COMMERZBANK (EURASIJA) AO

International Financial Reporting Standards
Financial Statements and Independent Auditor's Report

31 December 2016

TRANSLATOR'S NOTE: This version of our report is a translation from the original, which was prepared in Russian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

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Independent Auditor's Report

Auditor's report on the financial statements

To the Shareholder and Supervisory Board of COMMERZBANK (EURASIJA) AO:

We have audited the accompanying financial statements of COMMERZBANK (EURASIJA) AO (the "Bank"), which comprise the statement of financial position as at 31 December 2016 and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

The Bank's Responsibility for the Financial Statements

The Bank's management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Auditor's Responsibility

Our responsibility is to express an opinion as to whether the financial statements are fairly presented based on our audit. We conducted our audit in accordance with Russian Federal Auditing Standards. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient to provide a basis for our audit opinion on the financial statements.

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2016, and the results of its operations and its cash flows for the year 2016 in accordance with International Financial Reporting Standards.

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

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

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

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

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

We have identified the following based on our examination:

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

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

   We draw your attention to the fact that we have not performed any procedures related to the Bank's accounting data other than the procedures we believed necessary to express an opinion on whether the financial statements of the Bank present fairly, in all material respects, its financial position at 31 December 2016, the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards;

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

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

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

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

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

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

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

27 April 2017
Moscow, Russian Federation

O. Kucherova, Director (license number No. 01-000397),
AO PricewaterhouseCoopers Audit

Audited entity: COMMERZBANK (EURASIJA), Joint-Stock Company

State registration certificate No. 11590.17
issued on 31 December 1998.

Certificate of inclusion in the Unified State Register of Legal Entities issued on 29 December 2012 under No. 77 No. 014387286.

119017, Moscow, Kadashevskaya emb., 14/2.

Independent auditor:
AO PricewaterhouseCoopers Audit

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

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

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

ORNZ 11603050547 in the register of auditors and audit organizations

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In thousands of Russian Roubles	Note	31 December 2016	31 December 2015
ASSETS			
Cash and cash equivalents	7	8 139 097	18 977 967
Mandatory cash balances with CBRF		324 397	261 897
Derivative financial instruments	24	3 639 210	5 929 398
Due from other banks	8	7 355 573	2 812 558
Loans and advances to customers	9	11 427 850	23 869 394
Securities available for sale	10	3 577 427	2 611 802
Prepaid income tax		250 718	169 009
Premises and equipment	11	71 027	87 570
Other financial assets		18 916	25 398
Other assets		59 522	70 363
TOTAL ASSETS		**34 863 737**	**54 815 356**
LIABILITIES			
Due to other banks	12	3 298 477	14 885 336
Customer accounts	13	17 153 294	24 902 533
Debt securities in issue		-	16 401
Derivative financial instruments	24	429 513	1 107 687
Provisions for liabilities and charges	14	22 485	52 632
Other financial liabilities		30 776	7 703
Deferred income tax liability	19	781 282	963 110
Other liabilities		189 892	169 797
TOTAL LIABILITIES		**21 905 719**	**42 105 199**
EQUITY			
Share capital	15	3 827 672	3 827 672
Revaluation reserve for securities available for sale		14 361	(32 410)
Retained earnings		8 391 636	8 190 546
Other reserves	15	724 349	724 349
TOTAL EQUITY		**12 958 018**	**12 710 157**
TOTAL LIABILITIES AND EQUITY		**34 863 737**	**54 815 356**

27 April 2017

C. Runde
Chairman of the Management Board

A. A. Gorokhovsky
Financial Director

In thousands of Russian Roubles	**Note**	**2016**	**2015**
Interest income	16	1 556 530	2 092 936
Interest expense	16	(602 077)	(997 664)
Net interest income		**954 453**	**1 095 272**
Recovery of provision/(provision) for loan impairment	8, 9	55 713	(63 122)
Net interest income after provision for loan impairment		**1 010 166**	**1 032 150**
Fee and commission income	17	555 082	492 771
Fee and commission expense	17	(109 294)	(96 061)
Gains less losses/(losses less gains) from operations with derivative financial instruments		872 014	(439 420)
Gains less losses/(losses less gains) from trading in foreign currencies		1 929 137	(288 724)
Foreign exchange translation (losses less gains)/gains less losses		(1 297 567)	4 081 784
Other operating income		88 062	108 846
Administrative and other operating expenses	18	(1 351 309)	(1 311 403)
Recovery of other reserves/ (other reserves)	14	2 174	(2 864)
Profit before tax		**1 698 465**	**3 577 079**
Income tax expense	19	(497 375)	(782 325)
PROFIT FOR THE YEAR		**1 201 090**	**2 794 754**
Other comprehensive income / (loss) for the year			
Items that may be reclassified subsequently to profit or loss			
Securities available for sale			
- Gains less losses from revaluation	10	58 464	252 435
Income tax recorded directly in other comprehensive income	19	(11 693)	(49 505)
Total other comprehensive income for the year		**46 771**	**202 930**
Total comprehensive income for the year		**1 247 861**	**2 997 684**

In thousands of Russian Roubles	Share capital	Revaluation reserve for securities available for sale	Retained earnings	Other reserves	Total equity
Balance at 1 January 2015	**3 827 672**	**(235 340)**	**7 395 792**	**724 349**	**11 712 473**
Profit	-	-	2 794 754	-	2 794 754
Other comprehensive income	-	202 930	-	-	202 930
Total comprehensive income for the year	-	**202 930**	**2 794 754**	**-**	**2 997 684**
Dividends declared (Note 20)	-	-	(2 000 000)	-	(2 000 000)
Balance at 31 December 2015	**3 827 672**	**(32 410)**	**8 190 546**	**724 349**	**12 710 157**
Profit	-	-	1 201 090	-	1 201 090
Other comprehensive income	-	46 771	-	-	46 771
Total comprehensive income for the year	-	**46 771**	**1 201 090**	**-**	**1 247 861**
Dividends declared (Note 20)	-	-	(1 000 000)	-	(1 000 000)
Balance at 31 December 2016	**3 827 672**	**14 361**	**8 391 636**	**724 349**	**12 958 018**

In thousands of Russian Roubles	Note	2016	2015
Cash flows from operating activities			
Interest received		1 540 362	2 083 497
Interest paid		(638 546)	(989 045)
Fees and commissions received		559 001	528 707
Fees and commissions paid		(107 942)	(143 609)
Income received / (expense paid) on operations with financial derivatives		2 484 028	(2 348 312)
Income received / (expenses paid) on trading in foreign currencies		1 955 227	(289 424)
Other operating income received		85 368	148 622
Staff costs paid		(599 931)	(544 348)
Administrative and other operating expenses paid (less staff costs paid)		(694 878)	(682 901)
Income tax paid		(801 548)	(27 752)
Cash flows used in operating activities before changes in operating assets and liabilities		**3 781 141**	**(2 264 565)**
Net (increase)/decrease in:			
- mandatory cash balances with the CBRF		(62 500)	48 411
- due from other banks		(4 795 184)	26 478 122
- loans and advances to customers		7 620 661	7 484 728
- other assets		13 350	31 441
Net increase/(decrease) in:			
- due to other banks		(7 682 885)	(21 063 631)
- customer accounts		(5 259 646)	(320 681)
- debt securities in issue		(16 401)	16 245
- other liabilities		8 115	(8 424)
Net cash from operating activities		**(6 393 349)**	**10 401 646**
Cash flows from investing activities			
Acquisition of securities available for sale		(1 399 863)	(763 291)
Disposal of securities available for sale		527 148	1 090 932
Acquisition of premises and equipment		(20 936)	(23 362)
Proceeds from disposal of premises and equipment		1 790	1 181
Net cash (used in)/ from investing activities		**(891 861)**	**305 460**
Cash flows from financing activities			
Dividends paid	20	(1 000 000)	(2 000 000)
Net cash used in financing activities		**(1 000 000)**	**(2 000 000)**
Effect of exchange rate changes on cash and cash equivalents		(2 553 660)	1 849 287
Net increase in cash and cash equivalents		**(10 838 870)**	**10 556 393**
Cash and cash equivalents at the beginning of the year	7	18 977 967	8 421 574
Cash and cash equivalents at the end of the year	7	**8 139 097**	**18 977 967**

1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") for the year ended 31 December 2016 for Commerzbank (Eurasija) AO (the "Bank").

The Bank was incorporated and is domiciled in the Russian Federation. The Bank is a joint stock company limited by shares and was set up in accordance with Russian regulations. The Bank is a wholly owned subsidiary of Commerzbank AG (Germany). Commerzbank AG and its subsidiaries are referred to in these financial statements as "Commerzbank Group".

Principal activity. The Bank's principal business activity is commercial banking operations within the Russian Federation. The Bank has been operating in the Russian Federation since 1998. In 2010, as a result of restructuring the Bank received a full banking license issued by the Central Bank of the Russian Federation ("CBRF"). The Bank participates in the state deposit insurance scheme, which was introduced by Federal Law No.177-FZ "Deposits of individuals insurance in Russian Federation" dated 23 December 2003. The State Deposit Insurance Agency guarantees repayment of 100% of individual deposits up to RR 1 400 thousand per individual in the case of the withdrawal of a licence of a bank or a CBRF imposed moratorium on payments.

The Bank has one (2015: one) branch in the Russian Federation in the city of Saint Petersburg. The branch services the Bank's clients in this region and provides necessary services within the scope of the transactions conducted by the head office.

Registered address and place of business. The Bank's registered address is: Russian Federation, 119017, Moscow, Kadashevskaya nab. 14/2.

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

Securing obligations. The Bank's obligations are secured by a letter of comfort from Commerzbank AG (see the 2016 Annual Report of Commerzbank Group, page 264):
https://www.commerzbank.com/media/aktionaere/service/archive/konzern/2017/Geschaeftsbericht_2016_Konzern_EN.pdf.

2 Operating Environment of the Bank

Russian Federation. The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations (Note 23). During 2016, the Russian economy continued to be negatively impacted by low oil prices, ongoing political tension in the region and international sanctions against certain Russian companies and individuals, all of which contributed to the country's economic recession characterised by a decline in gross domestic product. The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. Russia's credit rating was downgraded to below investment grade. This operating environment has a significant impact on the Bank's operations and financial position. Management is taking necessary measures to ensure sustainability of the Bank's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

2 Operating Environment of the Bank (Continued)

Management determined loan impairment provisions using the “incurred loss” model required by the applicable accounting standards. These standards require recognition of impairment losses that arose from past events and prohibit recognition of impairment losses that could arise from future events, including future changes in the economic environment, no matter how likely those future events are. Thus final impairment losses from financial assets could differ significantly from the current level of provisions. Refer to Note 4.

3 Summary of Significant Accounting Policies

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

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

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

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market’s normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price. The price within the bid-ask spread that is most representative of fair value in the circumstances was used to measure fair value, which management considers is the average of actual trading prices on the reporting date.

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date in current market conditions. This is applicable for assets carried at fair value on a recurring basis if the Bank: (a) manages the group of financial assets and financial liabilities on the basis of the entity’s net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity’s documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity’s key management personnel; and (c) the market risks, including duration of the entity’s exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same.

3 Summary of Significant Accounting Policies (Continued)

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 25.

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

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

The effective interest rate method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

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

3 Summary of Significant Accounting Policies (Continued)

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

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

Derecognition of financial liabilities. The Bank derecognises financial liabilities, including borrowed funds, only when these liabilities are extinguished.

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include interbank placements which can be converted into cash within a day. Restricted funds are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

The payments or receipts presented in the statement of cash flows represent transfers of cash and cash equivalents by the Bank, including amounts charged or credited to current accounts of the Bank's counterparties held with the Bank, such as loan interest income or principal collected by charging the customer's current account or interest payments or disbursement of loans credited to the customer's current account, which represents cash or cash equivalent from the customer's perspective.

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

Trading securities. Trading securities are financial assets which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Bank classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. within six months. The Bank may choose to reclassify a non-derivative trading financial asset out of the fair value through the profit or loss category if the asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of fair value through the profit or loss category only in rare circumstances arising from a single event that is unusual and highly unlikely to reoccur in the near term. Financial assets that would meet the definition of loans and receivables may be reclassified if the Bank has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

3 Summary of Significant Accounting Policies (Continued)

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

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

Loans and advances to customers. Loans and advances to customers are recorded when the Bank advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

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

The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

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

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

3 Summary of Significant Accounting Policies (Continued)

Future cash flows in a group of financial assets that are collectively evaluated for impairment, are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods, and to remove the effects of past conditions that do not exist currently.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then derecognised and a new asset is recognised at its fair value only if the risks and rewards of the asset substantially changed. This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

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

Credit related commitments. The Bank enters into credit related commitments, including letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties, and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period.

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

3 Summary of Significant Accounting Policies (Continued)

Investment securities available for sale are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method, and recognised in profit or loss for the year.

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

Premises and equipment. Premises and equipment are stated at cost less accumulated depreciation and provision for impairment, where required.

Premises and equipment are subject to revaluation with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Increases in the carrying amount arising on revaluation are credited to other comprehensive income and increase the revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation surplus in equity; all other decreases are charged to profit or loss for the year. The revaluation reserve for premises and equipment included in equity is transferred directly to retained earnings when the revaluation surplus is realised, i.e. on the retirement or disposal. If there is no market based evidence of fair value, fair value is estimated using an income approach.

Costs of minor repairs and maintenance are expensed when incurred. Costs of replacing major parts or components of premises and equipment items are capitalised, and the replaced part is retired.

At the end of each reporting period management assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use.

The carrying amount is reduced to the recoverable amount and the impairment loss is recognized in profit and loss for the year. An impairment loss recognised for an asset in prior periods is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

3 Summary of Significant Accounting Policies (Continued)

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

Depreciation. Depreciation on premises and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

	Useful lives in years
Leasehold improvements	30
Telecommunication equipment	2-10
Office equipment	2-15
Furniture	5
Computers	2-5
Vehicles	2-5

The residual value of an asset is the estimated amount that the Bank would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Bank by counterparty banks. The non-derivative financial liability is carried at amortised cost. If the Bank purchases its own debt, the liability is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from retirement of debt.

Customer accounts. Customer accounts are non-derivative financial liabilities to individuals, state or corporate customers and are carried at amortised cost.

Debt securities in issue. Debt securities in issue include promissory notes issued by the Bank. Debt securities are stated at amortised cost. If the Bank purchases its own debt securities in issue, they are removed from the statement of financial position, and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from retirement of debt.

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, and currency and interest rate options are carried at their fair value.

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

3 Summary of Significant Accounting Policies (Continued)

Certain derivative instruments embedded in other financial instruments are treated as separate derivative instruments when their risks and characteristics are not closely related to those of the host contract.

Income taxes. Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

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

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Uncertain tax positions. The Bank's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

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

3 Summary of Significant Accounting Policies (Continued)

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

Share capital. Non-redeemable ordinary shares with discretionary dividends are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity. Other reserves within equity represent contributions from the shareholders of the Bank, other than investments in the Bank's shares.

Dividends. Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the financial statements are authorised for issue, are disclosed in the subsequent events note. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the current year net profit.

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

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

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

When loans and other debt instruments become doubtful of collection, they are written down to the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the recoverable value discount based on the asset's effective interest rate which was used to measure the impairment loss. All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Loan syndication fees are recognised as income when the syndication has been completed and the Bank retains no part of the loan package for itself, or retains a part at the same effective interest rate as for the other participants.

3 Summary of Significant Accounting Policies (Continued)

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, and which are earned on execution of the underlying transaction, are recorded on its completion. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis.

Foreign currency translation. The Bank's functional currency and the Bank's presentation currency is the national currency of the Russian Federation, Russian Roubles ("RR").

Monetary assets and liabilities are translated into functional currency at the official exchange rate of the CBRF at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the CBRF, are recognised in profit or loss for the year (as foreign exchange translation gains less losses). Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity instruments, are translated using the exchange rates at the date when the fair value was determined.

Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

At 31 December 2016, the principal rates of exchange used for translating foreign currency balances were USD 1 = RR 60.6569 (2015: USD 1 = RR 72.8827) and EUR 1 = RR 63.8111 (2015: EUR 1 = RR 79.6972).

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

Presentation of statement of financial position in order of liquidity. The Bank does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the statement of financial position. Instead, the Bank provides analysis of assets and liabilities by expected maturities in Note 21.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

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

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

Impairment losses on loans and advances and due from other banks. The Bank regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include measurable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. A 5% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in loan impairment losses of RR 3 019 thousand (2015: RR 5 805 thousand). For information on the provision for credit-related commitments also refer to Note 14.

Fair value of financial instruments. The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. If fair value is determined by using valuation techniques (e.g. models), they are approved and regularly reviewed by qualified employees independent from the department where the technique was developed. Each model is subject to mandatory certification before it is available for use, also the models are adjusted to ensure that the results reflect actual data and comparative market prices. To the extent practical, models use only publicly accessible data, however areas such as credit risk (own and counterparty), volatilities and correlations require management estimates. Changes in assumptions about these factors could affect the reported fair values. Refer to Note 25.

Initial recognition of related party transactions. In the normal course of business the Bank enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 27.

5 Adoption of New or Revised Standards and Interpretations

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

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

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

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

6 New Accounting Pronouncements

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

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

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI.
- Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.

6 New Accounting Pronouncements (Continued)

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

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

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

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

6 New Accounting Pronouncements (Continued)

Disclosure Initiative - Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. The Bank is currently assessing the impact of the new standard on its financial statements.

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

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

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

7 Cash and Cash Equivalents

In thousands of Russian Roubles	**2016**	**2015**
Neither past due nor impaired		
Cash on hand	21 516	61 382
Cash balances with the CBRF (other than mandatory reserve deposits)	697 104	12 368 018
Correspondent accounts and overnight placements with other banks		
- Internal financial rating 1.0 – 2.0	5 945 904	4 731 129
- Internal financial rating 2.1 – 4.0	8	23 469
- Internal financial rating 4.1 – 7.0	458	535
Balances on settlement accounts with trading systems	1 474 107	1 793 434
Total cash and cash equivalents	**8 139 097**	**18 977 967**

Detailed description of internal rating methodology is disclosed in Note 21. Cash and cash equivalents are not collateralised. Interest rate analysis of cash and cash equivalents is disclosed in Note 21. The information on related party transactions is disclosed in Note 27.

8 Due from Other Banks

In thousands of Russian Roubles	2016	2015
Term placements with Commerzbank AG	5 522 384	-
Term placements with CBRF	1 000 246	-
Term placements with other banks	703 411	2 824 247
Security deposits with trading systems	144 247	-
Impairment loss provision	(14 715)	(11 689)
Total due from other banks	**7 355 573**	**2 812 558**

Analysis by credit quality of amounts due from other banks outstanding at 31 December 2016 is provided below. Detailed description of internal rating methodology is disclosed in Note 21.

In thousands of Russian Roubles	2016	2015
Neither past due nor impaired		
- Internal financial rating 1.0 – 2.0	5 522 384	-
- Internal financial rating 2.1 – 4.0	1 847 904	2 824 247
Impairment loss provision	(14 715)	(11 689)
Total due from other banks	**7 355 573**	**2 812 558**

Amounts due from other banks are not collateralised.

The primary factor that the Bank considers in determining whether amounts due from other banks are impaired is their overdue status.

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

In thousands of Russian Roubles	2016	2015
Provision for impairment at 1 January	**11 689**	**6 065**
Provision for impairment during the year	3 026	5 630
Write-off against provision	-	(6)
Provision for impairment at 31 December	**14 715**	**11 689**

Refer to Note 25 for the estimated fair value of each class of amounts due from other banks. Interest rate and maturity analyses of due from other banks are disclosed in Note 21. Information on balances and transactions with related parties is disclosed in Note 27.

9 Loans and Advances to Customers

In thousands of Russian Roubles	2016	2015
Neither past due nor impaired loans	10 919 295	23 880 586
Loans overdue for less than 30 days but not impaired	-	33
Individually impaired loans	554 223	93 182
Provision for loan impairment	(45 668)	(104 407)
Total loans and advances to customers	**11 427 850**	**23 869 394**

9 Loans and Advances to Customers (Continued)

Movements in the provision for loan impairment during 2016 are as follows:

In thousands of Russian Roubles	**2016**	**2015**
Provision for loan impairment at 1 January	**104 407**	**46 915**
(Recovery of)/ provision for impairment during the year	(58 739)	57 492
Provision for loan impairment at 31 December	**45 668**	**104 407**

Economic sector risk concentration within the customer loan portfolio is as follows:

	2016		**2015**	
In thousands of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Manufacturing	7 601 691	66	15 107 378	63
Leasing	1 774 302	16	2 624 386	11
Trade	1 739 183	15	817 205	3
Metallurgy and metals trade	73 409	1	222 615	1
Mining	19 290	0	3 293 878	14
Food industry	-	-	1 509 596	6
Other	265 643	2	398 743	2
Total loans and advances to customers (before impairment provision)	**11 473 518**	**100**	**23 973 801**	**100**

At 31 December 2016, the Bank had six borrowers (2015: 11 borrowers) with aggregated loan amounts above RR 600 000 thousand each. The total aggregate amount of these loans was RR 9 587 266 thousand (2015: RR 19 489 462 thousand) or 84% of the gross loan portfolio (2015: 81%).

The Bank applied the portfolio provisioning methodology prescribed by IAS 39, *"Financial Instruments:* Recognition and Measurement, and created portfolio provisions for impairment losses that were incurred, but have not been specifically identified with any individual loan, by the end of the reporting period. The Bank's policy is to classify each loan as 'neither past due nor impaired' until specific objective evidence of impairment of the loan is identified. The impairment provisions may exceed the total gross amount of individually impaired loans as a result of this policy and the portfolio impairment methodology.

The primary factors that the Bank considers in determining whether a loan is impaired are its overdue status and realisability of related collateral, if any.

Analysis of credit quality by financial ratings as at 31 December 2016 is presented in the table below. Detailed description of internal rating methodology is disclosed in Note 21.

9 Loans and Advances to Customers (Continued)

In thousands of Russian Roubles	**Loans and advances to customers before provision for loan impairment**	**Provision for loan impairment**	**Total loans and advances to customers**
Neither past due nor impaired			
- Internal financial rating 1.0 – 2.0	2 423 687	(2 559)	2 421 128
- Internal financial rating 2.1 – 4.0	6 181 398	(10 472)	6 170 926
- Internal financial rating 4.1 – 7.0	2 314 210	(23 010)	2 291 200
Total neither past due nor impaired	**10 919 295**	**(36 041)**	**10 883 254**
Individually impaired			
- Internal financial rating 4.1 – 7.0	554 223	(9 627)	544 596
Total individually impaired	**554 223**	**(9 627)**	**544 596**
Total	**11 473 518**	**(45 668)**	**11 427 850**

9 Loans and Advances to Customers (Continued)

Analysis of credit quality by financial ratings as at 31 December 2015 is presented in the table below.

In thousands of Russian Roubles	**Loans and advances to customers before provision for loan impairment**	**Provision for loan impairment**	**Total loans and advances to customers**
Neither past due nor impaired			
- Internal financial rating 1.0 – 2.0	1 374 766	(1 082)	1 373 684
- Internal financial rating 2.1 – 4.0	22 426 032	(48 507)	22 377 525
- Internal financial rating 4.1 – 7.0	79 788	(8)	79 780
Total neither past due nor impaired	**23 880 586**	**(49 597)**	**23 830 989**
- less than 30 days past due, but not impaired			
- Internal financial rating 2.1 – 4.0	33	-	33
Total past due but not impaired	**33**	**-**	**33**
Individually impaired			
- Internal financial rating 4.1 – 7.0	93 182	(54 810)	38 372
Total individually impaired	**93 182**	**(54 810)**	**38 372**
Total	**23 973 801**	**(104 407)**	**23 869 394**

Information about collateral at 31 December 2016 and 2015 is as follows:

In thousands of Russian Roubles	**2016**	**2015**
Unsecured loans	845 375	2 478 609
Loans collateralised by guarantees (from other banks and organizations)	9 380 848	17 680 990
Loans collateralised by:		
- cash deposits	559 862	3 516 493
- other assets	641 765	193 302
Total loans and advances to customers	**11 427 850**	**23 869 394**

9 Loans and Advances to Customers (Continued)

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

At 31 December 2016 the Bank has individually impaired loans collateralised by equipment in the amount of RR 831 544 thousand (2015: individually impaired loans were collateralised by equipment in the amount of RR 114 000 thousand and by real estate in the amount of RR 52 361 thousand).

The financial effect of collateral is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed the carrying value of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets"). The effect of collateral at 31 December 2016:

	Over-collateralised assets		**Under-collateralised assets**	
In thousands of Russian Roubles	**Carrying value of the assets**	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Loans and advances to customers	3 957 236	6 192 451	7 470 614	1 450 671

The effect of collateral at 31 December 2015:

	Over-collateralised assets		**Under-collateralised assets**	
In thousands of Russian Roubles	**Carrying value of the assets**	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Loans and advances to customers	6 595 336	10 950 151	17 274 058	9 656 753

The tables above consider only collateral represented by the most reliably measured instruments such as cash (letters of credit coverage), Commerzbank AG's guarantees and evaluated property. The Bank generally accepts a broad range of assets and instruments as collateral that may ensure different levels of security.

Refer to Note 25 for the fair value measurement of loans and advances to customers. Interest rate and maturity analyses of loans and advances to customers are disclosed in Note 21. The information on related party transactions is disclosed in Note 27.

10 Securities Available for Sale

In thousands of Russian Roubles	**2016**	**2015**
Neither past due nor impaired		
Russian government bonds		
- internal financial rating 2.1 – 4.0	3 577 427	2 611 802
Total securities available for sale	**3 577 427**	**2 611 802**

10 Securities Available for Sale (Continued)

Russian government bonds are denominated in Russian Roubles and are not collateralised. The movements in securities available for sale are as follows:

In thousands of Russian Roubles	2016	2015
Carrying amount at 1 January	**2 611 802**	**2 703 079**
Mark to market	58 464	252 435
Interest income accrued	261 388	195 444
Interest received	(226 942)	(211 515)
Purchases	1 399 863	763 291
Disposal and redemption	(527 148)	(1 090 932)
Carrying amount at 31 December	**3 577 427**	**2 611 802**

Interest rate analysis of investment securities available for sale is disclosed in Note 21.

11 Premises and Equipment

In thousands of Russian Roubles	Note	Leasehold improvements	Office and computer equipment and other	Total
Cost at 1 January 2015		50 930	237 177	288 107
Accumulated depreciation		(11 884)	(180 587)	(192 471)
Carrying amount at 1 January 2015		**39 046**	**56 590**	**95 636**
Additions		-	23 362	23 362
Disposals (at cost)		-	(11 974)	(11 974)
Disposals (accumulated depreciation)		-	11 962	11 962
Depreciation charge	18	(1 693)	(29 723)	(31 416)
Carrying amount at 31 December 2015		**37 353**	**50 217**	**87 570**
Cost at 31 December 2015		50 930	248 565	299 495
Accumulated depreciation		(13 577)	(198 348)	(211 925)
Carrying amount at 1 January 2016		**37 353**	**50 217**	**87 570**
Additions		-	20 936	20 936
Disposals (at cost)		-	(75 681)	(75 681)
Disposals (accumulated depreciation)		-	75 681	75 681
Depreciation charge	18	(1 698)	(35 781)	(37 479)
Carrying amount at 31 December 2016		**35 655**	**35 372**	**71 027**
Cost at 31 December 2016		50 930	193 820	244 750
Accumulated depreciation		(15 275)	(158 448)	(173 723)

12 Due to Other Banks

In thousands of Russian Roubles	2016	2015
Correspondent accounts and overnight placements		
- Commerzbank Group banks	180 377	4 102 063
Term deposits		
- Commerzbank Group banks	3 118 100	10 783 273
Total due to other banks	**3 298 477**	**14 885 336**

Refer to Note 25 for the disclosure of the fair value of due to other banks. The interest rate and maturity analyses of due from other banks are disclosed in Note 21. The information on related party transactions is disclosed in Note 27.

13 Customer Accounts

In thousands of Russian Roubles	2016	2015
Legal entities		
- Current/settlement accounts	10 340 670	15 760 615
- Term deposits	6 812 329	9 137 676
Individuals		
- Current/demand accounts	295	3 945
- Term deposits	-	297
Total customer accounts	**17 153 294**	**24 902 533**

Economic sector concentrations within customer accounts are as follows:

	2016		2015	
In thousands of Russian Roubles	Amount	%	Amount	%
Trade	8 875 161	52	10 662 359	43
Manufacturing	4 655 283	27	9 586 275	38
Construction	1 530 997	9	1 772 633	7
Financial services	847 373	5	1 632 096	7
Transport	170 035	1	396 169	2
Individuals	295	0	4 242	-
Other	1 074 150	6	848 759	3
Total customer accounts	**17 153 294**	**100**	**24 902 533**	**100**

At 31 December 2016, the Bank had 36 customers (2015: 43 customers) with balances above RR 100 000 thousand. The aggregate balance of these customers was RR 12 261 490 thousand (2015: RR 20 184 849 thousand), or 71% (2015: 81%) of total customer accounts.

Refer to Note 25 for the disclosure of the fair value of each class of customer accounts. The interest rate and maturity analyses of customer accounts are disclosed in Note 21. The information on related party transactions is disclosed in Note 27.

14 Provisions for Liabilities and Charges

In thousands of Russian Roubles	Provision for tax risks (Note 23)	Provision for credit related commitments (Note 23)	Provision for restructuring expenses	Total
Carrying amount at 1 January 2015	**-**	**24 964**	**1 542**	**26 506**
Changes charged to profit or loss within other reserves	3 331	(4 653)	(1 542)	(2 864)
Changes charged to income tax expense	28 990	-		28 990
Utilisation of provision	-	-	-	-
Carrying amount at 1 January 2016	**32 321**	**20 311**	**-**	**52 632**
Changes charged to profit or loss within other reserves	-	2 174	-	2 174
Utilisation of provision	(32 321)	-	-	(32 321)
Carrying amount at 31 December 2016	**-**	**22 485**	**-**	**22 485**

15 Share Capital

In thousands of Russian Roubles except for number of shares	Number of outstanding shares	Share capital	Share premium	Total
At 1 January 2015, 31 December 2015 and 31 December 2016	**43 112**	**2 535 833**	**1 291 839**	**3 827 672**

The above amounts are adjusted for the hyperinflation during the period before 1 January 2003.

Share capital of the Bank is represented by ordinary shares. At 31 December 2016 and 2015, all of the Bank's outstanding ordinary shares were fully paid in. All ordinary shares have a nominal value of RR 50 thousand per share (2015: RR 50 thousand per share). Each share carries one vote.

Share premium represents the excess of contributions received over the nominal value of shares issued.

All of the ordinary shares issued are owned by Commerzbank AG.

In accordance with Russian legislation, the Bank distributes profits as dividends or transfers them to reserves on the basis of financial statements prepared in accordance with Russian Accounting Rules.

Other reserves within equity include RR 341 210 thousand of the financial support provided by the shareholder for no consideration (2015: RR 341 210 thousand) and RR 383 139 thousand of merger provision (2015: RR 383 139 thousand). The merger provision represents the excess of net assets over par value of the shares issued in the process of merger with ZAO Dresdner Bank in 2010.

16 Interest Income and Expense

In thousands of Russian Roubles	2016	2015
Interest income		
Loans and advances to customers	1 095 531	1 266 445
Securities available for sale	261 388	195 444
Due from other banks	199 611	631 047
Total interest income	**1 556 530**	**2 092 936**
Interest expense		
Term deposits of legal entities	530 552	843 140
Term deposits of banks	71 525	154 524
Total interest expense	**602 077**	**997 664**
Net interest income	**954 453**	**1 095 272**

17 Fee and Commission Income and Expense

In thousands of Russian Roubles	2016	2015
Fee and commission income		
Settlement transactions	175 992	141 569
Acting as currency control agent	124 870	130 852
Guarantees issued	121 548	103 539
Letters of credit	91 942	98 269
Cash transactions	1 194	1 484
Other	39 536	17 058
Total fee and commission income	**555 082**	**492 771**
Fee and commission expense		
Guarantees received	47 631	45 168
Settlement operations	21 394	20 974
Transactions with securities and foreign currencies	18 702	12 851
Letters of credit	1 635	16 110
Other	19 932	958
Total fee and commission expense	**109 294**	**96 061**
Net fee and commission income	**445 788**	**396 710**

18 Administrative and Other Operating Expenses

In thousands of Russian Roubles	Note	2016	2015
Staff costs		597 214	585 988
Operating lease expense for premises and equipment		292 201	259 278
Expenses on services provided by Commerzbank AG	27	227 881	226 025
Other costs of premises and equipment		60 943	53 845
Telecommunications		57 421	60 477
Depreciation of premises and equipment	11	37 479	31 416
Professional services		21 501	21 403
Taxes other than on income		15 106	16 922
Business trip expenses		10 046	12 031
Entertainment expenses		5 949	2 997
Information services		2 737	2 517
Other		22 831	38 504
Total administrative and other operating expenses		**1 351 309**	**1 311 403**

Included in staff costs are statutory social insurance contributions of RR 80 735 thousand (2015: RR 82 435 thousand).

19 Income Taxes

Income tax expense recorded in profit or loss for the year comprises the following:

In thousands of Russian Roubles	2016	2015
Current tax	690 896	265 595
Deferred tax	(193 521)	516 730
Income tax expense for the year	**497 375**	**782 325**

The income tax rate applicable to the majority of the Bank's 2016 income is 20% (2015: 20%). A reconciliation between the expected and the actual taxation charge is provided below.

In thousands of Russian Roubles	2016	2015
Profit before tax	**1 698 465**	**3 577 079**
Theoretical tax charge at statutory rate (2016 – 2015: 20%)	339 693	715 416
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-deductible administrative and other operating expenses	34 848	47 283
- Income tax assessment for previous periods based on the tax audit results	-	28 990
- Unrecognised tax asset	134 482	-
- Income on government securities taxed at different rates	(11 648)	(9 364)
Income tax expense for the year	**497 375**	**782 325**

19 Income Taxes (Continued)

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

In thousands of Russian Roubles	1 January 2016	Credited/ (charged) to profit or loss	Charged directly to other comprehensive income	31 December 2016
Tax effect of deductible/(taxable) temporary differences				
Provision for impairment of due from other banks	2 338	(2 338)	-	-
Loans and advances to customers	1 444	133 215	-	134 659
Provision for loan impairment	(10 125)	(132 388)	-	(142 513)
Accrued administrative and other operating expenses	24 768	4 482	-	29 250
Revaluation of derivative financial instruments at fair value	(964 343)	322 404	-	(641 939)
Securities available for sale	2 600	(6 304)	(11 693)	(15 397)
Premises and equipment	(15 464)	2 167	-	(13 297)
Accrued fee and commission income	(9 056)	6 996	-	(2 060)
Provisions for liabilities and charges	4 728	(231)	-	4 497
Net deferred tax liability	**(963 110)**	**328 003**	**(11 693)**	**(646 800)**
Unrecognised deferred tax asset	-	(134 482)	-	(134 482)
Recognised deferred tax liability	**(963 110)**	**193 521**	**(11 693)**	**(781 282)**

19 Income Taxes (Continued)

In thousands of Russian Roubles	1 January 2015	Credited/ (charged) to profit or loss	Charged directly to other comprehensive income	31 December 2015
Tax effect of deductible/(taxable) temporary differences				
Tax loss carried forward	126 148	(126 148)	-	-
Provision for impairment of due from other banks	336	2 002	-	2 338
Loans and advances to customers	9 550	(8 106)	-	1 444
Provision for loan impairment	(14 962)	4 837	-	(10 125)
Accrued administrative and other operating expenses	26 635	(1 867)	-	24 768
Revaluation of derivative financial instruments at fair value	(582 563)	(381 780)	-	(964 343)
Securities available for sale	57 607	(5 502)	(49 505)	2 600
Premises and equipment	(15 210)	(254)	-	(15 464)
Accrued fee and commission income	(9 717)	661	-	(9 056)
Provisions for liabilities and charges	5 301	(573)	-	4 728
Net deferred tax liability	**(396 875)**	**(516 730)**	**(49 505)**	**(963 110)**
Recognised deferred tax liability	**(396 875)**	**(516 730)**	**(49 505)**	**(963 110)**

20 Dividends

In thousands of Russian Roubles	2016	2015
Dividends payable at 1 January	-	-
Dividends declared during the year	1 000 000	2 000 000
Dividends paid during the year	(1 000 000)	(2 000 000)
Dividends payable at 31 December	**-**	**-**
Dividends per share declared during the year	**23**	**46**

All dividends were declared and paid in Russian Roubles.

21 Financial Risk Management

Risk management objectives, policies and procedures. The risk management function within the Bank is carried out in respect of financial risks (credit, market, geographical, currency, liquidity and interest rate), operational risks and legal risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures, in order to minimise operational and legal risks.

According to Basel II requirements, which are binding for all European credit institutions, Commerzbank Group, of which the Bank is a subsidiary, adopts and implements a business and a corresponding risk strategy, which addresses all major economic risks. Basel II accord allows to choose between a series of simple ("foundation") and more sophisticated ("advanced") approaches to risk measurement, specifically rewarding the banks for measuring risks more stringently and more precisely in the form of lower capital charge. Commerzbank Group adopted the advanced approach to risk measurement.

The quantification of economic risks on Commerzbank Group level is the aim of economic capital model. Its foundation is the delineation of different risk types, risk quantification schemes for the various risk types and integration of all risks into a group-wide risk capital number. The aggregation of risks to Commerzbank Group level is closely connected to the allocation of total risk back to risk types and business units, respectively. Economic capital allocation is an essential part of economic capital model.

Economic capital is a risk measure with a single risk horizon (12 months) and confidence level (99.95%), generally applicable to all risk types. Economic capital model takes into consideration market, operational, credit and business risks. For market risk management (measurement, limit setting and control) the Bank is using Value at Risk (VaR) model with a lower confidence level (97.50%) which produces numbers less sensitive to representative of input data and therefore more suitable for practical risk management rather than just assessing economic capital adequacy.

The risk control/management framework and all internal policies, guidelines and methodologies are set up on Commerzbank Group level and they are binding for all entities of the Commerzbank Group, including the Bank. Responsibility for implementing risk policy guidelines laid down by the Board of Managing Directors throughout Commerzbank Group lies with the Chief Risk Officer, who regularly reports to the Risk Committee of the Supervisory Board and to the Board of Managing Directors on the Group's overall risk situation.

Five separate departments are in charge of risk control and risk management: Group Credit Risk Management Core (GRM-CRC), Group Credit Risk Management Non Core (GRM-CRN), Group Market Risk Management (GRM-MR), Group Risk Controlling and Capital Management (GRM-CC), Group Intensive Care (GRM-IC). In parallel, the Bank has operational risk management committees at the Group level: Credit Risk Committee of the Supervisory Board whose permanent members represent individual risk management committees, Credit Risk Committee, Market Risk Committee, Operational Risk Committee, Strategic Risk Committee, and Segment Market Risk Committee. Chief Risk Officer acts as a chairman of all five committees and holds the veto power. Moreover, there is the Committee for Asset and Liability Management responsible for the portfolio of the Commerzbank Group's assets as a whole, calculation of economic capital and risk-weighted capital.

21 Financial Risk Management (Continued)

The Bank distinguishes between quantifiable and unquantifiable risks. Quantifiable risks are part of Commerzbank Group overall risk strategy and economic capital approach. Quantifiable risks include: credit risk, market risk, interest rate risk, operational risk, liquidity risk and business risk. Unquantifiable risks are subject to qualitative monitoring and include: strategic risk, legal risk, regulatory risk (compliance risk), human resources risk, reputational risk, information technology risk, process and organisational risk.

In 2016, the Bank launched the project to improve its risk and capital management system (internal capital adequacy assessment process (ICAAP) due to the need to implement the requirements set out in the Bank of Russia's Instruction No. 3524-U of 15 April 2015 that come into force since 1 January 2017. As part of the project, the Bank set up the Risk Management Service, revised the risk management functions performed by the Group's structural units and directly by the Bank's independent divisions, improved internal controls and risk and capital management procedures. In close cooperation with Commerzbank Group's risk management departments, the Bank actively implements and applies the Group's ICAAP standards and approaches at the local level subject to the Russian regulatory requirements and the Bank's risk profile and business strategy. Therefore, in 2017, the Bank's risk and capital management system was changed, however the key elements and principles of the capital and risk management system described in these financial statements remained the same.

Credit risk is the risk of financial losses due to defaults of borrowers or counterparties of the Bank or deterioration of their credit rating. Credit risk also covers country risk, counterparty risk and settlement risk arising from trading activities.

Credit risk is managed in the context of the Bank's credit risk strategy. In order to ensure compliance with credit risk strategy and to restrict concentration of risk, the parameters of strategically acceptable credit product structure (including country parameters) are established, as well as target risk limits for the sections of credit portfolio and concentration risks on Group level. For the components of loan portfolio that do not comply with the above parameters decision needs to be taken at a higher level.

The responsibility for credit risk management at Group level lies with GRM-CRC Department. Local credit offices are responsible for the management of the respective loan portfolios, paying close attention to the Group Credit Guidelines and operating within their lending authority. The General Lending authority is represented by the Commerzbank Group bodies starting from regional board level up to the Board of Managing Directors depending on lending amounts and borrower's internal ratings. The individual lending authority delegated to the Bank based on Group Credit Guidelines is limited by EUR 50 million for borrowers rated 1.0 – 2.8, (2015: EUR 50 million for borrowers rated 1.0 – 2.8) and by EUR 20 million for borrowers rated at 2.8-3.8 (2015: EUR 20 million for borrowers rated 2.8–3.8) and by decreasing scale factor to lower rated borrowers.

The Bank applies the following methods of credit risk measurement and management: expert credit risk level assessment, internal rating system; the forecast of exposure at default (EAD) and loss given default (LGD); calculation of unexpected loss (UL) (application of economic capital with confidence level of 99.95% during the period of 1 year).

21 Financial Risk Management (Continued)

The internal rating system is one of the most important elements of credit risk management policy. The rating procedure includes both quantitative and qualitative assessment of the counterparty. The final rating is assigned as a result of these procedures. The rating procedure is based on the assessment of the following indicators: the analysis of financial statements for current and prior periods (including the accounting policies), the analysis of industry and the competitive position of the counterparty in this industry, the assessment of the quality of management and business reputation, the review of credit history, the assessment of turnovers on the bank accounts, the analysis of risk indicators and mitigating risk factors, such as direct debit right, etc. Quasi-rating is attributed at each stage of the analysis, and the final internal rating is drawn from aggregation of quasi-ratings, the calculation of default probability, loss given default and exposure at default.

Internal financial rating measures probability of default while credit rating is a measure of loss given default.

Rating procedure varies depending on the customer type. The rating procedure for corporate banking segment pays specific attention to probability of default indicator and detailed analysis of financial statements; the rating procedure for project and structured finance segment focuses on expected loss and scenario simulation. The responsibility for rating assignment lies with GRM-CRC and the Credit Department of the Bank.

The correlation between internal financial ratings and comparable Standard&Poor's ratings, if any, is presented below:

Internal financial rating	1.0-1.2	1.4	1.6	1.8	2.0	2.2	2.4	2.6	2.8
S&P equivalent	AAA	AA+	AA,AA-	A+,A	A-	BBB+	BBB	BBB	BBB-

Internal financial rating	3.0	3.2-3.4	3.6	3.8-4.0	4.2-4.6	4.8-5.0	5.2-5.4	5.6-5.8	>6
S&P equivalent	BB+	BB	BB-	B+	B	B-	CCC+	CCC,CC-	C,D

Direct reconciliation between the ratings is not possible, in particular, due to the fact that external ratings typically try to predict the expected behaviour of companies over the full period of the economic cycle, while Commerzbank Group uses point-in-time rating model, where the rating reflects current creditworthiness in terms of default probability for the next year.

Exposure at default (EAD) and loss given default (LGD) provide the necessary information on the amount of possible loss. EAD is an estimate for the outstanding debt at the day of default and takes into account undrawn credit lines and contingent liabilities. LGD reflects the amount of loss at default in percentage. Collateral and other potential sources of repayment are taken into account for calculation of this indicator.

21 Financial Risk Management (Continued)

Default probability and expected loss cover the expected credit defaults. Unexpected losses are assessed by means of Credit VaR (CVaR). CVaR represents the credit loss which will not be exceeded in excess of the expected credit loss with a probability 0.05%. Potential losses are forecasted with a one year time horizon. CVaR is a pure default model, which means that potential effects on revenues resulting from changes in rating are not directly part of the model. This downside potential is modelled via maturity adjustments. Credit risk arises from any transaction with an external counterparty where positive cash flows are outstanding. The cornerstones of credit risk are the probability of default and loss at default, the latter being an estimation of the actual amount lost in case of default. Loss at default is calculated as estimated exposure at default (including assumptions on drawing of open credit lines) minus collateral and existing loan loss provisions, multiplied by (1-recovery rate). The model takes into account concentration risks and diversification effects. Large exposures and transactions in industry sectors with high exposure concentration are penalized by higher charges. CVaR is calculated on a monthly basis.

Credit portfolio is divided into significant and non-significant exposures. There are four different categories of loan loss provision (LLP): specific loan loss provision, portfolio loan loss provision impaired and non-impaired and general loan loss provision. Portfolio loan loss provision is created for non-significant loans, general and specific provisions are created for significant exposures.

Specific LLP is determined by the unsecured part of the exposure and the assessment of the individual borrower's ability to pay, thus specific LLP takes into account expected cash flows from collaterals and repayments. Expected cash flows are discounted to present value, and the difference between present value and book value represents the amount of specific LLP.

General LLP and portfolio LLP (non-impaired) are formed for latent risks in the performing loan book. They cover acute credit risks that exist but are not transparent. The only difference between these two provision types is the significance of the credit exposure which they cover. The calculation of these provisions is based on Basel II requirements and identification of expected loss (EL) and loss identification period factor (LIP-factor). The "expected loss model" differs from the "incurred loss model" provided for by IAS 39 and is more conservative.

Portfolio LLP impaired is calculated in a similar way. As the exposure is classified as default, probability of default equals 1 and LIP-factor is not used as the default has already been detected.

The Bank's maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the statement of financial position.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as the result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Bank applies the same credit policies to contingencies as it does for on-balance sheet financial instruments based on established credit approvals, risk control limits and monitoring procedures. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 26.

Market risk is the probability of financial losses as a result of changes in the current (fair) value of financial instruments and in foreign exchange rates and/or official prices for precious metals. Changes in value can be recorded both in the Bank's income/expense and capital (for assets held for sale).

21 Financial Risk Management (Continued)

The Board of Managing Directors for Commerzbank Group has delegated most market risk management functions at Group level to the Group Market Risk Committee (GMRC). In parallel, the Segment Market Risk Committee (SMRC) was created, which is responsible for risk management at segment level. SMRC reports to GMRC on all issues within its competence.

Market risk is mainly associated with transactions performed by the following two departments (segments): the Department for Financial Market Operations and the Treasury Department. The Department for Financial Market Operations is in charge of all investment banking products for corporate clients. The Department's operations are based on clients' needs and aimed at maximising profits with the acceptable risk level across the entire product line. The Treasury is in charge of managing interest rate and liquidity positions. The Department for Financial Market Operations is in charge of managing open currency position. Market risk can also arise from other departments' activities, for example, the Corporate Business Department.

Market risk is monitored by special GRM-MR divisions on a daily basis. Market risk is managed by means of a multilevel system of limits combined with reliable and optimized methods for measuring and monitoring risk. The methodological competence lies within GRM-MR. The Bank uses economic capital and business expectations in establishing its market risk limits, creating a risk/return-based steering of market risk. This approach is used both on Group level and locally. Market risk is monitored at the level of the Group companies and at local level. To monitor and manage market risk, the Bank uses certain qualitative and quantitative indicators. Qualitative indicators are set by the Market Risk Committee at Group level. Quantitative indicators, including sensitivity, Value at Risk, stress testing under various scenarios, capital adequacy ratios and other are calculated on a daily basis. Independent GRM-MR divisions: the Department for Financial Market Operations and the Treasury Department monitor compliance with risk limits on a daily basis for each segment and by portfolio. Reports on market risks are submitted to the members of the Management Board and to Department Heads.

Market risk components include: general market risk (risk arising from changes in overall level of interest rates, foreign exchange rates, indices and corresponding volatilities), specific market risk (includes all further market risks: risks coming from changes in specific instruments and the risks arising from extraordinary market movements of specific financial entities). Market risk is assessed using Value at Risk (VaR) modelling. VaR approach covers market risk under normal market conditions (1 year historical simulation).

VaR is a statistical approach to estimate a loss that may occur over a given period of time with a given probability. The Bank applies 1-day holding period and a 97.5% confidence level to VaR calculation. The monitoring of market risk covers both general and specific market risks. General market risk is calculated by means of historical simulation. The latest 254 days are taken into account to estimate profit/loss probability distribution of any given portfolio. Specific market risk is assessed by means of credit spread variance, where credit spread is the difference in the yield of financial instruments due to a different credit quality. At the level of Commerzbank Group capital requirements are calculated using an internal model. Reliability of this model is regularly checked by back-testing. The responsibility for changing the parameters of the model is assigned to GRM-MR under agreement with front office.

21 Financial Risk Management (Continued)

VaR model is based on historical data, thus its forecasting capability is limited. In order to assess and continuously improve the forecasting quality of VaR model, the accuracy of the model is validated on a daily basis. The validation is based on the actual profit/loss for the portfolio under the same assumptions over the same holding period. Comparing each VaR figure to the respective back-testing profit/loss for a certain period gives a meaningful picture of how well the model performed in forecasting risk. If the model captures all risks and estimates VaR correctly, the number of observations with back-testing exceeding VaR must correspond to its confidence level. Some more sophisticated back-testing methods are also used by GRM-MR, including those for reviewing the reliability of results obtained on the basis of VaR. Additionally, the internal model enables calculation of stressed VaR; these ratios are not used for calculation of regulatory capital but are used only for the purposes of operating risk level monitoring.

The Bank takes the following measures to mitigate its market risks:

- sets limits on the level of exposure by currency and in total for both overnight and intra-day positions;
- monitors compliance with the established limits on market risk and open currency positions (OCP) in aggregate for all currencies and controls OCP by currency;
- the Bank has the procedure in place for reflecting foreign exchange transactions in its currency position and payments in its payment position to ensure that the Department for Financial Market Operations is notified of all cash movements in the open currency position;
- monitors market risks (interest rate and currency risks) on a regular basis using the application developed by Commerzbank AG. In case of potential unfavourable changes in currency risk, the Bank has a plan for changing the currency structure of its assets and liabilities.

Currency risk. The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The table below summarises the Bank’s exposure to currency risk in respect of financial assets, liabilities and off-balance sheet position calculated based on the values of open currency positions determined by the method specified in the Instruction of the CBRF instructions (report form 0409634) as at 31 December 2016:

In thousands of Russian Roubles	**2016**	**2015**
Euro	(86 441)	(100 219)
US Dollars	(62 322)	(100 390)
Other foreign currencies in aggregate	88 373	160 873

The Bank has extended loans and advances denominated in foreign currencies. Movements in foreign exchange rates affect the borrowers’ repayment ability and may lead to loan losses.

In addition to the above monitoring of the VaR, the Bank’s Management Board sets limits on the level of exposure by currency and in total for both limits by the end of each day, and within one day. Compliance with these limits is monitored on a daily basis.

21 Financial Risk Management (Continued)

Sensitivity of the Bank's net assets (before tax) to an increase in the foreign currency exchange rates to Russian Rouble by 30% (2015: 30%) is presented in the table below. The sensitivity is calculated based on the values of open currency positions determined by the method specified in the CBRF instructions (report form 0409634).

In thousands of Russian Roubles	2016	2015
Euro	(25 932)	(30 066)
US Dollars	(18 697)	(30 117)
Other currencies in aggregate	26 512	48 262

Interest rate risk. Interest rate risk is the risk of adverse effects of changes in market interest rates on the capital or current income. The mismatch between interest periods for claims and liabilities in statement of financial position transactions represent the most important source of this risk.

The table below summarises the Bank's exposure to interest rate risks as at 31 December 2016. Included in the table are the Bank's main interest-bearing financial assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. Derivatives (cross currency interest rate and interest rate swaps) are presented at nominal amounts, according to contract terms.

In thousands of Russian Roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total
Financial assets					
Due from other banks	4 430 434	2 925 139	-	-	7 355 573
Loans and advances to customers	5 477 322	4 637 104	50 705	1 262 719	11 427 850
Securities available for sale	-	607 555	850 183	2 119 689	3 577 427
Total principal interest-bearing financial assets	**9 907 756**	**8 169 798**	**900 888**	**3 382 408**	**22 360 850**
Financial liabilities					
Due to other banks	3 279 187	19 290	-	-	3 298 477
Customer accounts	15 888 119	1 075 707	189 468	-	17 153 294
Total principal interest bearing financial liabilities	**19 167 306**	**1 094 997**	**189 468**	**-**	**20 451 771**
Interest rate and cross currency and interest rate swaps	**(3 355 263)**	**5 675 529**	**-**	**526 716**	**2 846 982**
Net interest sensitivity gap at 31 December 2016	**(12 614 813)**	**12 750 330**	**711 420**	**3 909 124**	**4 756 061**

21 Financial Risk Management (Continued)

The table below summarises the Bank's exposure to interest rate risks as at 31 December 2015.

In thousands of Russian Roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total
Financial assets					
Due from other banks	1 631 836	480 551	-	700 171	2 812 558
Loans and advances to customers	8 982 401	10 543 682	2 661 191	1 682 120	23 869 394
Securities available for sale	212 910	816 788	70 252	1 511 852	2 611 802
Total principal interest-bearing financial assets	**10 827 147**	**11 841 021**	**2 731 443**	**3 894 143**	**29 293 754**
Financial liabilities					
Due to other banks	8 140 393	1 260 945	1 815 770	3 668 228	14 885 336
Customer accounts	22 743 292	1 909 770	249 471	-	24 902 533
Debt securities in issue	-	11 472	4 929	-	16 401
Total principal interest bearing financial liabilities	**30 883 685**	**3 182 187**	**2 070 170**	**3 668 228**	**39 804 270**
Interest rate and cross currency and interest rate swaps	**-**	**10 957 617**	**(481 000)**	**(6 278 483)**	**4 198 134**
Net interest sensitivity gap at 31 December 2015	**(20 056 538)**	**19 616 451**	**180 273**	**(6 052 568)**	**(6 312 382)**

All of the Bank's interest-bearing financial assets and liabilities reprice within 5 years (2015: all interest-bearing financial assets and liabilities reprice within 5 years).

The Bank is exposed to cash flow interest rate risk, principally through assets and liabilities for which interest rates are reset as market rates change. Such assets and liabilities are primarily presented in the above table as being repriced in the short-term. The Bank is exposed to fair value interest rate risk as a result of assets and liabilities at fixed interest rates. Such assets and liabilities are primarily presented in the above table as being repriced in the long-term. In practice, interest rates that are contractually fixed on both assets and liabilities are usually renegotiated to reflect current market conditions.

The Bank monitors on a daily basis the level of mismatch of interest rate repricing that may be undertaken. In the absence of any available hedging instruments the Bank normally seeks to match its interest rate positions.

21 Financial Risk Management (Continued)

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

	2016			**2015**		
In % p.a.	**RR**	**US Dollars**	**Euro**	**RR**	**US Dollars**	**Euro**
Financial assets						
Cash and cash equivalents	0.0	0.0	0.0	0.0	0.0	0.0
Mandatory cash balances with CBRF	0.0	-	-	0.0	-	-
Due from other banks	8.9	3.0	-	3.2	0.0	1.2
Loans and advances to customers	9.0	3.0	1.9	13.1	2.0	1.4
Securities available for sale	7.7	-	-	8.0	-	-
Interest-bearing derivative financial assets	10.0	0.9	-	11.3	0.5	-
Other financial assets	0.0	0.0	0.0	0.0	0.0	0.0
Financial liabilities	0.0	1.7	0.0			
Due to banks within Commerzbank Group				0.1	0.9	0.0
Customer accounts						
- current and settlement accounts	0.0	0.0	0.0	0.0	0.0	0.0
- term deposits	7.2	1.3	0.0	8.7	0.2	0.0
Debt securities in issue	-	-	-	12.4	-	0.0
Interest-bearing derivative financial liabilities	9.4	1.0	-	8.3	-	-
Other financial liabilities	0.0	0.0	0.0	0.0	0.0	0.0

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

Interest rate risk is measured on the basis of net present value approach, applying historical simulation method. The impact of interest rate shock is simulated every month. The decline due to a parallel shift by 50 and 100 basis points in yield curve is reported to Market Risk Committee.

Sensitivity of the Bank’s net assets to interest rate increase is reported to, and reviewed by, the management of the Bank daily. Sensitivity to interest rate increase by 600 basis points (6%) in Russian Roubles, by 100 basis points (1%) in Euro and US Dollars is presented in the table below. Sensitivity of the Bank’s net assets (before tax) to a decrease in interest rates will be approximately the same, but with opposite sign:

In thousands of Russian Roubles	**RR**	**US Dollars**	**Euro**	**Total**
Trading book	242 709	(9 410)	15 553	248 852
Banking book, except for debt securities	(122 624)	(3 853)	(8 302)	(134 779)
Banking book – debt securities (liquidity portfolio)	(181 029)	-	-	(181 029)
Total	**(60 944)**	**(13 263)**	**7 251**	**(66 956)**

Sensitivity analysis at 31 December 2015 is presented below:

In thousands of Russian Roubles	**RR**	**US Dollars**	**Euro**	**Total**
Trading book	273 595	(7 389)	1 408	267 614
Banking book, except for debt securities	(261 417)	(17 101)	(10 774)	(289 292)
Banking book – debt securities (liquidity portfolio)	(201 062)	-	-	(201 062)
Total	**(188 884)**	**(24 490)**	**(9 366)**	**(222 740)**

21 Financial Risk Management (Continued)

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

In thousands of Russian Roubles	Russia	OECD	Other countries	Total
Financial assets				
Cash and cash equivalents	2 193 195	5 945 902	-	8 139 097
Mandatory cash balances with CBRF	324 397	-	-	324 397
Derivative financial assets	517 337	3 121 873	-	3 639 210
Due from other banks	1 832 945	5 522 628	-	7 355 573
Loans and advances to customers	11 427 850	-	-	11 427 850
Securities available for sale	3 577 427	-	-	3 577 427
Other financial assets	16 584	885	1 447	18 916
Total financial assets	**19 889 735**	**14 591 288**	**1 447**	**34 482 470**
Financial liabilities				
Due to other banks	-	3 298 477	-	3 298 477
Customer accounts	16 454 835	698 459	-	17 153 294
Derivative financial liabilities	149 373	280 140	-	429 513
Other financial liabilities	23 572	6 926	278	30 776
Total financial liabilities	**16 627 780**	**4 284 002**	**278**	**20 912 060**
Net position	**3 261 955**	**10 307 286**	**1 169**	**13 570 410**

Assets, liabilities and credit related commitments have been classified based on the country in which the counterparty is located. Cash on hand has been allocated based on the country in which it is physically held.

21 Financial Risk Management (Continued)

The geographical concentration of the Bank's financial assets and liabilities at 31 December 2015 is set out below:

In thousands of Russian Roubles	Russia	OECD	Other countries	Total
Financial assets				
Cash and cash equivalents	14 246 838	4 731 129	-	18 977 967
Mandatory cash balances with CBRF	261 897	-	-	261 897
Derivative financial assets	476 923	5 452 475		5 929 398
Due from other banks	2 333 400	-	479 158	2 812 558
Loans and advances to customers	23 869 394	-	-	23 869 394
Securities available for sale	2 611 802	-	-	2 611 802
Other financial assets	21 577	1 120	2 701	25 398
Total financial assets	**43 821 831**	**10 184 724**	**481 859**	**54 488 414**
Financial liabilities				
Due to other banks	-	14 885 336	-	14 885 336
Customer accounts	22 714 744	2 182 575	5 214	24 902 533
Debt securities in issue	16 401	-	-	16 401
Derivative financial liabilities	409 612	698 075	-	1 107 687
Other financial liabilities	3 172	3 853	678	7 703
Total financial liabilities	**23 143 929**	**17 769 839**	**5 892**	**40 919 660**
Net position	**20 677 902**	**(7 585 115)**	**475 967**	**13 568 754**

Liquidity risk characterises such aspect of the Bank's solvency as the risk of it failing to meet liabilities when due. Liquidity risk includes the risk of failure to meet an obligation in the required currency and at current market rates. Liquidity risk reflects the availability of finance (in the capital and monetary market) and the liquidity of assets. This implies a measurement and controlling process that allows a view on the full maturity spectrum of the underlying products. Ensuring that the Bank is solvent at all times is the responsibility of Treasury Department. Measurement and monitoring of cash liquidity risk at the Group level is the task of GRM-MR.

Solvency at the Group level is measured on the basis of internal liquidity model based on gap analysis of liquidity profile mismatch (LAB – Liquiditatstablaufbilanz). The Bank assesses liquidity risk based on daily gap analysis by evaluating expected cash flows from all the Bank's transactions during unlimited time interval. LAB analysis is formed on a daily basis taking into account seven cash flow types allocated by time intervals, including expected cash flows from contractual obligations (balance sheet and off-balance sheet), modelling cash flows from instruments with uncertain timing and cash flows modelled with account for customer behaviour and financial instrument type.

21 Financial Risk Management (Continued)

Calculated liquidity cash flows (LAB) indicate to what extent the Bank is able to cover liquidity shortfalls by making use of its liquidity reserves. These liquidity reserves consist of all liquid assets like bonds or loans eligible for collateral in transactions with the CBRF. Only unencumbered assets (i.e. those not subject to repo or lending transaction) are considered. All above assets are grouped into different asset classes depending on the instrument's market liquidity. Based on these classifications a projection of the amount of cash that can be generated by sale/repo of these assets is done. Balance sheet liquidity flows are calculated daily under normal and stress scenarios and contain all relevant sale/repo receipts by currency that can be realised based on the Bank's current assets.

LAB Concept assumes stable funding, which defines the proportion of the loan portfolio and other financial instruments with maturities over one year to long-term finance, including the Bank's long-term customer deposits. This concept serves as the basis for resolving on attraction of long-term finance and the terms of attracting funds.

The Bank identifies assets as a cover for identified possible future liquidity gaps. Such gaps are closed by borrowing against liquid assets or disposal of such assets. Liquidity ratios are calculated under current market conditions and under various stress scenarios influenced by either market or behavioural factors.

Liquidity risk is additionally controlled by means of differentiated system of limits on the basis of LAB analysis. Liquidity limits are set for each individual currency and for aggregated forward cash position based on the going concern assumption. Independent GRM-MR divisions and the General Banking Risk Control Team monitor compliance with the limits on a daily basis for each segment: by the Department for Financial Market Operations and the Treasury Department, and for the Bank as a whole. All limit overruns are reported to the Group's Treasury (GM-T) and the Market Risk Committee.

To comply with statutory requirements, the Bank calculates liquidity ratios on a daily basis. These ratios are:

- Instant liquidity ratio (N2), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand. At 31 December 2016, this ratio totals 83.1% (at 31 December 2015: 87.3%), while the required ratio should not be less than 15%;
- Current liquidity ratio (N3) is the proportion of liquid assets to liabilities maturing within 30 days. At 31 December 2016, this ratio totals 100.3% (at 31 December 2015: 72.2%), while the required ratio should not be less than 50%;
- Long term liquidity ratio (N4) is the proportion of long-term assets (with maturity of over one year) to long-term liabilities and equity. At 31 December 2016, this ratio totals 24.0% (at 31 December 2015: 32.4%), while the required ratio should not be more than 120%.

21 Financial Risk Management (Continued)

The table below shows financial liabilities at 31 December 2016 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, prices specified in deliverable forward agreements to purchase financial assets for cash, contractual amounts to be exchanged under gross settled currency swaps, and gross loan commitments. Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in the statement of financial position is based on discounted cash flows. Net settled derivatives are included at the net amounts expected to be paid. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the CBRF spot exchange rate at the end of the reporting period.

The maturity analysis of undiscounted financial liabilities at 31 December 2016 is as follows:

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Total**
Financial liabilities					
Due to other banks	248 490	8 188	57 454	3 109 728	3 423 860
Customer accounts	15 899 007	607 516	668 509	-	17 175 032
Gross settled derivatives:					
- cash inflows	(4 874 760)	(5 705 941)	(5 313 354)	(10 940 786)	(26 834 841)
- cash outflows	4 609 566	5 611 962	4 193 292	9 210 324	23 625 144
Other financial liabilities	26 755	990	2 531	500	30 776
Gross loan commitments	10 907 609	-	-	-	10 907 609
Financial guarantees issued	16 557 007	-	-	-	16 557 007
Irrevocable import letters of credit	4 473 345	-	-	-	4 473 345
Total potential future payments for financial obligations	**47 847 019**	**522 715**	**(391 568)**	**1 379 766**	**49 357 932**

The maturity analysis of undiscounted financial liabilities at 31 December 2015 is as follows:

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Total**
Financial liabilities					
Due to other banks	8 144 593	605 225	2 515 304	3 791 170	15 056 292
Customer accounts	22 760 355	1 912 436	272 833	-	24 945 624
Debt securities in issue	-	671	17 829	-	18 500
Gross settled derivatives:					
- cash inflows	(17 218 805)	(746 051)	(1 049 714)	(11 481 716)	(30 496 286)
- cash outflows	16 526 256	830 638	1 114 096	7 203 585	25 674 575
Other financial liabilities	2 446	2 473	1 855	929	7 703
Gross loan commitments	9 728 680	-	-	-	9 728 680
Financial guarantees issued	24 695 703	-	-	-	24 695 703
Irrevocable import letters of credit	9 894 548	-	-	-	9 894 548
Total potential future payments for financial obligations	**74 533 776**	**2 605 392**	**2 872 203**	**(486 032)**	**79 525 339**

21 Financial Risk Management (Continued)

Customer accounts are classified in the above analysis based on contractual maturities.

The Bank does not use the above maturity analysis to manage liquidity. Instead, the Bank monitors expected maturities which are summarised in the following tables:

	31 December 2016				
In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**Total**
Financial assets					
Cash and cash equivalents	8 139 097	-	-	-	8 139 097
Mandatory cash balances with CBRF	300 471	20 343	3 583	-	324 397
Derivative financial assets	278 870	1 319 291	33 588	2 007 461	3 639 210
Due from other banks	4 430 434	2 925 139	-	-	7 355 573
Loans and advances to customers	3 006 055	3 979 606	734 327	3 707 862	11 427 850
Securities available for sale	-	607 555	850 183	2 119 689	3 577 427
Other financial assets	6 531	7 335	4 874	176	18 916
Total financial assets	**16 161 458**	**8 859 269**	**1 626 555**	**7 835 188**	**34 482 470**
Financial liabilities					
Due to other banks	3 279 187	19 290	-	-	3 298 477
Customer accounts	15 888 119	1 075 707	189 468	-	17 153 294
Derivative financial liabilities	13 676	138 799	39	276 999	429 513
Other financial liabilities	26 755	1 819	1 702	500	30 776
Total financial liabilities	**19 207 737**	**1 235 615**	**191 209**	**277 499**	**20 912 060**
Net liquidity gap at 31 December 2016	**(3 046 279)**	**7 623 654**	**1 435 346**	**7 557 689**	**13 570 410**
Cumulative liquidity gap as at 31 December 2016	**(3 046 279)**	**4 577 375**	**6 012 721**	**13 570 410**	**-**

21 Financial Risk Management (Continued)

All of the Bank's financial assets and liabilities mature within 6 years.

	31 December 2015				
In thousands of Russian Roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total
Financial assets					
Cash and cash equivalents	18 977 967	-	-	-	18 977 967
Mandatory cash balances with CBRF	239 031	20 192	2 674	-	261 897
Derivative financial assets	1 500 337	695	7 393	4 420 973	5 929 398
Due from other banks	1 631 836	480 551	-	700 171	2 812 558
Loans and advances to customers	2 897 468	10 507 592	5 924 501	4 539 833	23 869 394
Securities available for sale	212 910	816 788	70 252	1 511 852	2 611 802
Other financial assets	8 537	7 940	7 602	1 319	25 398
Total financial assets	**25 468 086**	**11 833 758**	**6 012 422**	**11 174 148**	**54 488 414**
Financial liabilities					
Due to other banks	8 140 393	1 260 945	1 815 770	3 668 228	14 885 336
Customer accounts	22 743 292	1 909 770	249 471	-	24 902 533
Debt securities in issue	-	11 472	4 929	-	16 401
Derivative financial liabilities	807 786	155 384	1 673	142 844	1 107 687
Other financial liabilities	2 446	3 045	1 283	929	7 703
Total financial liabilities	**31 693 917**	**3 340 616**	**2 073 126**	**3 812 001**	**40 919 660**
Net liquidity gap at 31 December 2015	**(6 225 831)**	**8 493 142**	**3 939 296**	**7 362 147**	**13 568 754**
Cumulative liquidity gap as at 31 December 2015	**(6 225 831)**	**2 267 311**	**6 206 607**	**13 568 754**	**-**

Management believes that in spite of a substantial portion of customer accounts being on demand, diversification of these deposits by number and type of customers, and the past experience of the Bank would indicate that these customer accounts provide a long-term and stable source of funding for the Bank. Customer accounts are classified in the above analysis based on contractual maturities. In accordance with the Russian Civil Code, individuals have a right to withdraw their deposits prior to maturity, if they forfeit their right to accrued interest. However, deposits of individuals represent an insignificant percentage of the Bank's liabilities. The portfolio of securities is classified on the basis of their contractual maturities. However, these securities are quoted and freely tradable, and management believes they represent liquid assets of the Bank.

21 Financial Risk Management (Continued)

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

Operational risk is the probability of losses through inadequate or defective internal systems and processes used by the Bank, IT-systems failures or external events affecting the Bank's operations. GRM-CC determines the operational risk strategy and principles. The Bank's Management Board is responsible for implementation of these policies and guidelines, for introduction and application of the methodologies and tools developed by GRM-CC, for performance of detailed risk estimation, proactive operational risk management and initiation of risk mitigating steps.

Operational risk is measured using both the bottom-up and top-down approach. The internally recorded loss data are enhanced by industry data that is also used in the scenario analysis. The qualitative self-assessment is repeatedly carried out in all parts of the Bank's processes using structured questionnaires. The assessment is supplemented by the use of key risk indicators which allows monitoring sensitive processes as part of daily operational risk management.

Operational risk is assessed through mathematical-statistical risk modelling. Through the analysis of internal and external loss data in considering qualitative ratings, the model calculates both the economic and regulatory capital in terms of VaR.

In order to ensure that banking activities are maintained and to minimise losses arising from serious interruptions of its operations, the Bank has a business continuity plan and a contingency policy, which are approved by the Bank's management and agreed with the Operational Risk Committee of the Commerzbank Group.

Subcategories of operational risk include internal and external fraud risk, information technology risk, legal risk, organisational risk, business process risk and catastrophe and emergency risks.

22 Management of Capital

The Bank's objectives when managing capital are (i) to comply with the capital requirements set by the Central Bank of the Russian Federation and (ii) to safeguard the Bank's ability to continue as a going concern. Internal procedures for assessing capital adequacy constitute the process implemented by the Bank to assess adequacy of available capital, i.e. internal capital to cover assumed and potential risks. These procedures also include capital planning procedures based on the Bank's established development strategy, business development goals and the results of comprehensive current assessment of the above risks. The procedure for risk assessment and management for the purpose of ensuring equity (capital) adequacy is approved by the Supervisory Board. In determining the aggregate Bank's equity (capital) required to cover assumed and potential risks the Bank uses regulatory capital. The Bank calculates regulatory capital according to the methodology established by Regulation of the Bank of Russia No. 395-P of 28 December 2012 "On the Methodology to Estimate Equity (Capital) of Credit Institutions ("Basel III")". Compliance with capital adequacy ratios set by the Central Bank of the Russian Federation is monitored monthly, with reports outlining their calculation reviewed and signed by the Bank's Chairman of the Management Board and Chief Accountant.

22 Management of Capital (Continued)

In 2016, the Bank launched the project to improve its risk and capital management system (internal capital adequacy assessment process (ICAAP) due to the need to comply with the requirements set out in the Bank of Russia's Instruction No. 3524-U of 15 April 2015 that come into force since 1 January 2017. As part of the project, the Bank developed and defined significant risk management methods and procedures; capital management methods and procedures, including setting the target (planned) level of capital, current capital requirement estimation, capital adequacy assessment; significant risk control system and the Bank's ICAAP reports. Therefore, in 2017, the Bank's risk and capital management system was changed, however the key elements and principles of the capital and risk management system described in these financial statements remained the same.

As at 31 December 2016, the Bank's regulatory capital on the basis of the Bank's statutory reports was RR 11 981 632 thousand (2015: RR 12 241 273 thousand).

The Bank is integrated into the risk management system of Commerzbank Group, which ensures additional permanent control over risk management from the part of the Bank's Sole Shareholder, and allows the Bank to use the Group's models and risk management systems for efficient risk management.

In addition to the standardised approach, which is based upon the effective regulations of the Bank of Russia on the procedure for risk calculation in assessing capital adequacy, the Bank also uses advanced methods and internal models developed by Commerzbank AG for risk assessment. These models and methodologies have been officially approved by authorised supervisory bodies of the parent bank and approved to be used in determining capital adequacy of Commerzbank Group.

The Bank complied with all externally imposed capital requirements throughout 2016 and 2015.

23 Contingencies and Commitments

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

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

23 Contingencies and Commitments (Continued)

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

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

In addition, there is a possible risk of additional income tax charge related to uncertainty and lack of practice of implementing new legislation on determining the price of unquoted derivative instruments for tax base calculation.

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

Management estimates that the Bank has no potential obligations from exposure to other than remote tax risks. These exposures are estimates that result from uncertainties in interpretation of applicable legislation and related documentation requirements. Management will vigorously defend the positions and interpretations that were applied in determining taxes recognised in these financial statements if these are challenged by the authorities.

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

In thousands of Russian Roubles	**2016**	**2015**
Due within 1 year	119 982	232 793
Due between 1 and 5 years	57 673	229 647
Due after 5 years	345	-
Total operating lease commitments	**178 000**	**462 440**

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

23 Contingencies and Commitments (Continued)

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

In thousands of Russian Roubles	**Note**	**2016**	**2015**
Financial guarantees issued		16 557 007	24 695 703
Undrawn credit lines		5 591 906	5 813 170
Unused limits on overdraft loans		5 315 703	3 915 510
Irrevocable import letters of credit		4 473 345	9 894 548
Export letters of credit		111 382	37 655
Provision for credit related commitments	14	(22 485)	(20 311)
Total credit related commitments, net of provision		**32 026 858**	**44 336 275**

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. The fair value of credit related commitments was RR 22 485 thousand at 31 December 2016 (2015: RR 20 311 thousand).

Credit related commitments are denominated in currencies as follows:

In thousands of Russian Roubles	**2016**	**2015**
Russian Roubles	16 479 181	15 097 644
Euro	7 314 296	17 052 795
US Dollars	8 087 694	12 185 836
Other currencies	145 687	-
Total	**32 026 858**	**44 336 275**

24 Derivative Financial Instruments

The fair values of derivative instruments at the end of the reporting period by currency are disclosed in the table below. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the end of the respective reporting period.

24 Derivative Financial Instruments (Continued)

	2016		2015	
In thousands of Russian Roubles	Contracts with positive fair value	Contracts with negative fair value	Contracts with positive fair value	Contracts with negative fair value
Foreign exchange forwards and swaps: fair values, at the end of the reporting period				
- USD receivable on settlement (+)	13 144	3 358 189	6 795 866	259 438
- USD payable on settlement (-)	(2 434 958)	(608 739)	-	(1 736 748)
- Euro receivable on settlement (+)	-	-	4 342 672	313 709
- Euro payable on settlement (-)	(5 947 164)	(556 465)	(4 713)	(6 470 531)
- RR receivable on settlement (+)	9 043 909	1 159 989	4 834	6 670 583
- RR payable on settlement (-)	(13 093)	(3 505 607)	(9 616 629)	-
- Other currencies receivable on settlement (+)	-	-	-	105 391
- Other currencies payable on settlement (-)	-	-	(22 275)	(105 409)
Total foreign exchange forwards and swaps	**661 838**	**(152 633)**	**1 499 755**	**(963 567)**
Interest rate and cross currency and interest rate swaps: fair values, at the end of the reporting period				
- USD receivable on settlement (+)	7 043 850	1 213 138	8 701 040	1 453 353
- USD payable on settlement (-)	(1 425 436)	-	-	-
- RR receivable on settlement (+)	3 324 990	1 677 632	1 189 715	658 409
- RR payable on settlement (-)	(5 966 032)	(3 167 650)	(5 462 388)	(2 254 606)
Total interest rate and cross currency interest rate swaps	**2 977 372**	**(276 880)**	**4 428 367**	**(142 844)**
Options	**-**	**-**	**1 276**	**(1 276)**
Net fair value of derivatives	**3 639 210**	**(429 513)**	**5 929 398**	**(1 107 687)**

24 Derivative Financial Instruments (Continued)

Foreign exchange and other derivative financial instruments entered into by the Bank are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly over time.

At 31 December 2016, the Bank also had liabilities under spot transactions with foreign currencies of RR 843 727 thousand (2015: RR 631 679 thousand). The net fair value of spot transactions is insignificant.

25 Fair Value Disclosures

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

(a) Recurring fair value measurements

Recurring fair value measurements are those that other IFRSs require or permit in the statement of financial position at the end of each reporting period. The level in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

	31 December 2016				31 December 2015			
In thousands of Russian Roubles	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
ASSETS AT FAIR VALUE								
FINANCIAL ASSETS								
Investment securities available for sale								
- Russian government bonds	3 577 427	-	-	3 577 427	2 611 802	-	-	2 611 802
Derivative financial instruments	-	3 639 210	-	3 639 210	-	5 929 398	-	5 929 398
TOTAL ASSETS AT FAIR VALUE	**3 577 427**	**3 639 210**	**-**	**7 216 637**	**2 611 802**	**5 929 398**	**-**	**8 541 200**

25 Fair Value Disclosures (Continued)

In thousands of Russian Roubles	31 December 2016 Level 1	Level 2	Level 3	Total	31 December 2015 Level 1	Level 2	Level 3	Total
LIABILITIES AT FAIR VALUE								
FINANCIAL LIABILITIES								
Derivative financial instruments	-	429 513	-	429 513	-	1 107 687	-	1 107 687
TOTAL LIABILITIES AT FAIR VALUE	**-**	**429 513**	**-**	**429 513**	**-**	**1 107 687**	**-**	**1 107 687**

Derivative financial instruments whose fair value is established through valuation techniques with inputs observable in the market are interest rate and currency swaps, and forward foreign exchange contracts. Fair values of these instruments are calculated on the basis of models using present value calculation. These models combine different inputs, including credit quality, forward and spot exchange rates as well as interest rate curves.

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

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

In thousands of Russian Roubles	31 December 2016 Level 1	Level 2	Level 3	Carrying value	31 December 2015 Level 1	Level 2	Level 3	Carrying value
FINANCIAL ASSETS								
Cash and cash equivalents								
- Cash in hand	21 516	-	-	21 516	61 382	-	-	61 382
- Cash balances with the CBRF	-	697 104	-	697 104	-	12 368 018	-	12 368 018
- Correspondent accounts and overnight placements	-	5 946 370	-	5 946 370	-	4 755 133	-	4 755 133
- Balances on settlement accounts with trading systems	-	1 474 107	-	1 474 107	-	1 793 434	-	1 793 434
Mandatory cash balances with CBRF	-	324 397	-	324 397	-	261 897	-	261 897
Due from other banks	-	7 362 540	-	7 355 573	-	2 793 894	-	2 812 558
Loans and advances to customers	-	-	11 508 668	11 427 850	-	-	23 804 183	23 869 394
Other financial assets	-	-	18 916	18 916	-	-	25 398	25 398
TOTAL FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE	**21 516**	**15 804 518**	**11 527 584**	**27 265 833**	**61 382**	**21 972 376**	**23 829 581**	**45 947 214**

25 Fair Value Disclosures (Continued)

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

In thousands of Russian Roubles	31 December 2016 Level 1	Level 2	Level 3	Carrying value	31 December 2015 Level 1	Level 2	Level 3	Carrying value
FINANCIAL LIABILITIES								
Due to other banks								
- Correspondent accounts and overnight placements of other banks	-	180 377	-	180 377	-	4 102 063	-	4 102 063
- Term placements of other banks	-	3 154 258	-	3 118 100	-	10 586 293	-	10 783 273
Customer accounts								
- Current/settlement accounts of other legal entities	-	10 340 670	-	10 340 670	-	15 760 615	-	15 760 615
- Term deposits of other legal entities	-	6 799 181	-	6 812 329	-	8 905 640	-	9 137 676
- Current/demand accounts of individuals	-	295	-	295	-	3 945	-	3 945
- Term deposits of individuals	-	-	-	-	-	297	-	297
Debt securities in issue	-	-	-	-	-	17 834	-	16 401
Other financial liabilities	-	30 776	-	30 776	-	7 703	-	7 703
TOTAL FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE	**-**	**20 505 557**	**-**	**20 482 547**	**-**	**39 384 390**	**-**	**39 811 973**

(c) Valuation techniques and assumptions

Assets for which the fair value approximates their carrying value. Fair value of liquid or short term (less than 3 months) financial assets and financial liabilities is assumed to approximate their fair value. This assumption is also used for demand deposits and saving accounts without set maturity.

Loans and receivables carried at amortised cost. The estimated fair value of a financial instrument is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

Discount rates used depend on the currency, maturity of the instrument and credit risk of the counterparty. The Bank applied discount rates calculated on the basis of government curves for each currency, appropriately amended to include:

- cost of funding for Commerzbank (based on credit default swap curve for Commerzbank AG);
- country risk differential (based on credit default swap curve for Russian Federation, currency and interest rate swap curves for each currency);
- individual credit risk (based in credit margin).

25 Fair Value Disclosures (Continued)

The following table gives information about applied discount rates (with adjustment for average credit margin):

In % pa	**2016**	**2015**
Exposures denominated in Russian Roubles		
up to 3 months	10.7% - 11.4%	13.9% - 14.2%
3 months to 1 year	11.1% - 11.5%	13.8% - 14.2%
over 1 year	9.6% - 11.1%	11.7% - 13.8%
Exposures denominated in US Dollars		
up to 3 months	2.5% - 2.8%	1.9% - 2.2%
3 months to 1 year	2.8% - 3.0%	2.2% - 2.4%
over 1 year	3.0% - 4.0%	2.4% - 3.9%
Exposures denominated in Euro		
up to 3 months	0.6% - 2.5%	0.2% - 1.2%
3 months to 1 year	1.0% - 1.1%	1.2% - 1.2%
over 1 year	1.0% - 1.5%	1.1% - 2.2%

Liabilities carried at amortised cost. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period (“demandable liabilities”) is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. Discount rates used were consistent with the Bank’s credit risk and also depend on currency and maturity of the instrument as described above.

The Bank’s liabilities to its customers are subject to state deposit insurance scheme as described in Note 1. The fair value of these liabilities reflects these credit enhancements.

26 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IAS 39 “Financial Instruments: Recognition and Measurement”, classifies financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss (FVTPL). Financial assets at fair value through profit or loss have two sub-categories: (i) assets designated as such upon initial recognition, and (ii) financial assets held for trading (“Trading assets”). In addition, finance lease receivables form a separate category.

As at 31 December 2016 and 2015, all of the Bank’s financial assets fall in the loans and receivables category except for derivatives and securities available for sale.

As at 31 December 2016 and 2015, all of the Bank’s financial liabilities except for derivatives were carried at amortised cost.

Derivatives belong to the fair value through profit or loss measurement category.

27 Related Party Transactions

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

The outstanding balances with related parties were as follows:

In thousands of Russian Roubles	**2016 Commerzbank Group**	**2015 Commerzbank Group**
Correspondent accounts with banks – contractual interest rate: 0% (2015: 0%)	5 945 902	4 698 758
Due from other banks – contractual interest rate: 1.1% - 4.5% (2015: nil)	5 522 384	-
Derivative financial instruments (assets)	3 121 874	5 435 557
Loans to customers	-	1 129
Other financial assets	57	102
Other assets	16 983	3 177
Due to other banks – contractual interest rate: 0%–1.7% (2015: 0% - 10.6%)	3 298 477	14 885 336
Customer accounts – contractual interest rate: 0% – 7.3% (2015: 0% - 9.5%)	220 928	121 699
Derivative financial instruments (liabilities)	280 139	418 024
Other financial liabilities	6 926	3 850
Other liabilities	38 586	-

The income and expense items with related parties were as follows:

In thousands of Russian Roubles	**2016 Commerzbank Group**	**2015 Commerzbank Group**
Interest income	49 465	60 008
Interest expense	(65 422)	(124 124)
Fee and commission income	48 841	121 057
Fee and commission expense	(77 317)	(120 489)
Other operating income	82 223	2 843
Administrative and other operating expenses	(260 381)	(430 559)

At 31 December 2016, other rights and obligations with related parties were as follows:

In thousands of Russian Roubles	**2016 Commerzbank Group**	**2015 Commerzbank Group**
Contingent receivables on the guarantees issued by related parties to the Bank (other than counter-guarantees)	11 882 879	22 659 249
Guarantees issued by the Bank to related parties	9 630 789	16 208 971
Receivables on gross settled term deals and derivatives	20 133 340	23 495 141
Liabilities under gross settled term deals and derivatives	17 308 978	18 767 045
Irrevocable credit lines	700 000	700 000

27 Related Party Transactions (Continued)

Key management compensation is presented below:

	2016		2015	
In thousands of Russian Roubles	**Interest income**	**Loans and advances to customers**	**Interest income**	**Loans and advances to customers**
Loans and advances to customers	53	-	169	1 129
Total	**53**	**-**	**169**	**1 129**

	2016		2015	
In thousands of Russian Roubles	**Expense**	**Accrued liability**	**Expense**	**Accrued liability**
Salaries, short-term bonuses, benefits in-kind	52 845	7 321	42 794	6 465
Long-term bonus scheme	4 880	9 190	4 310	4 310
Total	**57 725**	**16 511**	**47 104**	**10 775**

At 31 December 2016, operating lease commitments for premises leased by the Bank from Commerzbank Group's related party comprised RR 139 499 thousand (2015: RR 407 671 thousand).