical areas. The Group operates in the Russian Federation and foreign countries. In presenting geographical information the allocation of net interest income is based on the geographical location of customers and assets.

Geographical information on net interest income and assets for 2016 is presented below:

	Net interest income	Assets
Russian Federation	30 323 526	904 100 002
OECD countries	12 759 583	222 259 677
Non-OECD countries	2 016 730	45 890 094
Total	**45 099 839**	**1 172 249 773**

Geographical information on net interest income and assets for 2015 is presented below:

	Net interest income	Assets
Russian Federation	22 301 298	1 035 819 539
OECD countries	15 515 051	303 084 506
Non-OECD countries	2 544 418	68 221 613
Total	**40 360 767**	**1 407 125 658**

5. Cash and cash balances

Cash and cash balances comprise:

	31 December 2016	31 December 2015
Cash on hand	12 507 671	14 356 435
Current accounts with the CBR	46 080 894	8 374 378
Cash and cash balances	**58 588 565**	**22 730 813**

Included in cash and cash balances as at 31 December 2016 RUB 2 050 000 thousand (31 December 2015: RUB 2 050 000 thousand) was pledged as collateral for mortgage-backed bonds issued by the Group in September 2015 (31 December 2015: in September 2011 and September 2015) (see Note 18 for details).

6. Trading securities

Trading securities comprise:

	31 December 2016	31 December 2015
USD denominated		
Russian Government Eurobonds	1 006	7 137
RUB denominated		
Russian Government Bonds	2 086 987	946 463
Corporate and bank bonds	317 668	2 698 506
Trading securities	**2 405 661**	**3 652 106**

As at 31 December 2016 approximately 88% of trading securities held by the Group were rated not lower than “BBB-” (31 December 2015: 94%).

As at 31 December 2016 included in trading securities are securities sold under repurchase agreements in the amount of RUB 1 251 058 thousand (31 December 2015: no securities) (see Notes 11, 16 and 17 for details).

As at 31 December 2016 there are no securities blocked as collateral for “overnight” loans with the CBR in trading securities (31 December 2015: corporate and bank bonds in amount of RUB 512 118 thousand). As at 31 December 2016 and 31 December 2015 the Group has no “overnight” loans with the CBR.

Nominal interest rates and maturities of trading securities are as follows:

	31 December 2016		31 December 2015	
	%	Maturity	%	Maturity
Russian Government Bonds	7.75-8.5%	2026, 2031	2.5-7.05%	2023, 2028
Russian Government Eurobonds	11%	2018	11-12.75%	2018, 2028
Corporate and bank bonds	8.4%	2018	7.5-11.49%	2016, 2018

7. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	31 December 2016	31 December 2015
Current accounts with credit institutions	63 506 296	60 609 432
Time deposits	152 597 280	254 059 273
Reverse repurchase agreements with credit institutions	47 114 687	18 201 246
Obligatory reserve with the CBR	6 281 907	3 874 857
Amounts due from credit institutions	**269 500 170**	**336 744 808**

Credit institutions are required to maintain a non-interest earning cash deposit (obligatory reserve) with the CBR, the amount of which depends on the level of funds attracted by the credit institution. The Group's ability to withdraw such deposit is significantly restricted by the statutory legislation.

As at 31 December 2016 there are four counterparties with balances that individually exceeded 10% of the Group's equity. As at 31 December 2016, the aggregate amount of these balances is RUB 209 676 322 thousand (31 December 2015: three counterparties with aggregate amount of RUB 253 319 891 thousand).

As at 31 December 2016 and 31 December 2015 the Group entered into reverse repurchase agreements with a number of Russian banks. The carrying value of loans and related fair value of assets pledged under these agreements as at 31 December 2016 and 31 December 2015 comprise:

	31 December 2016		31 December 2015	
	Carrying value of loans	Fair value of collateral	Carrying value of loans	Fair value of collateral
Government bonds	41 073 594	40 474 555	11 571 177	12 283 725
Corporate bonds	4 737 859	5 230 273	5 680 798	6 124 521
Bank bonds	1 303 234	1 394 843	949 271	1 018 936
Total	**47 114 687**	**47 099 671**	**18 201 246**	**19 427 182**

As at 31 December 2016 Russian government bonds with the total fair value of RUB 4 121 288 thousand were sold out of collateral pledged under reverse repurchase agreements with credit institutions and disclosed as financial liabilities held for trading in the consolidated statement of financial position.

As at 31 December 2016 approximately 75% (31 December 2015: 84%) of amounts due from credit institutions were placed with banks rated not lower than "BBB-".

As at 31 December 2016 the Group had term placements with the CBR in amount of RUB 2 000 492 thousand (31 December 2015: no term placements with the CBR).

8. Derivative financial instruments

The Group enters into derivative financial instruments principally for trading and hedging purposes. The tables below show the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset or notional amount to which reference rate or index is applied and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are indicative of neither the market risk nor the credit risk.

The Group values the derivative financial instruments using widely accepted valuation techniques which are based on market interest rates and forward currency rates. Significant changes in these variables could cause the fair value of the derivatives to change materially.

The table below shows the fair value of derivative instruments held for trading, recorded as assets or liabilities, together with their notional amounts.

	31 December 2016			31 December 2015		
		Fair value			Fair value	
	Notional principal	Asset	Liability	Notional principal	Asset	Liability
Cross-currency interest rate swaps	153 530 305	32 134 361	9 703 950	228 353 208	56 770 885	39 765 795
Interest rate swaps and options	289 931 675	5 185 775	5 367 478	251 888 460	7 044 837	7 333 570
Foreign exchange forwards, swaps and options	63 876 941	3 937 460	1 785 739	87 409 741	1 710 280	2 146 710
Total derivative financial assets/ liabilities		**41 257 596**	**16 857 167**		**65 526 002**	**49 246 075**

The change in fair value of the trading derivative financial instruments attributable to changes in the counterparty credit risk amounts to a gain of RUB 1 578 393 thousand for the year ended 31 December 2016 (31 December 2015: loss of RUB 1 089 893 thousand). The change in fair value attributable to changes in credit risk has been calculated by incorporating the current observable credit spreads into the valuation techniques used to value derivative financial instruments by the Group.

The table below shows the fair values of financial instruments designated for hedging, recorded as assets or liabilities, together with their notional amounts.

	31 December 2016			31 December 2015		
		Fair value			Fair value	
	Notional principal	Asset	Liability	Notional principal	Asset	Liability
Cash flow hedge						
Interest rate swaps	175 505 135	641 415	442 417	321 333 127	380 446	345 545
Cross-currency interest rate swaps	122 032 005	9 786 243	3 589 904	100 927 028	2 084 247	11 372 356
Total cash flow hedge		**10 427 658**	**4 032 321**		**2 464 693**	**11 717 901**
Fair value hedge						
Interest rate swaps	552 263 450	2 311 170	8 306 386	704 837 888	4 577 363	7 588 185
Total fair value hedge		**2 311 170**	**8 306 386**		**4 577 363**	**7 588 185**
Total derivative financial assets/ liabilities designated for hedging		**12 738 828**	**12 338 707**		**7 042 056**	**19 306 086**

Portfolio Fair Value Hedge Accounting (hereinafter – the “PFVHA”) is a part of interest rate risk hedging strategy of the Group that helps to avoid discrepancies between the economic substance of deals concluded for hedging purposes and their accounting treatment. PFVHA allows managing interest rate risks associated with a portfolio of financial assets or financial liabilities designated as hedged items. The Group designates interest rate swaps as hedging instruments. The hedging instruments are stated at their fair value and changes in fair value are recognized in the consolidated statement of comprehensive income.

The hedging instruments to hedge variability of fair value are measured at fair value with negative changes in fair value of RUB 1 841 363 thousand recognised in portfolio hedge accounting as at 31 December 2016 (31 December 2015: RUB 572 941 thousand), presented as a loss of RUB 1 246 909 thousand in fair value adjustments in portfolio hedge accounting in the consolidated statement of comprehensive income for the period ended 31 December 2016 (31 December 2015: presented as loss of RUB 7 993 371 thousand).

The positive changes in the fair value of hedged items (portfolio of financial assets and financial liabilities) that are attributable to the hedged risk are recognised as RUB 1 841 491 thousand as at 31 December 2016 (31 December 2015: positive changes in the amount of RUB 594 454 thousand), presented as gain of RUB 1 247 038 thousand in fair value adjustments in portfolio hedge accounting in the consolidated statement of comprehensive income for the period ended 31 December 2016 (31 December 2015: presented as a gain of RUB 8 014 884 thousand).

8. Derivative financial instruments (Continued)

Along with PFVHA the Group uses Portfolio Cash Flow hedging. The Group designates certain interest rate swaps and cross-currency interest rate swaps as hedging instruments to hedge variability in cash flows and fair value resulting from interest rate mismatch of the banking book position. The hedged cash flows are expected to occur and to affect the statement of comprehensive income until 2027 for interest rate swaps and cross-currency interest rate swaps. As at 31 December 2016, the positive effective portion of changes in the fair value of derivative financial instruments designated as hedging instruments recognised in equity was RUB 15 759 thousand (31 December 2015: negative RUB 765 540 thousand), net of tax RUB 3 940 thousand (31 December 2015: RUB 191 385 thousand).

Fair value adjustments in portfolio hedge accounting amounted to a loss of RUB 369 734 thousand for the year ended 31 December 2016 (31 December 2015: loss of RUB 960 816 thousand) and consists of a difference between a negative change in fair value of financial instruments designated for hedging purposes and a positive change in fair value of hedged items in the amount of RUB 128 thousand (31 December 2015: positive change of RUB 21 513 thousand) and a negative change in counterparty credit risk attributable to derivative financial instruments designated for hedging purposes in the amount of RUB 369 863 thousand for the year ended 31 December 2016 (31 December 2015: negative change of RUB 982 329 thousand). The change in fair value attributable to changes in credit risk has been calculated by incorporating the current observable credit spreads into the valuation techniques used to value derivative financial instruments by the Group.

Margin from derivative financial instruments designated for hedging amounted RUB 7 965 385 thousand for the year ended 31 December 2016 (31 December 2015: RUB 9 837 917 thousand) and consists of interest income from derivative financial instruments designated for hedging in the amount of RUB 30 345 948 thousand (31 December 2015: RUB 26 697 085 thousand) and interest expenses from derivative financial instruments designated for hedging in the amount of RUB 22 380 563 thousand (31 December 2015: RUB 16 859 168 thousand).

9. Loans to customers

Loans to customers comprise:

	31 December 2016	31 December 2015
Corporate customers	568 915 558	755 082 908
Retail customers, including SME	126 628 456	132 646 305
Lease receivables	15 639 280	12 481 464
Reverse repurchase agreements with companies	11 082 381	533 189
Gross loans to customers	**722 265 675**	**900 743 866**
Less: allowance for loan impairment	(45 254 751)	(33 448 792)
Total loans to customers	**677 010 924**	**867 295 074**

A reconciliation of the provisions for impairment by classes of loans to customers for the year ended 31 December 2016 is as follows:

	Corporate customers	Retail customers	Lease receivables	Total
At 1 January 2016	**21 354 170**	**11 974 110**	**120 512**	**33 448 792**
Charge for the year	13 009 847	4 029 720	178 813	17 218 380
Loans sold or recovered through acceptance of collateral during the year	(377 172)	(50 897)	-	(428 069)
Loans written-off during the year	(1 750 463)	(1 434 641)	(86 512)	(3 271 616)
Effect of exchange rate changes	(1 118 031)	(594 705)	-	(1 712 736)
At 31 December 2016	**31 118 351**	**13 923 587**	**212 813**	**45 254 751**

A reconciliation of the provisions for impairment by classes of loans to customers for the year ended 31 December 2015 is as follows:

	Corporate customers	Retail customers	Lease receivables	Total
At 1 January 2015	**10 679 721**	**9 985 332**	**84 268**	**20 749 321**
Charge for the year	11 328 787	3 215 937	76 104	14 620 828
Loans sold or recovered through acceptance of collateral during the year	(369 578)	(74 084)	-	(443 662)
Loans written-off during the year	(1 143 849)	(1 968 911)	(39 860)	(3 152 620)
Effect of exchange rate changes	859 089	815 836	-	1 674 925
At 31 December 2015	**21 354 170**	**11 974 110**	**120 512**	**33 448 792**

The following table shows gross loans and related impairment as at 31 December 2016:

	Gross loans	Impairment	Net loans
Corporate customers			
Loans for which no indications of impairment have been identified on an individual basis, not past due	524 723 492	(2 776 029)	521 947 463
Loans for which no specific impairment is identified on an individual basis, past due			
- Past due less than 31 days	1 810 846	(18 099)	1 792 747
- Past due 31-90 days	80 814	(1 977)	78 837
Impaired loans			
- Not past due	7 284 766	(3 118 533)	4 166 233
- Past due less than 31 days	376 244	(137 373)	238 871
- Past due 31-90 days	5 284 198	(3 079 368)	2 204 830
- Past due 91-180 days	1 232 930	(764 893)	468 037
- Past due over 180 days	28 122 268	(21 222 079)	6 900 189
Total loans to corporate customers	**568 915 558**	**(31 118 351)**	**537 797 207**
Retail customers			
Standard loans, not past due	105 185 541	(556 411)	104 629 130
Standard loans, past due			
- Past due less than 31 days	2 174 386	(113 278)	2 061 108
- Past due 31-90 days	826 285	(155 658)	670 627
- Past due 91-180 days	220 223	(89 094)	131 129
- Past due over 180 days	32 589	(6 837)	25 752
Impaired loans			
- Not past due	113 737	(965)	112 772
- Past due less than 31 days	54 908	(3 380)	51 528
- Past due 31-90 days	111 549	(18 907)	92 642
- Past due 91-180 days	663 787	(279 869)	383 918
- Past due over 180 days	17 245 451	(12 699 188)	4 546 263
Total loans to retail customers	**126 628 456**	**(13 923 587)**	**112 704 869**
Lease receivables			
Loans for which no indications of impairment have been identified on an individual basis, not past due	14 916 921	(55 287)	14 861 634
Loans for which no specific impairment is identified on an individual basis, past due			
- Past due less than 31 days	112 494	(832)	111 662
- Past due 31-90 days	195 957	(2 563)	193 394
Impaired loans			
- Not past due	33 358	(9 442)	23 916
- Past due less than 31 days	77 223	(15 335)	61 888
- Past due 31-90 days	124 451	(33 431)	91 020
- Past due 91-180 days	146 577	(71 730)	74 847
- Past due over 180 days	32 299	(24 193)	8 106
Total lease receivables	**15 639 280**	**(212 813)**	**15 426 467**
Reverse repurchase agreements with companies			
Loans for which no indications of impairment have been identified on an individual basis, not past due	11 082 381	-	11 082 381
Total loans to customers	**722 265 675**	**(45 254 751)**	**677 010 924**

Notes to Consolidated Financial Statements (Continued)

9. Loans to customers (Continued)

The following table shows gross loans and related impairment as at 31 December 2015:

	Gross loans	Impairment	Net loans
Corporate customers			
Loans for which no indications of impairment have been identified on an individual basis, not past due	709 479 029	(3 213 961)	706 265 068
Loans for which no specific impairment is identified on an individual basis, past due			
- Past due less than 31 days	2 825 193	(43 836)	2 781 357
- Past due 31-90 days	1 057 786	(29 127)	1 028 659
Impaired loans			
- Not past due	11 827 914	(3 219 232)	8 608 682
- Past due less than 31 days	238 053	(63 420)	174 633
- Past due 31-90 days	1 341 986	(865 539)	476 447
- Past due 91-180 days	4 760 156	(1 734 228)	3 025 928
- Past due over 180 days	23 552 791	(12 184 827)	11 367 964
Total loans to corporate customers	**755 082 908**	**(21 354 170)**	**733 728 738**
Retail customers			
Standard loans, not past due	112 265 778	(506 288)	111 759 490
Standard loans, past due			
- Past due less than 31 days	2 472 982	(124 252)	2 348 730
- Past due 31-90 days	1 202 829	(205 656)	997 173
- Past due 91-180 days	580 467	(194 197)	386 270
- Past due over 180 days	80 144	(9 926)	70 218
Impaired loans			
- Not past due	173 481	(25 501)	147 980
- Past due less than 31 days	86 260	(5 093)	81 167
- Past due 31-90 days	125 281	(27 099)	98 182
- Past due 91-180 days	1 065 294	(472 342)	592 952
- Past due over 180 days	14 593 789	(10 403 756)	4 190 033
Total loans to retail customers	**132 646 305**	**(11 974 110)**	**120 672 195**
Lease receivables			
Loans for which no indications of impairment have been identified on an individual basis, not past due	11 363 315	(56 942)	11 306 373
Loans for which no specific impairment is identified on an individual basis, past due			
- Past due less than 31 days	595 613	(4 244)	591 369
- Past due 31-90 days	400 320	(2 975)	397 345
Impaired loans			
- Not past due	45 847	(6 767)	39 080
- Past due less than 31 days	12 043	(6 456)	5 587
- Past due 31-90 days	16 661	(4 652)	12 009
- Past due 91-180 days	16 144	(10 160)	5 984
- Past due over 180 days	31 521	(28 316)	3 205
Total lease receivables	**12 481 464**	**(120 512)**	**12 360 952**
Reverse repurchase agreements with companies			
Loans for which no indications of impairment have been identified on an individual basis, not past due	533 189	-	533 189
Total loans to customers	**900 743 866**	**(33 448 792)**	**867 295 074**

The following table provides analysis of minimum lease payments as at 31 December 2016:

	Minimum payments	Present value of minimum payments
Amounts receivable under finance leases		
Up to 12 months	8 747 400	7 013 300
From 1 to 5 years	9 193 453	7 501 034
Over 5 years	1 211 510	912 133
	19 152 363	**15 426 467**
Less unearned finance income	(3 725 896)	-
Present value of minimum lease payments receivable (net investment in the lease)	**15 426 467**	**15 426 467**

The following table provides analysis of minimum lease payments as at 31 December 2015:

	Minimum payments	Present value of minimum payments
Amounts receivable under finance leases		
Up to 12 months	6 748 575	5 364 509
From 1 to 5 years	7 757 144	6 565 361
Over 5 years	457 087	431 082
	14 962 806	**12 360 952**
Less unearned finance income	(2 601 854)	-
Present value of minimum lease payments receivable (net investment in the lease)	**12 360 952**	**12 360 952**

Impaired loans. Interest income on impaired loans for the year ended 31 December 2016 amounted to RUB 1 686 561 thousand (year ended 31 December 2015: RUB 1 997 566 thousand).

Renegotiated loans. As at 31 December 2016 and 31 December 2015 loans to customers included loans totaling RUB 35 199 934 thousand and RUB 36 099 625 thousand, respectively, whose terms were renegotiated. Otherwise these loans would be past due or impaired.

Write-off and sale of loans. The decision to write-off the loan is taken by the authorized body of the Group. Loans are written-off after receiving all necessary documentation from the authorized state bodies, as well as under the conditions where further debt collection is not possible.

The decisions to sell the loans is taken individually for each case, for both corporate and retail loans. The decision is taken by the authorized body of the Group based on the analysis of all possible alternative strategies for debt collection, the main criterion for the adoption of which is to minimize the losses of the Group's troubled assets.

Collateral and other credit enhancements. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty as well as on the nature of the transaction. Guidelines regarding the acceptability of types of collateral taking into account valuation parameters of borrower risk level are implemented.

The main types of collateral obtained are as follows:

- For reverse repurchase transactions, securities;
- For commercial lending to corporate customers, pledge over real estate properties, equipment, inventories and trade receivables, guarantee of a legal entity with rating not lower than "BBB";
- For retail lending, mortgages over residential properties and motor vehicles;
- For lease receivables, pledge over real estate properties, motor vehicles and equipment.

The primary purpose of collateral arrangements is to reduce the potential credit loss in case of a workout of the credit exposure. Estimates of value are based on the value of collateral assessed at the time of borrowing and regularly reassessed.

Notes to Consolidated Financial Statements (Continued)

9. Loans to customers (Continued)

The following table summarizes the carrying value of loans, net of impairment, to corporate customers by types of collateral as at 31 December 2016 and 31 December 2015:

	31 December 2016	31 December 2015
Loans to corporate customers		
Real estate	44 972 709	79 970 676
Guarantees	52 657 771	99 821 558
Other collateral	-	699 221
No collateral or other credit enhancement	440 166 727	553 237 283
Total loans to corporate customers	**537 797 207**	**733 728 738**

The following table summarizes the carrying value of loans, net of impairment, to retail customers by types of collateral as at 31 December 2016 and 31 December 2015:

	31 December 2016	31 December 2015
Loans to retail customers		
Real estate	29 453 775	31 330 903
Motor vehicles	34 867 772	47 357 656
No collateral or other credit enhancement	48 383 322	41 983 636
Total loans to retail customers	**112 704 869**	**120 672 195**

The following table summarizes the carrying value of lease receivables, net of impairment, by types of collateral as at 31 December 2016 and 31 December 2015:

	31 December 2016	31 December 2015
Lease receivables		
Real estate	579 311	654 876
Motor vehicles	4 382 137	3 074 582
Other collateral	10 465 019	8 631 494
Total lease receivables	**15 426 467**	**12 360 952**

The amounts shown in the tables above represent the carrying value of the loans, and do not necessarily represent the fair value of the collateral.

When lending to legal entities belonging to one economic group, the Group normally also obtains guarantees from other group members.

As at 31 December 2016 there are no loans pledged as collateral for term deposits due to the CBR (31 December 2015: RUB 49 218 141 thousand) (see Note 16 for details).

Included in retail loans as at 31 December 2016 are mortgage loans with gross amount of RUB 2 178 317 thousand (31 December 2015: RUB 7 541 188 thousand) pledged as collateral for mortgage-backed bonds issued by the Group in September 2015 (31 December 2015: September 2011 and September 2015) (see Note 18 for details).

Repossessed collateral. As at 31 December 2016 and 31 December 2015, the Group obtained certain assets by taking control of collateral obtained for derecognized loans to customers. As at 31 December 2016, the repossessed collateral is comprised of real estate, motor vehicles and other assets with carrying amount of RUB 568 017 thousand (31 December 2016: RUB 473 061 thousand). The Group's policy is to sell these assets as soon as it is practicable.

Reverse repurchase agreements. As at 31 December 2016 and 31 December 2015 the Group entered into reverse repurchase agreements with a number of Russian companies. The carrying value of loans and related fair value of assets pledged under these agreements as at 31 December 2016 and 31 December 2015 comprise:

	31 December 2016		31 December 2015	
	Carrying value of loans	Fair value of collateral	Carrying value of loans	Fair value of collateral
Government bonds	7 903 169	8 120 453	206 067	214 321
Corporate bonds	2 800 386	3 065 012	327 122	342 033
Bank bonds	378 826	404 960	-	-
Total	**11 082 381**	**11 590 425**	**533 189**	**556 354**

As at 31 December 2016 Russian government bonds with the total fair value of RUB 222 864 thousand were sold out of collateral pledged under reverse repurchase agreements with customers and disclosed as financial liabilities held for trading in the consolidated statement of financial position.

Concentration of loans to customers. As at 31 December 2016, the Group had RUB 178 362 658 thousand due from the ten largest borrowers (25% of gross loan portfolio) (31 December 2015: RUB 246 592 534 thousand or 27%). An allowance of RUB 158 765 thousand was recognised against these loans (31 December 2015: RUB 271 223 thousand).

As at 31 December 2016, the Group had three borrowers or a group of borrowers with aggregate loan amounts that individually exceeded 10% of equity (31 December 2015: eleven borrowers or a group of borrowers). As at 31 December 2016, the aggregate amount of these loans is RUB 103 353 608 thousand (31 December 2015: RUB 288 585 229 thousand).

Loans to customers are made principally within Russia in the following industry sectors:

	31 December 2016	31 December 2015
Mining and metallurgy	123 631 075	214 800 744
Energy	101 609 868	144 955 879
Trade	92 087 426	104 797 170
Chemicals	52 345 061	67 758 103
Agriculture and food	41 994 162	47 103 178
Real estate and construction	41 868 722	46 864 773
Timber processing	36 115 547	31 809 969
Machinery construction	32 219 434	27 965 727
Other manufacturing	26 536 979	32 414 461
Finance	15 841 489	11 442 154
Telecommunications	15 408 134	9 144 710
Transportation	10 450 043	20 805 728
Other	8 660 486	11 418 532
Gross loans to corporate customers	598 768 426	771 281 128
Gross loans to individuals	123 497 249	129 462 738
Gross loans to customers	**722 265 675**	**900 743 866**

Loans to individuals are divided by products as follows:

	31 December 2016	31 December 2015
Car loans	43 882 280	52 543 904
Consumer loans	39 223 666	33 549 521
Mortgages loans	31 408 890	34 245 074
Other loans	8 982 413	9 124 239
Gross loans to individuals	**123 497 249**	**129 462 738**

10. Investment securities

Available-for-sale investment securities comprise:

	31 December 2016	31 December 2015
Debt and other fixed income investments available-for-sale		
USD denominated		
Russian Government Eurobonds	16 248 295	17 656 944
Corporate Eurobonds	-	239 432
RUB denominated		
Russian Government Bonds	34 972 838	34 718 381
Corporate and bank bonds	9 285 735	17 003 282
Total debt and other fixed income investments available-for-sale	**60 506 868**	**69 618 039**
Equity investments available-for-sale		
RUB denominated		
Equity investments in financial institutions	116 945	116 945
EUR denominated		
Equity investments in financial institutions	2 707	2 707
Total equity investments available-for-sale	**119 652**	**119 652**
Total available-for-sale securities	**60 626 520**	**69 737 691**

As at 31 December 2016 included in Russian Government bonds available-for-sale are securities sold under repurchase agreements in the amount of RUB 19 704 611 thousand (31 December 2015: Russian Government bonds in the amount of RUB 14 841 932 thousand) (see Notes 11, 16 and 17 for details).

Nominal interest rates and maturities of these securities are as follows:

	31 December 2016		31 December 2015	
	%	Maturity	%	Maturity
Russian Government Eurobonds	4.5-4.88%	2022-2026	4.5-4.88%	2022, 2023
Russian Government Bonds	6.2-8.15%	2017-2027	6.2-8.15%	2016-2028
Corporate and bank bonds	7.5-11.1%	2017-2027	7.5-13%	2016-2028
Corporate Eurobonds	-	-	4.95%	2016

As at 31 December 2016 there are no investments available-for-sale blocked as collateral for “overnight” loans with the CBR (31 December 2015: RUB 18 784 041 thousand). As at 31 December 2016 and 31 December 2015 the Group has no “overnight” loans with the CBR.

In 2015 the Group acquired Russian government debt securities with the positive intent and ability to hold them to maturity. Additionally in 2016 the Group acquired USD denominated Russian government eurobonds with a nominal amount of USD 233 600 thousand. As at 31 December 2016, held-to-maturity securities comprise:

	31 December 2016		31 December 2015	
	Nominal value	Carrying value	Nominal value	Carrying value
Russian government bonds, RUB denominated	15 000 000	15 935 005	15 000 000	16 130 748
Russian government eurobonds, USD denominated	14 169 452	14 982 265	-	-
Held-to-maturity securities	**29 169 452**	**30 917 270**	**15 000 000**	**16 130 748**

Nominal interest rates and maturities of these securities are as follows:

	31 December 2016		31 December 2015	
	%	Maturity	%	Maturity
Russian government bonds, RUB denominated	11.7%–11.9%	2020, 2025	14.42%-14.48%	2020, 2025
Russian government eurobonds, USD denominated	4.5%-4.88%	2022,2023	-	-

As at 31 December 2016 included in held-to-maturity Russian government bonds are securities sold under repurchase agreements in the amount of RUB 212 666 thousand (31 December 2015: none) (see Notes 11, 16 and 17 for details).

As at 31 December 2016 included in held-to-maturity securities are Russian government bonds blocked as collateral in order to receive "overnight" loans from the CBR in the amount of RUB 1 058 015 thousand (31 December 2015: RUB 12 903 281 thousand). As at 31 December 2016 and 31 December 2015 the Group has no "overnight" loans due to the CBR.

As at 31 December 2016 approximately 48% of debt and other fixed income investments available-for-sale and held-to-maturity were rated not lower than "BBB-" (31 December 2015: 66%).

11. Transfers of financial assets

The Group has transactions to sell securities classified as trading, available-for-sale and held-to-maturity under agreements to repurchase (see Notes 6, 10, 16 and 17 for details).

The securities sold under agreements to repurchase are transferred to a third party and the Group receives cash in exchange. These financial assets may be repledged or resold by counterparties in the absence of default by the Group, but the counterparty has an obligation to return the securities at the maturity of the contract. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. These securities are presented as "pledged under sale and repurchase agreements" in Notes 6 and 10. In addition, the Group recognises a financial liability for cash received as collateral included in deposits and balances due to credit institutions and customers (see Notes 16 and 17 for details).

These transactions are conducted under terms that are usual and customary to standard lending, as well as requirements determined by exchanges.

As at 31 December 2016 and 31 December 2015 the breakdown by portfolio of transferred financial assets that are not derecognized in their entirety is as follows:

	31 December 2016		31 December 2015	
	Carrying amount of assets	Carrying amount of associated liabilities	Carrying amount of assets	Carrying amount of associated liabilities
Available-for-sale securities	19 704 611	18 325 881	14 841 932	13 428 975
Trading securities	1 251 058	1 139 562	-	-
Held to maturity	212 666	209 798	-	-
Total	**21 168 335**	**19 675 241**	**14 841 932**	**13 428 975**

As at 31 December 2016 and 31 December 2015 the breakdown by issuer of transferred financial assets that are not derecognized in their entirety is as follows:

	31 December 2016		31 December 2015	
	Carrying amount of assets	Carrying amount of associated liabilities	Carrying amount of assets	Carrying amount of associated liabilities
Government bonds	21 168 335	19 675 241	14 841 932	13 428 975
Total	**21 168 335**	**19 675 241**	**14 841 932**	**13 428 975**

12. Fixed assets

The movements in fixed assets were as follows:

	Buildings	Computers and equipment	Other fixed assets	Total
Cost				
1 January 2016	**6 577 320**	**4 355 754**	**617 913**	**11 550 987**
Additions	-	230 510	39 574	270 084
Disposals	-	(355 610)	(121 055)	(476 665)
31 December 2016	**6 577 320**	**4 230 654**	**536 432**	**11 344 406**
Accumulated depreciation				
1 January 2016	**(1 815 779)**	**(3 592 598)**	**(530 370)**	**(5 938 747)**
Depreciation charge	(225 082)	(388 755)	(23 767)	(637 604)
Disposals	-	353 558	85 421	438 979
31 December 2016	**(2 040 861)**	**(3 627 795)**	**(468 716)**	**(6 137 372)**
Net book value				
As at 31 December 2016	**4 536 459**	**602 859**	**67 716**	**5 207 034**

	Buildings	Computers and equipment	Other fixed assets	Total
Cost				
1 January 2015	**6 577 320**	**4 187 516**	**608 946**	**11 373 782**
Additions	-	290 403	39 995	330 398
Disposals	-	(122 165)	(31 028)	(153 193)
31 December 2015	**6 577 320**	**4 355 754**	**617 913**	**11 550 987**
Accumulated depreciation				
1 January 2015	**(1 590 697)**	**(3 254 881)**	**(526 840)**	**(5 372 418)**
Depreciation charge	(225 082)	(458 036)	(33 813)	(716 931)
Disposals	-	120 319	30 283	150 602
31 December 2015	**(1 815 779)**	**(3 592 598)**	**(530 370)**	**(5 938 747)**
Net book value				
As at 31 December 2015	**4 761 541**	**763 156**	**87 543**	**5 612 240**

13. Intangible assets

The movements in intangible assets were as follows:

	2016	2015
Cost of intangible assets		
1 January	**9 249 353**	**6 463 743**
Additions of intangible assets	2 465 672	2 786 607
Disposals of intangible assets	(1 012 629)	(997)
31 December	**10 702 396**	**9 249 353**
Accumulated amortisation of intangible assets		
1 January	**(3 898 716)**	**(3 019 912)**
Amortisation charge of intangible assets	(1 223 895)	(879 794)
Disposals of intangible assets	930 764	990
31 December	**(4 191 847)**	**(3 898 716)**
Net book value of intangible assets		
As at 31 December	**6 510 549**	**5 350 637**

14. Taxation

The corporate income tax expense comprises:

	2016	2015
Current tax charge	4 177 456	407 448
Deferred tax charge – (reversal) / origination of temporary differences	(598 661)	3 057 655
Income tax expense	**3 578 795**	**3 465 103**

Russian legal entities must file individual tax declarations. The tax rate for banks and companies for profits other than on state securities was 20% for 2016 and 2015. The tax rate for interest income on state securities was 15% for 2016 and 2015.

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the effective income tax rate and the statutory income tax rate is as follows:

	2016	2015
Profit before tax	**17 602 046**	**18 983 097**
Statutory tax rate	20%	20%
Theoretical income tax expense at the statutory rate	**3 520 409**	**3 796 619**
Effect of income taxed at lower tax rates	(230 456)	(166 368)
Non-deductible costs and other	288 842	(165 148)
Income tax expense	**3 578 795**	**3 465 103**

Notes to Consolidated Financial Statements (Continued)

14. Taxation (Continued)

Deferred tax assets and liabilities as at 31 December 2016 and 31 December 2015 comprise:

	Assets		Liabilities		Net	
	2016	2015	2016	2015	2016	2015
Fixed and intangible assets	1 122 074	975 679	(2 419 143)	(2 404 594)	**(1 297 069)**	**(1 428 915)**
Trading securities and derivatives	5 839 175	2 333 917	(8 891 100)	(6 148 441)	**(3 051 925)**	**(3 814 524)**
Available-for-sale and held-to-maturity securities	-	624 303	(127 246)	-	**(127 246)**	**624 303**
Loan impairment and credit related commitments	1 707 823	1 205 338	(6 118 459)	(6 297 159)	**(4 410 636)**	**(5 091 821)**
Tax losses carried forward	-	1 436 353	-	-	**-**	**1 436 353**
Other items	1 313 823	883 988	-	-	**1 313 823**	**883 988**
Total deferred tax assets/ (liabilities)	**9 982 895**	**7 459 578**	**(17 555 948)**	**(14 850 194)**	**(7 573 053)**	**(7 390 616)**

Movement in deferred tax assets and liabilities during the year ended 31 December 2016 is presented in the table below:

	1 January 2016	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2016
Fixed and intangible assets	(1 428 915)	131 846	-	**(1 297 069)**
Trading securities and derivatives	(3 814 524)	957 924	(195 325)	**(3 051 925)**
Available-for-sale and held-to-maturity securities	624 303	(165 776)	(585 773)	**(127 246)**
Loan impairment and credit related commitments	(5 091 821)	681 185	-	**(4 410 636)**
Tax losses carried forward	1 436 353	(1 436 353)	-	**-**
Other items	883 988	429 835	-	**1 313 823**
	(7 390 616)	**598 661**	**(781 098)**	**(7 573 053)**

Movement in deferred tax assets and liabilities during the year ended 31 December 2015 is presented in the table below:

	1 January 2015	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2015
Fixed and intangible assets	(959 313)	(469 602)	-	**(1 428 915)**
Trading securities and derivatives	(355 610)	(3 264 927)	(193 987)	**(3 814 524)**
Available-for-sale securities	2 267 557	(101 429)	(1 541 825)	**624 303**
Loan impairment and credit related commitments	(4 581 309)	(510 512)	-	**(5 091 821)**
Tax losses carried forward	-	1 436 353	-	**1 436 353**
Other items	1 031 526	(147 538)	-	**883 988**
	(2 597 149)	**(3 057 655)**	**(1 735 812)**	**(7 390 616)**

Tax effect relating to components of other comprehensive income comprises:

	2016			2015		
	Amount before tax	Tax expense	Amount net-of-tax	Amount before tax	Tax expense	Amount net-of-tax
Cash flow hedge reserve	976 624	(195 325)	781 299	969 934	(193 987)	775 947
Revaluation reserve for available-for-sale securities	2 928 865	(585 773)	2 343 092	7 709 123	(1 541 825)	6 167 298
Other comprehensive income	**3 905 489**	**(781 098)**	**3 124 391**	**8 679 057**	**(1 735 812)**	**6 943 245**

15. Other assets and liabilities

Other assets comprise:

	31 December 2016	31 December 2015
Advances, prepayments and deferred expenses	2 962 751	2 446 138
Accrued income other than income capitalised in related financial assets	667 856	577 314
Repossessed collateral	568 017	473 061
VAT receivables on leases	303 408	23 234
Other	1 275 322	926 096
Other assets	**5 777 354**	**4 445 843**

Other liabilities comprise:

	31 December 2016	31 December 2015
Accrued compensation expense	3 423 037	2 981 550
Accounts payable	3 070 680	2 867 976
Other provisions	808 386	185 348
Liability arising on initial designation of fair value macro hedge	690 083	840 271
Transit accounts	560 315	193 185
Deferred income	442 712	365 442
Taxes payables	316 688	237 086
Other	953 613	252 122
Other liabilities	**10 265 514**	**7 922 980**

16. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	31 December 2016	31 December 2015
Current accounts	13 000 015	15 490 125
Time deposits and loans	90 394 448	114 574 175
Repurchase agreements with credit institutions (Note 11)	19 536 126	12 766 312
Subordinated debt (Note 19)	29 178 071	51 091 697
Amounts due to credit institutions	**152 108 660**	**193 922 309**

As at 31 December 2016, the ten largest deposits, excluding subordinated debt, represented 81% of total amounts due to credit institutions (31 December 2015: 79%).

As at 31 December 2016, the Group has one counterpartiy with aggregate balances that individually exceeded 10% of equity (31 December 2015: two counterparties). As at 31 December 2016, the aggregate amount of these balances is RUB 26 532 542 thousand (31 December 2015: RUB 55 732 422 thousand).

As at 31 December 2016 included in subordinated debt is subordinated deposit received from the sole Group's shareholder UniCredit S.p.A in the amount of USD 480 900 thousand with quarterly interest payments and maturity date in March 2025 (see Note 19 for details).

As at 31 December 2016 the Group has no term deposits due to the CBR (31 December 2015: RUB 38 292 939 thousand) which are secured by a pool of corporate loans (see Note 9 for details).

As at 31 December 2016 and 31 December 2015 the Group has no repurchase agreements with the CBR.

As at 31 December 2016 fair value of securities pledged under repurchase agreements with credit institutions is RUB 21 025 074 thousand (31 December 2015: RUB 14 145 980 thousand) (see Notes 6, 10, 11 and 27 for details).

17. Amounts due to customers

The amounts due to customers include the following:

	31 December 2016	31 December 2015
Current accounts	170 163 667	146 655 702
Time deposits	608 799 120	784 025 324
Repurchase agreements with customers (Note 11)	139 115	745 962
Amounts due to customers	**779 101 902**	**931 426 988**

As at 31 December 2016, approximately 51% of total amounts due to customers was placed with the Group by its ten largest customers (31 December 2015: 59%).

Analysis of customer accounts by type of customers is as follows:

	31 December 2016	31 December 2015
Corporate		
Current accounts	74 155 567	60 292 671
Time deposits	491 668 933	645 936 117
Repurchase agreements with customers (Note 11)	139 115	745 962
Total corporate accounts	**565 963 615**	**706 974 750**
Retail		
Current accounts	96 008 100	86 363 031
Time deposits	117 130 187	138 089 207
Total retail accounts	**213 138 287**	**224 452 238**
Amounts due to customers	**779 101 902**	**931 426 988**

Included in retail time deposits are deposits of individuals in the amount of RUB 100 940 451 thousand (31 December 2015: RUB 119 174 751 thousand). In accordance with the Russian Civil Code, the Group is obliged to repay such deposits upon demand of the depositor. In case a term deposit is repaid upon demand of the depositor prior to maturity, the related interest rate on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the contract. The remaining part of retail time deposits in the amount of RUB 16 189 736 thousand (31 December 2015: RUB 18 914 456 thousand) is represented by deposits placed by SME.

As at 31 December 2016 fair value of debt securities pledged under repurchase agreements with customers is RUB 154 514 thousand (31 December 2015: RUB 695 952 thousand) (see Notes 6, 10, 11 and 27 for details).

18. Debt securities issued

Debt securities issued consisted of the following bonds:

Issue	Date of issue	Maturity date	Currency	Coupon rate, %	Carrying value at 31 December 2016	Carrying value at 31 December 2015
UniCredit Bank, 02-IP	23.09.2015	16.09.2020	RUB	12.35	4 136 680	4 133 989
UniCredit Bank, BO-10	26.11.2013	20.11.2018	RUB	9.20	2 323 635	10 082 110
UniCredit Bank, BO-22	12.08.2014	06.08.2019	RUB	9.00	46 710	60 838
UniCredit Bank, BO-21	23.05.2014	17.05.2019	RUB	9.00	818	192 057
UniCredit Bank, BO-11	26.11.2014	20.11.2019	RUB	9.10	3	2 839 802
UniCredit Bank, 01-IP	14.09.2011	07.09.2016	RUB	8.20	-	5 122 775
UniCredit Bank, BO-06	14.02.2013	11.02.2016	RUB	8.60	-	5 166 110
UniCredit Bank, BO-07	14.02.2013	11.02.2016	RUB	8.60	-	5 166 110
UniCredit Bank, BO-08	26.02.2013	23.02.2016	RUB	14.00	-	141 048
UniCredit Bank, BO-09	26.02.2013	23.02.2016	RUB	14.00	-	74 246
Debt securities issued					**6 507 846**	**32 979 085**

As at 31 December 2016 mortgage-backed bonds (UniCredit Bank, 02-IP) with the carrying value of RUB 4 136 680 thousand (31 December 2015: UniCredit Bank, 01-IP and UniCredit Bank, 02-IP with the carrying value of RUB 9 256 764 thousand) are secured by a pool of mortgage loans with the carrying value of RUB 2 178 317 thousand (31 December 2015: RUB 7 541 188 thousand) and by cash in the amount of RUB 2 050 000 thousand (31 December 2015: RUB 2 050 000 thousand) (see Notes 5 and 9 for details).

19. Subordinated debt

	31 December 2016	31 December 2015
UniCredit S.p.A		
USD 480 900 thousand, quarterly interest payment, maturing March 2025	29 178 071	35 059 691
EUR 100 000 thousand, semi-annual interest payment, maturing November 2017	-	8 016 505
EUR 100 000 thousand, semi-annual interest payment, maturing February 2018	-	8 015 501
Subordinated Debt	**29 178 071**	**51 091 697**

On 11th of July 2016 the Group took a decision to perform early repayment of subordinated loans for the total amount of EUR 201 205 thousand. The repayment amount included nominal amount of EUR 200 000 thousand as well as accrued interest of EUR 1 205 thousand (see Note 28 for details).

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

20. Shareholder's equity

As at 31 December 2016 and 31 December 2015, the authorised, issued and paid share capital comprises 2 404 181 ordinary shares with a par value of RUB 16 820 each.

21. Commitments and contingencies

Credit related commitments and contingencies

	31 December 2016	31 December 2015
Guarantees issued	119 536 553	130 012 623
Undrawn loan commitments	85 116 393	124 924 548
Undrawn commitments to issue documentary instruments	80 833 286	-
Letters of credit	34 295 027	47 271 329
Gross credit related commitments and contingencies	**319 781 259**	**302 208 500**
Provisions for credit related commitments and contingencies	(369 951)	-
Total credit related commitments and contingencies	**319 411 308**	**302 208 500**

As at 31 December 2016 and 31 December 2015 undrawn loan commitments and undrawn commitments to issue documentary instruments are of revocable nature for which the Group does not undertake any substantial liability.

The Group issues guarantees and letters of credit for its customers. These instruments bear a credit risk similar to that of loans issued. With respect to the documentary instruments shown above, as at 31 December 2016, collateral deposits of RUB 8 019 170 thousand were held by the Group (31 December 2015: RUB 14 814 945 thousand). Most of guarantees issued and letters of credits are irrevocable payment undertakings by the Group.

Operating lease commitments

	31 December 2016	31 December 2015
Not later than 1 year	829 381	874 122
Later than 1 year but not later than 5 years	2 443 105	2 074 433
Later than 5 years	76 611	143 543
	3 349 097	**3 092 098**

Operating environment. Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment. Because Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market.

Starting from 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies. This led to reduced access of the Russian businesses to international capital markets.

The impact of further economic and political developments on future operations and financial position of the Group might be significant.

Taxation. Laws and regulations affecting business in the Russian Federation continue to change rapidly. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. Recent events suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. Fiscal periods generally remain open to tax audit by the authorities in respect of taxes for three calendar years proceeding the year of tax audit. Under certain circumstances reviews may cover longer periods. Management believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation. However, the relevant authorities may have differing interpretations, and the effects on the financial statements could be significant.

Fiduciary activities. The Group also provides depositary services to its customers. As at 31 December 2016 and 31 December 2015, the Group had customer securities totaling 94 119 620 907 items and 84 428 551 717 items, respectively, in its nominal holder accounts.

Legal proceedings. From time to time and in the normal course of business, claims against the Group are received from customers and counterparties. As at 31 December 2016 the provision for legal proceedings in the amount of RUB 438 435 thousand (31 December 2015: RUB 185 348 thousand) was recognized in other liabilities in the consolidated statement of financial position.

22. Gains on financial assets and liabilities held for trading

Gains on financial assets and liabilities held for trading comprise:

	2016	2015
Net gains from trading securities	22 056	261 203
Net gains from foreign exchange, interest based derivatives and translation of other foreign currency assets and liabilities	2 125 265	4 996 260
Gains on financial assets and liabilities held for trading	**2 147 321**	**5 257 463**

23. Fee and commission income and expense

Fee and commission income comprises:

	2016	2015
Customer accounts handling and settlements	2 401 395	2 000 369
Documentary business	2 783 736	2 542 590
Retail services	2 639 438	2 953 618
Agent insurance fee	2 022 533	861 635
Loan fees that are not part of the effective interest rate	86 367	338 496
Other	10 665	7 368
Fee and commission income	**9 944 134**	**8 704 076**

Fee and commission expense comprises:

	2016	2015
Documentary business	(2 051 475)	(2 570 263)
Retail services	(1 021 588)	(952 432)
Accounts handling and settlements	(783 892)	(742 593)
Other	(110 671)	(59 408)
Fee and commission expense	**(3 967 626)**	**(4 324 696)**

24. Personnel and other administrative expenses

Personnel and other administrative expenses comprise:

	2016	2015
Salaries and bonuses	6 540 902	5 922 923
Social security costs	412 973	374 446
Other compensation expenses	177 227	117 609
Other employment taxes	1 616 477	1 378 040
Personnel expenses	**8 747 579**	**7 793 018**
Communication and information services	2 013 064	1 417 190
Rent, repairs and maintenance	1 388 422	1 545 984
Advertising and marketing	640 351	533 139
Security expenses	347 434	328 245
Insurance	186 342	156 065
Legal, audit and other professional services	151 643	143 424
Other taxes	115 607	106 557
Other	1 590 860	1 322 882
Other administrative expenses	**6 433 723**	**5 553 486**

25. Capital management

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of capital is monitored using, among other measures, principles and approaches established by Basel II and Basel III, Regulation and Directive of the European Parliament and the Council (CRD IV), the CBR regulation.

The primary objectives of capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

Capital and capital adequacy ratio under the CBR requirements. The CBR requires banks to maintain a capital adequacy ratio of 8% of risk-weighted assets, computed using amounts in statutory financial statements prepared in accordance with Russian banking legislation and regulation of the CBR.

Capital (own funds) under the requirements of the CBR regulation No. 395-P "Calculation of own funds (Basel III) by credit institutions" as at 31 December 2016 and 31 December 2015 was as follows:

	31 December 2016	31 December 2015
Core equity Tier I capital	138 363 187	126 934 767
Tier I capital	138 363 187	126 934 767
Additional capital	35 741 342	46 655 037
Total capital	**174 104 529**	**173 589 804**

Core equity Tier I and Tier I comprise share capital, share premium, reserve fund and retained earnings including current year profit. Additional capital includes subordinated debt, current year profit not included in the main capital and revaluation reserves.

The Capital adequacy ratios, computed in accordance with the CBR Regulation No. 139-I "Obligatory banking ratios", as at 31 December 2016 and 31 December 2015 were as follows:

	31 December 2016	31 December 2015
Total capital adequacy ratio H1.0 (minimum 8%)	16.2%	12.9%
Core equity Tier I capital adequacy ratio H1.1 (minimum 4.5%)	13%	9.5%
Tier 1 capital adequacy ratio H1.2 (minimum 6%)	13%	9.5%

Due to the introduction of restrictive political and economic measures affecting the situation in the financial markets, as well as to reduce the regulatory risks due to the volatility of the exchange rate, the CBR in December 2014 introduced a relief for the calculation of capital adequacy ratios and regulations.

In the calculation of capital, the Bank reclassified certain debt securities from available for sale category to held to maturity category at fair value prevailing as at 1 October 2014.

Capital and capital adequacy ratio under Basel III and Basel II requirements (unaudited). Starting from the reporting period 1 January 2009 the Group calculates risk weighted assets under Basel II requirements following UniCredit Group internal policies.

Starting from 2016, the Group calculates risk weighted assets in accordance with the requirements of CRD IV. Subordinated loans, received by the Group might be considered as loss absorbtion capacity of the Bank and as a result can be included in Tier II capital.

The capital and capital adequacy ratios computed in accordance with the Basel III and Basel II requirements as at 31 December 2016 and 31 December 2015 were as follows (unaudited):

	31 December 2016	31 December 2015
Core equity Tier 1 capital	161 937 692	141 889 980
Tier II capital	30 329 651	34 202 071
Total capital	**192 267 343**	**176 092 051**
Risk weighted assets	**998 461 998**	**1 369 639 149**
Core equity Tier 1 capital ratio	16.2%	10.4%
Total capital ratio	19.3%	12.9%

26. Risk management

Management of risk is fundamental to the banking business and is an essential element of the Group's operations. The Group has exposure to risks, which include credit, market, foreign exchange, liquidity and operational risks. The Group's aim is to maintain an appropriate balance between risks and return and to minimise potential adverse effect on the Group's financial performance.

Risk management structure. The Group's risk management policies aim to identify, analyse, measure and manage the risks taken by the Group, to establish appropriate risk limits and methods of monitoring, and to continuously monitor risk levels and compliance with the established limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice in risk management.

The operational risk management functions are aimed at developing and ensuring proper functioning of internal processes and procedures that minimise the Group's exposure to internal and external risk factors.

The Supervisory Board has the overall responsibility for the oversight of the risk management framework, supervising the management of key risks. It also approves internal documentation for strategic areas of activity, including those concerning management of capital and risk.

The Board of Management has the overall responsibility for monitoring and implementation of risk mitigation measures and making sure that the Group operates within the established risk parameters.

The Chief Risk Officer (hereinafter – "CRO") is responsible for the overall risk management function, ensuring the implementation of common principles and methods for identifying, underwriting, measuring, managing and risk reporting for both financial and non-financial risks. The CRO is a Member of the Board of Management.

Credit, market and liquidity risks, both at portfolio and transactional levels, are managed through a system of Credit Approval Authorities as well as an Asset and Liability Management Committee. In order to facilitate efficient decision-making, the Group has established a hierarchy of Credit Approval Authorities, which includes four credit committees, including Large Credit Committee, Small Credit Committee, Special Credit Committee and Retail Business Credit Committee as well as several levels of joint and single personal approval authority, depending on the amount of exposure, risk type and risk associated with a customer (internal ratings).

Credit risk policies and underwriting guidelines are under the CRO's responsibility. Internal local policies, rules, guidelines and operational instructions for lending to individuals and to the Small and Medium Enterprises (hereinafter – "SME") are in line with UniCredit Group Credit Policies, agreed with the CRO and approved by the Board of Management/Supervisory Board according to the rules of development, agreement and approval of internal documents of the Bank. The four-eyes principle is applied for the credit decision-making process. Credit approval authority is exercised through the submission and approval of a credit application. For standardized products in the lending process to individuals decision-making is done by the Operations Function, to which the CRO Function delegates authority through respective underwriting guidelines and rules and/or implementation of credit scoring. For standardized products in the lending process to SMEs decision-making is done by the Business Function, to which the CRO Function delegates authority through respective guidelines, rules and decision matrix for applications. All deviations/exceptions from standardized products have to be approved by the CRO.

The Group's risk underwriting, assessment, reporting and control procedures vary by risk type, but share a common principle to be concentrated under the supervision of the CRO.

Credit risk. Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Group and arises principally from the Group's loans to customers and credit institutions and other credit exposures.

For risk management purposes, credit risk arising from positions in trading securities is managed and reported on a daily basis.

Credit risk governance. Credit risk management policies, procedures and manuals are approved by the Board of Management/Supervisory Board according to the procedure of Group rules implementation at the Bank.

The following credit committees are responsible for approving corporate and retail credit risk exposures:

- The Large Credit Committee reviews and approves all loan/credit applications from customers and issuers above EUR 40 million or equivalent in other currencies depending on the rating of the borrower. It is chaired by the President of the Board of Management or the CRO and meets on a weekly basis.
- The Small Credit Committee reviews and approves all loan/credit applications from corporate customers in the amount up to EUR 15 million or equivalent in other currencies depending on the rating of the borrower. It is chaired by the Head of Credit Underwriting Department and meets on a weekly basis.
- The Retail Business Credit Committee is responsible for making decisions on loan applications of SME in the amount up to 73 million RUB (including) and also for making decisions on loan applications of Private Individual clients in the amount up to 100 million RUB (including) or equivalent in other currencies. The Retail Business Credit Committee meets in regular full-time sessions that are held in cases of necessity, but not less than twice a month in working order.
- The Special Credit Committee is responsible for considerations of the applications related to restructuring/refinancing of problem debts.

There is also a system of personal credit approval authorities with the four-eyes principle in place. For SME and private individuals lending process proposal is done by business function and approval is done by competent authority body according to decision matrix for applications.

All credit exposures above EUR 50 million or equivalent in other currencies as well as restructuring/refinancing applications above EUR 25 million have to be approved by authorized bodies of UniCredit Group.[1]

The Group limits concentrations of exposure to individual customers, counterparties and issuers (for securities), as well as groups of related customers. Exposure to credit risk is managed through regular analysis of the borrower's creditworthiness and by changing/adjusting lending limits where appropriate.

The Group's credit policies and product guidelines establish:

- Procedures and standards for approval and review of loan/credit applications;
- Methodology for the credit assessment of borrowers (corporate, retail);
- Methodology for the credit assessment of counterparties, issuers and insurance companies;
- Methodology for the evaluation of collateral;
- Credit documentation requirements;
- Procedures for the ongoing monitoring of loans and other credit exposures.

The relevant relationship managers and Corporate Lending Department or Financing Department originate corporate loan/credit applications jointly. The application could be solely prepared by relationship managers, depending on the respective authority granted to a given relationship manager. The credit applications consist of a structured complex analysis focusing on the customer's business, financial performance and risks. The loan/credit applications are then independently reviewed by the Credit Underwriting Department and a second opinion in respect of risks is given accompanied by a check that credit policy requirements have been met. The relevant Approval Authority reviews the loan/credit application accompanied by the Credit Underwriting opinion.

In order to provide better assessment of customers' creditworthiness, separate units specialising on analysis of different industries were created within the Credit Underwriting Department. This business model allows the Group to quickly and thoroughly analyse changes in various industries, adjust strategies and take adequate decisions. Along with the industry divisioning there is also a set of regional risk managers that monitor the situation in the main regions of Group's operations. This allows the Group to manage its credit portfolio both on industry and regional levels.

Credit portfolio diversification by client types (large corporate clients, SME, individual clients) and industries allows to maintain high credit portfolio quality. In order to provide an adequate risk assessment, the Group uses various internal rating models which take into account specifics of different client segments, provides effective differentiation of clients by credit risk level and precise assessment of their probability of default in accordance with Basel II principles. Internal ratings are used in credit decision-making, pricing, capital allocation and risk management processes.

All existing credit deals/approved limits for corporate clients are subject to annual review procedures.

The Group continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Group. As the result of the review, the borrower's internal credit rating may be changed. The Group monitors concentrations of credit risk by industry/sector and by the exposure to top borrowers.

Retail loan applications are approved according to internal local policies, rules, guidelines and operational instructions for lending to individuals and SME. Information is obtained on every customer. The extent of the information required and frequency of its update depend on the regulatory requirements, the customer category, creditworthiness of the customer and type of a transaction. The business unit obtains and analyzes the information from different sources (information from the customer, on-site visits, internal/external sources).

In order to reduce the risk of potential losses in the Group's credit transactions a Monitoring Unit was established which implements procedures for systematic identification and assessment of negative signals, analysis and situation monitoring as well as strategies and action plans for potentially troubled corporate borrowers.

Property risk. Due to the nature of leasing activity, in case of default events, the Group is exposed to property risk which is the risk that it will be impossible to sell property repossessed from defaulted clients or selling price won't cover credit exposure of the client.

The Group minimizes this risk by analyzing the leasing objects as well as lessees before entering into a leasing transaction, in case of increased risk additional collateral is demanded, other measures to handle credit risk are also used.

Settlement risk. The Group'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 Group 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 transaction specific and/or counterparty specific settlement limits that form part of the counterparty limit approval/monitoring process described above.

The table below shows the maximum exposure to credit risk for the components of the statement of financial position, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

1 The criteria are presented in accordance with the current "General credit policy of AO UniCredit Bank".

	Notes	Maximum gross exposure as at 31 December 2016	Maximum gross exposure as at 31 December 2015
Cash and cash balances (excluding cash on hand)	5	46 080 894	8 374 378
Trading securities:	6		
- held by the Group		1 154 603	3 652 106
- pledged under repurchase agreements		1 251 058	-
Amounts due from credit institutions	7	269 500 170	336 744 808
Derivative financial assets	8	41 257 596	65 526 002
Derivative financial assets designated for hedging	8	12 738 828	7 042 056
Loans to customers	9	677 010 924	867 295 074
Investment securities:	10		
- available-for-sale			
- held by the Group		40 921 909	54 895 759
- pledged under repurchase agreements		19 704 611	14 841 932
- held to maturity			
- held by the Group		30 704 604	16 130 748
- pledged under repurchase agreements		212 666	-
Total		**1 140 537 863**	**1 374 502 863**
Financial commitments and contingencies	21	319 411 308	302 208 500
Total credit risk exposure		**1 459 949 171**	**1 676 711 363**

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

The following tables provide the analysis of assets based on credit quality of respective counterparts as at 31 December 2016.

		Neither past due nor impaired			
	Notes	High grade	Standard	Past due or impaired	Total
Cash and cash balances (excluding cash on hand)	5	46 080 894	-	-	**46 080 894**
Trading securities:	6				
- held by the Group		1 154 603	-	-	**1 154 603**
- pledged under repurchase agreement		1 251 058	-	-	**1 251 058**
Amounts due from credit institutions	7	212 124 320	57 375 850	-	**269 500 170**
Derivative financial assets	8	23 765 802	17 491 794	-	**41 257 596**
Derivative financial assets designated for hedging	8	12 678 831	59 997	-	**12 738 828**
Loans to customers	9	271 524 001	380 996 607	24 490 316	**677 010 924**
Investment securities:	10				
- available for sale					
- held by the Group		39 950 394	971 515	-	**40 921 909**
- pledged under repurchase agreement		19 704 611	-	-	**19 704 611**
- held-to-maturity					
- held by the Group		30 704 604	-	-	**30 704 604**
- pledged under repurchase agreement		212 666	-	-	**212 666**
Total		**659 151 784**	**456 895 763**	**24 490 316**	**1 140 537 863**

The following tables provide the analysis of assets based on credit quality of respective counterparts as at 31 December 2015.

	Notes	Neither past due nor impaired		Past due or impaired	Total 2015
		High grade	Standard		
Cash and cash balances (excluding cash on hand)	5	8 374 378	-	-	**8 374 378**
Trading securities	6				
- held by the Group		3 337 071	315 035	-	**3 652 106**
Amounts due from credit institutions	7	315 610 217	21 134 591	-	**336 744 808**
Derivative financial assets	8	40 686 232	24 839 770	-	**65 526 002**
Derivative financial assets designated for hedging	8	7 042 056	-	-	**7 042 056**
Loans to customers	9	283 087 599	546 776 521	37 430 954	**867 295 074**
Investment securities:	10				
- available for sale					
- held by the Group		44 539 196	10 356 563	-	**54 895 759**
- pledged under repurchase agreement		14 841 932	-	-	**14 841 932**
- held-to-maturity		16 130 748	-	-	**16 130 748**
Total		**733 649 429**	**603 422 480**	**37 430 954**	**1 374 502 863**

The Standard grade category includes exposures with probability of default from 0.5% to 99%. The High grade category includes exposures with probability of default up to 0.5% (so-called “Investment grade” in accordance with the UniCredit Group methodology).

As at 31 December 2016, 46% of exposures included in the tables above are rated as AAA/AA/A/BBB/BB/B by external rating agencies (Moody’s, S&P, Fitch) (31 December 2015: 54%). As at 31 December 2016, 54% of the exposures (31 December 2015: 46%) are not rated due to the fact that small entities and private inidviduals are not externally rated.

Geographical concentration. Asset and Liability Management Committee exercises control over the risk in the legislation and regulatory area and assesses its influence on the Group’s activity. This approach allows the Group to minimize potential losses from the investment climate fluctuations in the Russian Federation.

As at 31 December 2016 and 31 December 2015 assets and liabilities of the Group are concentrated mainly in the Russian Federation except for the amounts due from credit institutions and derivative financial assets and liabilities (including those designated for hedging) which are mainly concentrated in OECD countries.

Liquidity risk and funding management. Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of financial institutions. It is unusual for financial institutions ever to be completely matched since a lot of business transactions are of uncertain term and different types. An unmatched position could potentially enhance profitability, but also could increase the risk of failure to meet obligations.

The approach to liquidity management is to ensure, as far as possible, that the Group always has sufficient liquidity to meet its obligations, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group reputation.

Assets and Liabilities Committee (hereinafter – “ALCO”) is responsible for management of liquidity risk. ALCO delegates to the Finance Department and Markets Department the responsibility to monitor and maintain the liquidity profile within limits on a daily basis. At the same time Market Risk Unit controls compliance with liquidity limits and informs ALCO in case of limit breaches. Both Finance Department and Market Risk Unit report to local and to the UniCredit Group ALCO on a weekly basis.

According to the liquidity management policy:

1. The approach to funding and structural liquidity is described in the annual funding plan, which is based on the annual budget data. On a monthly basis, the funding plan is updated taking into account the current recognised and unrecognised positions, changes in the asset and liability mismatches of the Group, available funding sources and market analysis. The Group has adopted contingency funding plans, the UniCredit Group standard risk management instrument, which describes potential funding sources in case of crisis situation. The contingency

funding plan is updated in the event of crisis, but at least once a year by ALCO, after annual funding plan approval. In addition to Contingency funding plans UniCredit Group develops Recovery and Resolution Plan which covers extreme stress scenario management.

2. Structural liquidity is analyzed by Finance Department and Market Risk Unit using the liquidity gap approach and reported to local ALCO and to the UniCredit Group on daily basis. Liquidity limits and requirements both established by the UniCredit Group and the CBR are taken into account.

3. Short-term liquidity is monitored on the basis of cash flow models in total and separately by major currencies according to UniCredit Group approach and local approach. Differences in the two approaches are explained by necessity to control liquidity taking into account the Group's strategy and features of the local market environment.
   - Scenarios (going concern, market crisis, foreign exchange market crisis scenario, etc.) are assessed to forecast future cash flows and corresponding liquidity needs for the nearest three months. Market crisis scenario includes "haircuts" to liquid security positions, failure of the Group's counterparties to meet their obligations with regard to money market deals, run on retail deposits, inability to make swaps at reasonable prices, etc. Decisions with regard to switches between going-concern and crisis scenarios are taken by ALCO;
   - UniCredit Group sets limits on cash flow positions that depend on available liquidity sources and level of liquid assets (portfolio of assets that can be quickly liquidated to meet obligations without significant price decline). Additionally local ALCO sets limits on local approach to cash flow model.

4. Funding structure concentration is monitored and managed on a constant basis:
   - ALCO sets an internal limit on the maximum volume of borrowings from a single group of clients;
   - Reports on customer funds concentration are presented to the management and analyzed on a weekly basis.

5. Liquidity ratios in line with regulatory requirements established by the CBR are to be monitored and met:
   - Instant liquidity Ratio (N2) is the ratio of liquid assets to sight and overnight liabilities;
   - Current liquidity ratio (N3) is the ratio of liquid assets to liabilities maturing within 30 calendar days;
   - Long-term liquidity ratio (N4) is the ratio of assets maturing after one year to the sum of capital and liabilities maturing after one year;
   - Liquidity coverage ratio (N26) is the ratio of high quality liquid assets and net short-term outflow. Calculated in compliance with actual CBR regulations, it implements "Basel III" standards.

Finance Department makes a forecast of N4 ratio for a one month horizon on a daily basis. Markets Department projects N2, N3 ratios for a one month horizon. Market risks performs daily N26 estimation.

As at 31 December 2016 and 31 December 2015, these ratios were as follows:

	2016,%	**2015,%**
N2 "Instant liquidity Ratio" (minimum 15%)	144.1	107.5
N3 "Current Liquidity Ratio" (minimum 50%)	219.8	282.7
N4 "Long-Term Liquidity Ratio" (maximum 120%)	59.2	65.6
N26 ""Liquidity Coverage Ratio"(minimum 70%)	76.3	108.2

The following tables shows the liquidity gap profile as at 31 December 2016 and 31 December 2015. This information is prepared using the internal Assets and Liabilities Management system according to the approved internal approach. The mapping approach is compliant with the requirements of the UniCredit Group liquidity policy. For example, debt securities are mapped according to the nearest put-date (if any) or to maturity date, loans to corporate customers are mapped based on facilities' types, for retail loans statistical model for prepayment simulation is implemented, sight items (both on assets and liabilities side) and term deposts with autoprolongation are mapped based on UniCredit Group statistical model according to historical pattern corresponding items' behavior, derivative instruments are recorded in other assets and other liabilities, amounts due to and due from banks are mapped based on maturity dates. This information is used internally for risk management purposes and differs from financial statement amounts.

26. Risk management (Continued)

The table below presents the liquidity gap profile according to the Group's approved internal approach as at 31 December 2016:

	Less than 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 3 years	More than 3 years	No stated maturity	Total
Assets								
Cash and cash balances	58 588 565	-	-	-	-	-	-	**58 588 565**
Trading securities	-		-	-	335 872	2 069 789	-	**2 405 661**
Amounts due from credit institutions	119 386 397	5 500 000	3 507 682	37 146 221	100 990 308	-	-	**266 530 608**
Loans to customers	29 327 781	35 043 569	51 490 110	101 550 897	308 419 855	156 623 964	-	**682 456 176**
Investment securities:								
- available-for-sale	-	498 900	2 782 347	498 650	11 009 241	45 837 382	-	**60 626 520**
- held-to-maturity	-	-	-	-	-	30 917 270	-	**30 917 270**
Fixed assets	-	-	-	-	-	-	5 207 034	**5 207 034**
Other assets	-	-	-	67 993 629	-	-	-	**67 993 629**
Total assets	**207 302 743**	**41 042 469**	**57 780 139**	**207 189 397**	**420 755 276**	**235 448 405**	**5 207 034**	**1 174 725 463**
Liabilities								
Amounts due to credit institutions	99 014 043	10 864 874	1 286 179	2 965 291	3 342 810	35 339 397	-	**152 812 594**
Amounts due to customers:								
- current accounts	75 119 795	18 161 438	15 714 700	19 129 276	22 527 006	19 342 311	-	**169 994 526**
- time deposits	170 321 478	55 319 103	56 648 078	48 302 483	248 314 915	29 984 330	-	**608 890 387**
Debt securities issued	160 909	-	-	-	6 346 937	-	-	**6 507 846**
Other liabilities	54 845 205	-	-	-	-	-		**54 845 205**
Equity	-	-	-	-	-	-	181 674 905	**181 674 905**
Total liabilities and equity	**399 461 430**	**84 345 415**	**73 648 957**	**70 397 050**	**280 531 668**	**84 666 038**	**181 674 905**	**1 174 725 463**
Net position	**(192 158 687)**	**(43 302 946)**	**(15 868 818)**	**136 792 347**	**140 223 608**	**150 782 367**	**(176 467 871)**	**-**
Accumulated gap	**(192 158 687)**	**(235 461 633)**	**(251 330 451)**	**(114 538 104)**	**25 685 504**	**176 467 871**	**-**	

As shown in the table above, as at 31 December 2016 there is a negative accumulated liquidity gap in 1 month to 1 year periods. The maximum negative accumulated gap in 3 to 6 months period is explained by significant amount of short-term and demand deposits in liabilities.

The accumulated gap can be sufficiently covered by refinancing with the CBR (loans secured by assets available for collateral under CBR loans), repurchase agreements and sell of securities while reducing volume of the Group's participation in reverse repurchase agreements. The approximate amount of funds available from the mentioned sources is RUB 275 469 876 thousand.

The table below presents the liquidity gap profile according to the approved internal approach as at 31 December 2015:

	Less than 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 3 years	More than 3 years	No stated maturity	Total
Assets								
Cash and cash balances	22 742 000	-	-	-	-	-	-	**22 742 000**
Trading securities	-	2 391 205	-	-	319 228	940 854	-	**3 651 287**
Amounts due from credit institutions	134 386 001	-	45 788 553	38 441 350	88 959 240	29 153 080	-	**336 728 224**
Loans to customers	280 853 675	45 388 165	58 291 514	150 524 209	184 873 087	146 430 490	-	**866 361 140**
Investment securities:								
- available-for-sale	613 583	3 109 068	1 180 184	685 084	9 924 377	54 225 395	-	**69 737 691**
- held-to-maturity	-	-	-	-	-	16 130 748	-	**16 130 748**
Fixed assets	-	-	-	-	-	-	5 608 081	**5 608 081**
Other assets	-	-	-	85 222 178	-	-	-	**85 222 178**
Total assets	**438 595 259**	**50 888 438**	**105 260 251**	**274 872 821**	**284 075 932**	**246 880 567**	**5 608 081**	**1 406 181 349**
Liabilities								
Amounts due to credit institutions	79 492 522	39 110 070	10 226 373	1 263 268	28 517 436	35 700 460	-	**194 310 129**
Amounts due to customers:								
- current accounts	36 132 105	15 288 074	11 532 588	12 275 411	19 186 264	51 660 882	-	**146 075 324**
- time deposits	154 051 002	41 007 088	83 213 767	134 234 160	300 809 483	71 702 383	-	**785 017 883**
Debt securities issued	719 779	10 205 218	189 818	17 868 426	4 000 000	-	-	**32 983 241**
Other liabilities	83 267 509	-	-	-	-	-	-	**83 267 509**
Equity	-	-	-	-	-	-	164 527 263	**164 527 263**
Total liabilities and equity	**353 662 917**	**105 610 450**	**105 162 546**	**165 641 265**	**352 513 183**	**159 063 725**	**164 527 263**	**1 406 181 349**
Net position	**84 932 342**	**(54 722 012)**	**97 705**	**109 231 556**	**(68 437 251)**	**87 816 842**	**(158 919 182)**	**-**
Accumulated gap	**84 932 342**	**30 210 330**	**30 308 035**	**139 539 591**	**71 102 340**	**158 919 182**	**-**	

Analysis of financial assets and liabilities by remaining contractual maturities. The tables below summarise the maturity profile of financial assets and liabilities as at 31 December 2016 and 31 December 2015 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay. The tables do not reflect the expected cash flows indicated by the Group's deposit retention history.

	Less than 1 month	1 month to 3 months	3 months to 6 months	6 to 12 months	1 year to 3 years	More than 3 years	Total
Financial assets as at 31 December 2016							
Cash and cash balances	58 588 565	-	-	-	-	-	**58 588 565**
Trading securities							
- held by the Group	1 154 603	-	-	-	-	-	**1 154 603**
- pledged under repurchase agreements	1 251 058						**1 251 058**
Amounts due from credit institutions	121 557 508	6 593 777	6 565 215	36 827 447	106 087 190	60 672	**277 691 809**
Derivative financial assets:							
- Contractual amounts payable	(9 926 046)	(9 560 101)	(7 618 834)	(14 093 015)	(92 363 494)	(1 552 809)	**(135 114 299)**
- Contractual amounts receivable	10 476 859	12 863 892	9 117 673	20 885 865	122 945 698	3 761 760	**180 051 747**
Derivative financial assets designated for hedging:							
- Contractual amounts payable	(649 669)	(2 482 220)	(42 351 067)	(4 277 357)	(60 887 219)	(8 903 456)	**(119 550 988)**
- Contractual amounts receivable	1 471 828	3 902 693	48 516 136	6 500 284	69 839 473	10 133 246	**140 363 660**
Loans to customers	36 582 980	40 360 774	59 346 768	117 632 283	278 456 771	311 109 387	**843 488 963**
Investment securities:							
available-for-sale							
- held by the Group	79 259	1 415 435	2 067 183	1 365 966	12 080 509	37 722 725	**54 731 077**
- pledged under repurchase agreements	31 791	385 068	1 623 454	688 531	4 817 328	21 942 373	**29 488 545**
held-to-maturity							
- held by the Group	-	1 007 938	192 161	1 200 099	4 800 396	36 230 456	**43 431 050**
- pledged under repurchase agreements	-	11 868	-	11 868	47 472	330 548	**401 756**
Total undiscounted financial assets	**220 618 736**	**54 499 124**	**77 458 689**	**166 741 971**	**445 824 124**	**410 834 902**	**1 375 977 546**
Financial liabilities as at 31 December 2016							
Amounts due to credit institutions	101 907 138	13 026 833	3 445 055	7 805 056	18 440 912	47 855 749	**192 480 743**
FInancial iabilities held for trading	4 344 152	-	-	-	-	-	**4 344 152**
Derivative financial liabilities:							
- Contractual amounts payable	30 248 895	14 042 785	10 958 916	9 683 034	27 285 769	7 448 842	**99 668 241**
- Contractual amounts receivable	(29 202 541)	(11 885 597)	(6 412 398)	(8 570 535)	(20 651 948)	(4 985 558)	**(81 708 577)**
Derivative financial liabilities designated for hedging:							
- Contractual amounts payable	524 802	2 446 724	6 639 705	11 372 157	29 642 826	4 418 743	**55 044 957**
- Contractual amounts receivable	(1 271 790)	(2 030 533)	(2 983 893)	(8 127 602)	(24 969 823)	(2 678 148)	**(42 061 789)**
Amounts due to customers	313 302 672	61 166 648	62 101 253	60 565 182	270 645 174	7 487 754	**775 268 683**
Debt securities issued	-	249 030	105 883	354 913	7 060 860	-	**7 770 686**
Total undiscounted financial liabilities	**419 853 328**	**77 015 890**	**73 854 521**	**73 082 205**	**307 453 770**	**59 547 382**	**1 010 807 096**

The maturity profile of the financial assets and liabilities at 31 December 2015 was the following:

	Less than 1 month	1 month to 3 months	3 months to 6 months	6 to 12 months	1 year to 3 years	More than 3 years	Total
Financial assets as at 31 December 2015							
Cash and cash balances	22 730 813	-	-	-	-	-	**22 730 813**
Trading securities							
- held by the Group	3 652 106	-	-	-	-	-	**3 652 106**
Amounts due from credit institutions	164 022 504	482 224	15 949 036	41 216 391	100 167 119	33 139 833	**354 977 107**
Derivative financial assets:							
- Contractual amounts payable	(9 382 522)	(25 266 950)	(6 265 613)	(12 493 570)	(31 991 727)	(22 570 894)	**(107 971 276)**
- Contractual amounts receivable	9 599 093	27 106 928	11 432 221	20 887 047	57 540 996	44 120 104	**170 686 389**
Derivative financial assets designated for hedging:							
- Contractual amounts payable	(997 774)	(6 254 920)	(1 732 887)	(9 002 645)	(20 896 099)	(23 946 255)	**(62 830 580)**
- Contractual amounts receivable	1 660 654	8 618 387	3 154 509	10 087 598	22 974 397	25 337 056	**71 832 601**
Loans to customers	31 032 345	45 914 935	80 611 584	145 242 159	268 026 260	485 542 563	**1 056 369 846**
Investment securities:							
available-for-sale							
- held by the Group	230 136	3 973 526	2 191 529	2 376 912	15 936 653	50 902 829	**75 611 585**
- pledged under repurchase agreements	484 373	484 598	62 364	752 282	2 862 603	21 902 381	**26 548 601**
held-to-maturity	-	1 080 750	-	1 080 750	4 323 000	23 657 250	**30 141 750**
Total undiscounted financial assets	**223 031 728**	**56 139 478**	**105 402 743**	**200 146 924**	**418 943 202**	**638 084 867**	**1 641 748 942**
Financial liabilities as at 31 December 2015							
Amounts due to credit institutions	88 162 743	40 468 335	2 869 496	3 458 906	36 801 697	59 090 584	**230 851 761**
Derivative financial liabilities:							
- Contractual amounts payable	14 686 632	41 581 806	14 603 782	44 044 562	69 194 159	10 118 536	**194 229 477**
- Contractual amounts receivable	(11 326 124)	(39 617 146)	(9 845 824)	(30 473 403)	(57 177 103)	(5 715 180)	**(154 154 780)**
Derivative financial liabilities designated for hedging:							
- Contractual amounts payable	545 377	8 998 862	5 446 343	36 616 517	35 475 374	5 306 194	**92 388 667**
- Contractual amounts receivable	(1 722 582)	(6 613 744)	(3 059 846)	(31 372 979)	(27 276 428)	(3 218 373)	**(73 263 952)**
Amounts due to customers	266 981 977	49 224 935	90 889 675	147 604 409	317 798 375	78 939 162	**951 438 533**
Debt securities issued	-	11 104 650	566 003	6 021 070	13 264 281	4 364 418	**35 320 422**
Total undiscounted financial liabilities	**357 328 023**	**105 147 698**	**101 469 629**	**175 899 082**	**388 080 355**	**148 885 341**	**1 276 810 128**

The maturity analysis does not reflect the historical pattern of stable balances on current accounts. Withdrawals of current accounts historically are taking place over a longer period than indicated in the tables above. These balances are included in amounts due in less than one month in the tables above.

Included in due to customers are term deposits of individuals. In accordance with the Russian legislation, the Group is obliged to repay such deposits upon demand (please refer to Note 17).

The table below shows the contractual expiry by maturity of financial commitments and contingencies.

	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	More than 3 years	Total
2016	25 356 922	23 688 878	36 507 699	48 549 038	135 890 008	49 418 763	**319 411 308**
2015	11 688 510	22 657 301	45 689 107	64 418 564	128 772 488	28 982 530	**302 208 500**

The Group expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

Market risk. Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices.

The Group distinguishes four market risk categories:
1. Interest Rate Risk is the risk that changes in interest rates will affect future cash flows or fair values of financial instruments;
2. Currency Risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates;
3. Spread Risk is the risk that changes in credit spreads will affect bond prices;
4. Residual Risk is the risk that a price of a particular instrument will change due to its specific characteristics.

On a daily basis the Group assesses interest rate and currency risks for both the trading portfolio and banking book. Moreover, spread and residual risks are calculated for fixed income positions.

The Group applies a Value-at-Risk (hereinafter – "VaR") methodology for the measuring of all risks mentioned above. VaR measure adopted by the Group estimates the potential negative change in the market value of a portfolio at a 99% confidence level over a 1-day horizon. In addition, the Group calculates SVaR, a measure of the potential negative change in the market value of a portfolio at a 99% confidence level over a 1-day horizon in a period of market stress. The Group distinguishes the following types of VaR:
1. Total VaR is calculated for all risk factors taken in aggregate;
2. Interest Rate VaR is originated from interest rate risk exposure of the portfolio;
3. Foreign exchange VaR is originated from currency risk exposure of the portfolio;
4. Spread VaR is originated from spread risk exposure of the bond portfolio;
5. Residual VaR is originated from other factors exposure of the bond portfolio.

The Group also calculates an Incremental Risk Charge (hereinafter – "IRC") that complements additional standards being applied to VaR modelling framework according to amendments to Basel II. IRC is an estimate of the default and migration risks of unsecured credit products over a one year capital horizon at 99.9% confidence level.

For interest rate risk management and control the Group also uses a Basis Point Value (hereinafter – "BPV") measure, which shows a change of present value of the Group's position if interest rate changes by one basis point. The measure is calculated for all currencies in which the Group has interest rate exposures. In addition, for bonds the Group calculates a Credit Point Value (hereinafter – "CPV") measure that reflects a change of the bond position present value in case of credit spread changes by one basis point.

Starting from 2014, the Group additionally calculates (and includes in VaR calculation as a component of interest rate risk) the change of present value of the Group's position if cross-currency basis swap rates change by one basis point.

Since monitoring of VaR, BPV and CPV is an integral part of the risk management procedures, VaR, CPV and BPV limits and warning levels have been established and exposures are reviewed daily against the limits and warning levels by Market Risk Unit (hereinafter – "MRU"). IRC exposure is reviewed weekly.

The Group has adopted the following limits:
- Total VaR limit for the trading portfolio, and a warning level for total VaR for the whole portfolio;
- Total SVaR limit for the trading portfolio;
- IRC limit for total bond position;
- Total BPV limit for the whole portfolio;
- BPV limits split by currencies;
- Open foreign exchange position limits;
- CPV limit for total bond position.

In addition, local ALCO sets limits for BPV by timeband and business segment (ALM and Markets) and VaR warning levels for subportfolios.

Usage of VaR enables management of a position taking into consideration complex relationships and interdependencies between different risk factors. Typically MRU analyses VaR figures and sets BPV limits which help traders and the Finance Department to optimize risk profiles in volatile market environment. On a daily basis MRU performs stress-testing of all four market risk categories, in other words, the estimation of total portfolio present value change according to several predefined scenarios of market risk factor movements. In addition, MRU monitors on a daily basis the financial result of the trading operations and thoroughly investigates any significant variances.

The control of economic and regulatory open foreign currency position is performed by MRU on a daily basis against the established limits.

All limit violations are analyzed by MRU on a daily basis, and all limit breaches are escalated and reported to local ALCO and to the relevant UniCredit Group functions.

According to Basel III regulatory standards the Credit Valuation Adjustment (modification of derivatives market value taking into account counterparty credit risk) and corresponding impact on capital are calculated monthly by the Group. Additionally, the requirements of minimum mark-up of derivative transactions with corporate counterparties are applied.

In 2014 the Group implemented a new IT system for Market risk measurement, which has considerably increased MRU's capability to perform stress tests. The new system also enables to calculate sensitivities to basis spread movements. Interest rate risk model for non-performing loans has been implemented.

In an effort to control the Group's trading strategy the sensitivity analysis of statement of comprehensive income in terms of risk factors is performed monthly and presented to ALCO. In 2014, the analysis was expanded to include historical impact of the risk factors.

In 2015-2016 Group continued to improve its VaR model by introduction of more detailed risk factors on interest rate curves distinguishing different curve types for every currency.

Interest rate risk management of the banking book. The Group uses the active interest rate risk management concept, which aims to minimize the net interest income volatility of the banking book.

In the banking book interest rate risk position there is a discrepancy between economic (behavioural) and contractual maturities of financial instruments. It concerns both instruments with fixed contractual maturities (loans and time deposits) and instruments without contractual maturities (current accounts, capital). Based on the historical observation, the Group developed models that allowed applying a behavioural approach to such kinds of banking book items for construction of interest rate risk position with the aim of better interest rate risk management by means of preventing over-hedging and encouraging self-hedging. The Group applies behavioural models to current accounts, short-term customer time deposits and time deposits with auto-rollover option as well as to capital. The Group has developed a prepayment model for retail loans and implemented it in interest rate risk position. For avoiding an accounting discrepancy between hedged items of the banking book calculated on an accrual basis and hedging instruments calculated on a mark-to-market basis and, as a result, to stabilize net interest income, the Group uses hedge accounting methodology. Currently, Macro Cash Flow Hedge and Portfolio Fair Value Hedge are used.

Objectives and limitation of VaR methodology (unaudited). The Group uses Basel II compliant VaR methodology based on historical simulations. Historical simulation is a method that allows to calculate VaR without making any assumptions about the statistical distribution of the portfolio value movements. This approach involves the construction of the hypothetical distribution of the yields (profit and losses) of a portfolio of financial instruments directly by means of the historical fluctuations of the market prices. Once the hypothetical distribution has been calculated, the VaR is given by the percentile evaluation with the 99% confidence interval.

VaR estimates are based on historical data and therefore have some limitations. The volatility of interest and exchange rates observed in the past might not match the current market conditions, which could lead to an underestimation of future losses. The VaR measure does not account for any losses that may occur beyond the 99% confidence level.

The adequacy of the models used by the Group is controlled using a back-testing method, which compares VaR measures with realized mark-to-market revaluation for traded instruments and mark-to-model revaluation for non-traded instruments. This analysis is provided by MRU on a monthly basis.

One single model is used to estimate VaR for all purposes (regulatory, market risk disclosures, etc.). Changes to VaR model/parameters (if any are required) are validated using the back-testing approach mentioned above. Regulatory requirements for approval, if any, are handled at the UniCredit Group level.

Computational results (unaudited). The following table shows an estimation of the potential losses that could occur on all risk positions as a result of movements in market rates and prices:

	2016	2015
Total VaR	1 032 729	1 803 975
Interest Rate VaR	610 026	1 427 374
Spread VaR	810 958	1 728 019
Foreign exchange VaR	5 614	19 295

The banking book includes corporate and retail loans and bonds from the investment portfolio on the asset side and deposits and debt securities issued on the liability side offset by interest rate swaps.

The following table shows estimation of the potential losses that could occur on the banking book risk positions as a result of movements in market rates and prices:

	2016	2015
Total VaR	1 085 016	1 782 603
Interest Rate VaR	587 246	1 395 248
Spread -VaR[1]	882 000	1 702 358

[1] Spread risk in the banking book arises from bonds comprising investment portfolio.

The following table shows estimation of the potential losses that could occur on the trading book risk positions as a result of movements in market rates and prices:

	2016	2015
Total VaR	83 037	230 752
Interest Rate VaR	55 414	214 123
Spread VaR	62 795	26 654
Foreign exchange VaR	5 614	19 295

Currency risk. Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

Strategic Risks Management Department together with Financial Markets Department controls currency risk by management of the open currency position in order to minimize the Group's losses from significant currency rates fluctuations toward its national currency, while also utilizing short-term profit opportunities. The Group does not keep long-term exposures to currency risk. The Group uses spots, swaps and forwards as main instruments of risk hedging.

Notes to Consolidated Financial Statements (Continued)

26. Risk management (Continued)

The Group's exposure to foreign currency exchange rate risk as at 31 December 2016 is presented in the table below:

	RUB	USD	EUR	Other currencies	2016
Non-derivative financial assets					
Cash and cash equivalents	52 213 157	2 897 125	3 319 048	159 235	**58 588 565**
Trading securities - held by the Group	1 153 597	1 006	-	-	**1 154 603**
- pledged under repurchase agreements	1 251 058	-	-	-	**1 251 058**
Amounts due from credit institutions	46 333 225	208 636 535	12 060 344	2 470 066	**269 500 170**
Loans to customers	343 340 471	292 184 295	41 354 088	132 070	**677 010 924**
Investments available-for-sale					
- held by the Group	24 670 907	16 248 295	2 707	-	**40 921 909**
- pledged under repurchase agreements	19 704 611	-	-	-	**19 704 611**
Investments held to maturity					
- held by the Group	15 722 339	14 982 265	-	-	**30 704 604**
- pledged under repurchase agreements	212 666	-	-	-	**212 666**
Total non-derivative financial assets	**504 602 031**	**534 949 521**	**56 736 187**	**2 761 371**	**1 099 049 110**
Non-derivative financial liabilities					
Amounts due to credit institutions	109 018 800	36 383 738	6 289 000	417 122	**152 108 660**
Financial iabilities held for trading	4 344 152	-	-	-	**4 344 152**
Amounts due to customers	254 513 236	462 749 236	57 617 324	4 222 106	**779 101 902**
Debt securities issued	6 507 846	-	-	-	**6 507 846**
Total non-derivative financial liabilities	**374 384 034**	**499 132 974**	**63 906 324**	**4 639 228**	**942 062 560**
OPEN BALANCE SHEET POSITION	**130 217 997**	**35 816 547**	**(7 170 137)**	**(1 877 857)**	**156 986 550**
OPEN POSITION ON DERIVATIVE FINANCIAL INSTRUMENTS	**51 933 206**	**(36 490 879)**	**7 543 904**	**1 814 319**	**24 800 550**
OPEN POSITION	**182 151 203**	**(674 332)**	**373 767**	**(63 538)**	**181 787 100**

The Group's exposure to foreign currency exchange rate risk as at 31 December 2015 is presented in the table below:

	RUB	USD	EUR	Other currencies	2015
Non-derivative financial assets					
Cash and cash equivalents	15 232 189	4 127 629	3 203 335	167 660	**22 730 813**
Trading securities held by the Group	3 644 969	7 137	-	-	**3 652 106**
Amounts due from credit institutions	83 039 777	226 358 428	25 827 168	1 519 435	**336 744 808**
Loans to customers	347 775 761	459 340 629	59 923 387	255 297	**867 295 074**
Investments available-for-sale					
- held by the Group	36 996 676	17 896 376	2 707	-	**54 895 759**
- pledged under repurchase agreements	14 841 932	-	-	-	**14 841 932**
Investments held to maturity held by the Group	16 130 748	-	-	-	**16 130 748**
Total non-derivative financial assets	**517 662 052**	**707 730 199**	**88 956 597**	**1 942 392**	**1 316 291 240**
Non-derivative financial liabilities					
Amounts due to credit institutions	100 462 841	66 905 269	26 510 650	43 549	**193 922 309**
Amounts due to customers	238 905 597	624 494 699	64 043 911	3 982 781	**931 426 988**
Debt securities issued	32 979 085	-	-	-	**32 979 085**
Total non-derivative financial liabilities	**372 347 523**	**691 399 968**	**90 554 561**	**4 026 330**	**1 158 328 382**
OPEN BALANCE SHEET POSITION	**145 314 529**	**16 330 231**	**(1 597 964)**	**(2 083 938)**	**157 962 858**
OPEN POSITION ON DERIVATIVE FINANCIAL INSTRUMENTS	**20 400 593**	**(18 588 527)**	**172 168**	**2 031 663**	**4 015 897**
OPEN POSITION	**165 715 122**	**(2 258 296)**	**(1 425 796)**	**(52 275)**	**161 978 755**

The following table presents sensitivities of profit and loss and equity to changes in exchange rates applied at the balance sheet date by 10%, with all other variables held constant:

	2016 impact	2015 impact
USD strengthening by 10%	(67 433)	(225 830)
USD weakening by 10%	67 433	225 830
EUR strengthening by 10%	37 377	(142 580)
EUR weakening by 10%	(37 377)	142 580

Management belives that sensitivity analysis does not necessarily reflect currency risk adherent to the Group due to the fact that amounts as of the end of reporting periods do not reflect the amounts throughout the year.

Operational risk

Operational risk definition and risk management principles. The Group defines as "operational" the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The definition of Operational Risk includes legal risk but excludes strategic and reputation risk. Legal risk includes but is not limited to exposure to fines, penalties or punitive damages resulting from supervisory actions as well as private settlements.

The management of operational risk as defined above is based on the following fundamental principles:

- Involvement of corporate governing bodies in all the relevant decisions regarding the operational risk management framework;
- Independence of operational risk management function from the risk taking functions;
- Effective system of controls at different control levels (line, second level and third level);
- Clear separation between the operational risk management framework development and validation functions;
- Involvement of operational risk management function in the evaluation of the risks within new products, processes, systems and markets;
- Effective and efficient escalation and decision-making process;
- Adequate and periodical disclosure and reporting process.

Operational risk management framework. The Group is fully compliant with the UniCredit Group's operational risk management framework in its guiding standards and principles as well as with the legislation of the Russian Federation.

The implementation of the standards and principles is substantially supported by the exhaustive set of internally approved normative documents being constantly maintained and updated in accordance with both external and internal requirements.

The Board of Management holds the responsibility for the establishment, governance and continuous monitoring of the effective and efficient operational risk management system. The Board of Management establishes the general policies of the Group's operational risk management system and has control over its due implementation and its actual operations including but not limiting to:

- Approval of the operational risk framework and any essential changes to it as well as all internal normative documents of the Bank guiding the operational risk management system;
- Establishment of an operational risk management function being of appropriate independence of judgement and having the adequate personnel and other resources;
- Assurance that the tasks and responsibilities of the functions involved in the operational risk management system are assigned in a clear and appropriate manner with special regard to avoidance of conflicts of interest;
- Establishment of informing and reporting system providing accurate, complete and timely information on operational risk exposure and other significant operational risk management issues.

For further enforcement of the operational risk management system, Operational Risk Committee being a governing body primarily is responsible for making decisions on operational risk topics and ongoing monitoring of developments affecting the Group's business and promoting the exchange of information among the divisions and individual operating functions (Retail Banking, CIB, CFO, Legal, HR, Security) representing line controls.

The Operational Risk Management Unit (hereinafter – "ORM Unit") performing the second level controls is fully independent from risk taking functions performing the line level controls. The ORM Unit's main methodologies, tools and activities to identify, assess, monitor and mitigate operational risk are focused on but not limited to:

- loss data collection including general ledger analysis, accounts reconciliation, transitory and suspense accounts monitoring, data quality control;
- operational risk indicators;
- scenario analysis;
- ELOR monitoring;
- insurance coverage;
- capital at risk allocation according to the Basel II Standardized Approach;
- new products/processes analysis from the operational risk impact perspective;
- credit bureaus cooperation;
- reporting and escalating any of the essential Operational Risk issues to the Board of Management, Internal Audit Department and competent UniCredit Group functions.

In order to assure and sustain the efficacy of the Operational Risk identification and mitigation processes, a Permanent Workgroup is operating which aims at identifying the source of Operational Risk and reduce the Operational Risk exposure, leveraging mainly on the expertise of the ORM Unit and Organization Department.

The Internal Audit Department performing the third level controls cooperates with the ORM Unit in terms of setting, development, implementation and maintenance of the operational risk management system, operational risk identification and the inherent local internal validation process.

27. Fair values of financial instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.
- Unquoted equities and debt securities classified as available-for-sale are valued using models that use both observable and unobservable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.
- As there is no active secondary market in Russia for loans and advances to banks and customers, deposits by banks and customers, promissory notes issued, subordinated debt, other borrowing funds and other financial assets and liabilities, there is no reliable market value available for these portfolios. In order to present fair value for these financial instruments a separate recalculation procedure is performed by a special routine which uses cash flows of each individual deals as a basis. The cash flows are multiplied with the respective discount factor per time bucket, currency and risk product (asset or liability).
  In accordance with the Group methodology discount factors include:
  – for assets: Risk free rate + expected loss + unexpected loss;
  – for liabilities: Risk free rate + own credit spread (liquidity spreads).
- For financial assets and liabilities that have a short term maturity (less than 3 months), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without a maturity.
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.
- The fair value valuation of derivative instruments is based on discounted cash flow analysis and performed using the management's best estimates and applicable interest rates. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

Except as detailed in the following table, the Group consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated statement of financial position approximate their fair value. For the purpose of calculation fair value of financial instruments the Group applies ratios calculated by UniCredit Bank Austria AG.

	31 December 2016		31 December 2015	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial assets				
Amounts due from credit institutions	269 500 170	267 787 810	336 744 808	321 744 421
Loans to customers	677 010 924	692 396 971	867 295 074	885 729 267
Investment securities held-to-maturity				
- held by the Group	30 704 604	31 241 702	16 130 748	16 305 248
- pledged under repurchased agreements	212 666	223 919	-	-
Financial liabilities				
Amounts due to credit institutions	152 108 660	172 195 958	193 922 309	211 690 450
Amounts due to customers	779 101 902	792 735 879	931 426 988	944 180 736
Debt securities issued	6 507 846	6 701 406	32 979 085	32 582 136

The following tables provide an analysis of financial instruments that are measured subsequent to initial recognition at amortized cost, grouped into Levels 1 to 3.

	31 December 2016			
	Level 1	Level 2	Level 3	Total
Financial assets				
Amounts due from credit institutions	-	-	267 787 810	267 787 810
Loans to customers	-	-	692 396 971	692 396 971
Investment securities held-to-maturity:				
- held by the Group	14 945 933	16 295 769	-	31 241 702
- pledged under repurchased agreements	-	223 919	-	223 919
Financial liabilities				
Amounts due to credit institutions	-	-	172 195 958	172 195 958
Amounts due to customers	-	-	792 735 879	792 735 879
Debt securities issued	-	6 701 406	-	6 701 406

	31 December 2015			
	Level 1	Level 2	Level 3	Total
Financial assets				
Amounts due from credit institutions	-	-	321 744 421	321 744 421
Loans to customers	-	-	885 729 267	885 729 267
Investment securities held-to-maturity, held by the Group	8 128 470	8 176 778	-	16 305 248
Financial liabilities				
Amounts due to credit institutions	-	-	211 690 450	211 690 450
Amounts due to customers	-	-	944 180 736	944 180 736
Debt securities issued	-	32 582 136	-	32 582 136

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

	31 December 2016			
	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Trading securitites:				
- held by the Group	1 006	1 153 597	-	1 154 603
- pledged under repurchase agreements	-	1 251 058	-	1 251 058
Derivative financial assets	-	41 257 596	-	41 257 596
Derivative financial assets designated for hedging	-	12 738 828	-	12 738 828
Investment securities available-for-sale:				
- held by the Group	31 516 523	9 285 734	-	40 802 257
- pledged under repurchase agreements	19 704 611	-	-	19 704 611
Total	**51 222 140**	**65 686 813**	**-**	**116 908 953**
Financial liabilities at FVTPL				
Financial liabilities held for trading	221 162	4 122 990	-	4 344 152
Derivative financial liabilities	-	16 857 167	-	16 857 167
Derivative financial liabilities designated for hedging	-	12 338 707	-	12 338 707
Total	**221 162**	**33 318 864**	**-**	**33 540 026**

	31 December 2015			
	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Trading securitites:				
- held by the Group	437 860	3 214 246	-	3 652 106
Derivative financial assets	-	65 526 002	-	65 526 002
Derivative financial assets designated for hedging	-	7 042 056	-	7 042 056
Investment securities available-for-sale:				
- held by the Group	36 936 733	17 839 374	-	54 776 107
- pledged under repurchase agreements	14 390 682	451 250	-	14 841 932
Total	**51 765 275**	**94 072 928**	**-**	**145 838 203**
Financial liabilities at FVTPL				
Derivative financial liabilities	-	49 246 075	-	49 246 075
Derivative financial liabilities designated for hedging	-	19 306 086	-	19 306 086
Total	**-**	**68 552 161**	**-**	**68 552 161**

The table above does not include available-for-sale equity investments of RUB 119 652 thousand (31 December 2015: RUB 119 652 thousand) which do not have a quoted market price in an active market and whose fair value cannot be reliably measured due to absence of the market for such instruments. Currently the Group does not intend to dispose of these investments.

During the year ended 31 December 2016 there were no transfers for available-for-sale securities (2015: transfers from level 1 to level 2 amounted to RUB 451 851 thousand and transfers from level 2 to level 1 amounted to RUB 2 183 088 thousand). During the year ended 31 December 2016 and 31 December 2015 there were no transfers for trading securities.

28. Related party disclosures

As at 31 December 2016 the sole shareholder of the Group is UniCredit S.p.A. (see Note 1 for details).

In accordance with IAS 24 Related Party Disclosures, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be conducted on the same terms, conditions and amounts as transactions between unrelated parties.

As stated before, 1 October 2016 the reorganization of UniCredit Group Division responsible for the Central and Eastern Europe has been successfully completed. Under this reorganization the immediate parent of the Group has changed from UniCredit Bank Austria AG to UniCredit S.p.A. Thus, the balances and transactions with UniCredit Bank Austria AG as at and for the year ended 31 December 2015 are disclosed as balances and transactions with other companies controlled by the UniCredit Group or related with UniCredit Group for comparative purposes.

Balances and transactions with UniCredit S.P.A were as follows:

	31 December 2016	Weighted average interest rate, %	31 December 2015	Weighted average interest rate, %
Amounts due from credit institutions				
- In EUR	723 315	0.0%	339 737	0.0%
- In USD	129 316 571	3.7%	-	
Derivative financial assets	2 553 939		-	
Derivative financial assets designated for hedging	9 806 496		-	
Other assets	9 600		9 570	
Amounts due to credit institutions				
- In Russian Roubles	4 570 874	8.9%	1 976 965	9.7%
- In EUR	851 613	0.0%	914 340	0.0%
- In USD	29 178 071	10.9%	-	
Derivative financial liabilities	1 815 514		-	
Derivative financial liabilities designated for hedging	825 002		-	
Other liabilities	566 535		408 948	
Commitments and guarantees issued	3 655 456		973 110	
Commitments and guarantees received	54 328 186		226 780	

	2016	2015
Interest income	15 313 998	-
Interest expense	(4 187 292)	(114 731)
Fee and commission income	26 466	9 982
Fee and commission expense	(1 980 791)	(22 905)
Gains on financial assets and liabilities held for trading	6 739 107	-
Fair value adjustments in portfolio hedge accounting	(57 591)	-
Recovery of personnel expenses / (personnel expenses)	49 495	(94 909)
Other administrative costs	(61 169)	(117 309)

Notes to Consolidated Financial Statements (Continued)

28. Related party disclosures (Continued)

Balances and transactions with other companies controlled by the UniCredit Group or related with UniCredit Group are as follows:

	31 December 2016	Weighted average interest rate, %	31 December 2015	Weighted average interest rate, %
Amounts due from credit institutions				
- In Russian Roubles	14 408 535	11.8%	12 596 181	14.2%
- In EUR	10 233 164	0.0%	10 787 938	0.4%
- In USD	920 582	3.2%	212 121 190	3.1%
- In other currencies	2 530	0.0%	4 822	0.0%
Derivative financial assets	1 121 258		7 557 519	
Derivative financial assets designated for hedging	2 230 501		5 064 363	
Loans to customers				
- In Russian Roubles	1 073 115	5.0%	864 197	5.0%
Intangible assets	793 973		1 175 070	
Other assets	191 086		123 726	
Amounts due to credit institutions				
- In Russian Roubles	7 670 387	6.2%	5 599 611	8.5%
- In EUR	4 859 639	1.4%	24 599 556	1.6%
- In USD	5 676 402	2.5%	46 788 650	8.5%
- In other currencies	399	0.0%	1 413	0.0%
Derivative financial liabilities	7 623 102		23 959 638	
Derivative financial liabilities designated for hedging	3 889 376		11 636 441	
Amounts due to customers				
- In Russian Roubles	338 307	9.0%	10 867	8.6%
- In EUR	148 513	0.0%	332 508	0.0%
Other liabilities	1 318 124		1 034 586	
Commitments and guarantees issued	9 504 684		17 967 981	
Commitments and guarantees received	3 556 535		98 286 044	

	2016	2015
Interest income	6 522 342	19 549 518
Interest expense	(4 000 492)	(8 081 526)
Fee and commission income	141 090	100 969
Fee and commission expense	(160 726)	(2 579 549)
Gains /(losses) on financial assets and liabilities held for trading	2 403 390	(8 455 294)
Fair value adjustments in portfolio hedge accounting	(2 388 672)	(3 399 567)
Other income	485	443
(Personnel expenses) / recovery of personnel expenses	(30 283)	34 213
Other administrative expenses	(218 538)	(112 681)

Balances and transactions with key management personnel are as follows:

	31 December 2016	31 December 2015
Amounts due to customers	312 193	296 028
Other liabilities	43 531	22 018

	2016	2015
Interest expense	(15 021)	(11 360)
Personnel expenses, including:	(294 759)	(312 530)
short-term benefits	(200 648)	(163 236)
long-term benefits	(92 308)	(148 146)
post-employment benefits	(1 803)	(1 148)

Subordinated loans from the members of the UniCredit Group were as follows for 2016 and 2015:

	2016	2015
	UniCredit Bank S.p.A	UniCredit Bank Austria AG
Subordinated loans at the beginning of the year	51 091 697	13 753 224
Subordinated debt repaid during the year	(14 233 680)	-
Subordinated debt received during the year	-	27 761 347
Accrual of interest, net of interest paid	(94 799)	18 283
Effect of exchange rates changes	(7 585 147)	9 558 843
Subordinated loans at the end of the year	**29 178 071**	**51 091 697**

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