

**Khlynov Commercial Bank
(Joint Stock Company) Group**

**Consolidated Financial Statements
31 December 2016**

Contents

Auditor's opinion	
Consolidated Statement of Financial Position	7
Consolidated Statement of Profit and Loss and Comprehensive Income	8
Consolidated Statement of Cash Flows	9
Consolidated Statement of Changes in Equity	10
Notes to the Financial Statements	
1. Principal Activities	11
2. Operating Environment of the Group	12
3. Basis of Presentation	13
4. Significant Accounting Policies	18
5. Cash and Cash Equivalents	25
6. Mandatory Balances with the Central Bank of Russian Federation ("CBRF")	26
7. Due from Banks	26
8. Financial Assets at Fair Value Through Profit or Loss	26
9. Financial Assets Available-for-Sale	28
10. Financial Assets Held to Maturity	29
11. Loans and Advances to Customers	30
12. Net Investment in Financial Lease	31
13. Other Assets	32
14. Property, Plant and Equipment and Investment Property	33
15. Non-current Assets Held for Sale	34
16. Due to Banks	35
17. Customer Accounts	35
18. Debt Securities Issued	36
19. Taxation	36
20. Other Liabilities	38
21. Share Capital	38
22. Future Payments and Contingent Liabilities	39
23. Investment in Subsidiaries	40
24. Investment in Unconsolidated Structured Entities	40
25. Allowance for Impairment	41
26. Income Less Expenses from Trading Securities	41
27. Commission Income and Expenses	42
28. Staff, Administrative and Other Operating Costs	42
29. Fair Value of Financial Instruments	43
30. Financial Risk Management	44
31. Capital Management	91
32. Related-Party Transactions	93
33. Information on the Procedure and System of Remuneration	96

AUDIT OPINION

To the shareholders of Commercial Bank "Khlynov" (Joint-Stock Company)

Audited entity

Name: Commercial Bank "Khlynov" (Joint Stock Company) (JSC CB "Khlynov").

Primary state registration number: 1024300000042.

Registration number in the CBR 254.

Location: 610002, Kirov, Uritskogo st., 40.

Auditor

Name: Limited Liability Company "Mazars Audit" (LLC "Mazars Audit").

Primary state registration number: 1147746603124.

Location: 5/19 Nizhniy Susalnyi pereulok, Moscow, 105064.

The Auditor is a corporate member of a professional audit organization, self-regulating organization of auditors - "Russian Union of auditors" (Association). The number in the register of auditors and audit organizations of self-regulating organization of auditors (main registration number of entry): 11403052852.

We have audited the annual consolidated financial statements of **Commercial Bank "Khlynov" (Joint-Stock Company)**, which is the managing credit organization of the banking group (the "Bank") which comprise of the consolidated statement of financial position as of December 31, 2016, consolidated statement of profit or loss and other comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Annual Consolidated Financial Statements

The Bank's management is responsible for the preparation and fair presentation of these annual consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of annual consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the annual consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the annual consolidated financial statements.

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

Opinion

In our opinion, the annual consolidated financial statements give a true and fair view of the financial position of the banking group, managing credit organization of which is the "Bank" as of December 31, 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

The report on the audit results presented in accordance with the Article 42 of the Federal law No. 395-1 "On Banks and Banking Activity" dated December 2, 1990

The Bank's management is responsible for the banking group, managing credit organization of which is the "Bank", compliance with the mandatory regulations established by the Bank of

Russia, as well as for the conformity of the Bank's internal control and risk management practice with the requirements imposed on analogous systems by the Bank of Russia.

We have tested the following within the scope of the Bank's annual audit of the annual consolidated financial statements for the year 2016 performed in accordance with the Article 42 of the Federal law No. 395-1 "On Banks and Banking Activity" dated December 2, 1990:

- the banking group, managing credit organization of which is the "Bank", compliance with the mandatory regulations established by the Bank of Russia as of January 1, 2017;
- the conformity of banking group, the managing credit organization of which is the "Bank", internal control and risk management with the requirements imposed on analogous systems by the Bank of Russia.

The aforesaid audit has been limited to the procedures selected per auditor's professional judgement such as inquiries, analysis, review of documents, and comparison of the Bank's requirements, procedures and methodologies with the requirements set out by the Bank of Russia, as well as recalculations and correlation of quantitative data and other information.

Our audit disclosed the following:

- compliance with the mandatory regulations established by the Bank of Russia:
 - as of January 1, 2017 the indicators for mandatory standards stated by the Bank of Russia have remained within the limits established by the Bank of Russia

We have not conducted any procedures to evaluate the accounting data of the banking group, the managing credit organization of which is the "Bank", except for the procedures considered necessary for the purpose of expressing an opinion on whether the annual consolidated financial statements present fairly, in all material respects, its financial position as of December 31, 2016, the financial results of its activity and the cash flow for the year 2016 in accordance with International Financial Reporting Standards;

- conformity of the banking group, the managing credit organization of which is the "Bank", internal control and risk management practice with the requirements imposed on analogous systems by the Bank of Russia:
 - as of December 31, 2016 the internal audit department of the Bank reports functionally and administratively to the Board in accordance with the requirements and recommendations of the Bank of Russia; the risk management department has not reported neither functionally nor administratively to the divisions taking pertinent risks; internal audit and risk managers meet qualification requirements established by the Bank of Russia;
 - internal banking documents valid as of December 31, 2016 that set up techniques for identifying and managing key business risks as regards to the banking group, the managing credit organization of which is the "Bank", including credit risk, operational risk, market risk, interest risk, legal risk, liquidity risk and reputation risk, and stress testings are all approved by competent governing authorities of the banking group, the managing credit organization of which is the "Bank", in accordance with the requirements and recommendations of the Bank of Russia;



- existence of the aggregate reporting system for the Bank's key risks such as credit risk, operational risk, market risk, interest risk, legal risk, liquidity risk and reputation risk, as well as for the Bank's own funds (capital) as of December 31, 2016;
- frequency and consistency of the 2016 reports prepared by the Bank's risk and internal audit department that cover the process of managing credit, operational, market, interest, legal, liquidity and reputation risks of the banking group, the managing credit organization of which is the "Bank", have complied with internal documents of the Bank; these reports include the results on monitoring of the evaluation of the effectiveness of the Bank's applicable methodologies performed by the Bank's risk and internal audit management, as well as provide recommendations for their improvement;
- as of December 31, 2016 the Board and its executive committee's responsibilities include monitoring of the banking group, the managing credit organization of which is the "Bank", compliance with established risk limits and sufficiency of its own funds (capital). In order to monitor the effectiveness of the applicable procedures of risk monitoring and consistency of their application during 2016 within banking group, the managing credit organization of which is the "Bank", the Board and its executive committee have been periodically discussing the reports prepared by the risk and internal control management, have also been considering proposed corrective measures with the purpose of controlling the effectiveness and the consistency of the adopted risk management procedures.

Procedures for testing the internal control and risk management systems of the banking group, the managing credit organization of which is the "Bank" have been performed by us solely for the purpose of verifying the compliance of the banking group, the managing credit organization of which is the "Bank", internal control and risk management systems with the requirements imposed on analogous banking systems by the Bank of Russia.

LLC «Mazars Audit»

Auditor



Lytov S.I.

(auditor's qualification certificate № 03-000074 issued in accordance with order of SRO MOAP #166 dd November 30, 2011 for unlimited period of time, ORNZ 20903038266).

28 April 2017

JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

Assets	Notes	2016	2015
1 Cash and cash equivalents	5	1 726 449	1 586 718
2 Mandatory balances with the CBRF	6	113 871	81 220
3 Due from banks	7	1 550 230	327 714
4 Financial assets at fair value through profit or loss	8	3 715 230	3 155 415
5 Financial assets available-for-sale	9	1 241 475	89 234
6 Financial assets held to maturity	10	-	2 501
7 Loans and advances to customers	11	9 497 037	10 412 664
8 Net investment in financial lease	12	1 129	107 696
9 Deferred tax asset	19	3 233	10 202
10 Non-current assets held for sale	15	57 514	-
11 Property, plant and equipment	14	381 343	351 001
12 Investment properties	14	192 482	264 356
13 Other assets	13	59 252	106 100
14 Total assets		18 539 245	16 494 821
Liabilities			
15 Due to banks	16	265 320	431 366
16 Customer accounts	17	15 224 669	13 314 293
17 Debt securities issued	18	10 552	18 594
18 Other liabilities	20	138 868	212 624
19 Total liabilities		15 639 409	13 976 877
Equity			
20 Share capital	21	620 283	620 283
21 Retained earnings		2 172 081	1 819 898
22 Revaluation reserve of financial assets held for sale		11 982	(21)
23 Revaluation reserve of property, plant and equipment		95 490	77 784
24 Total equity		2 899 836	2 517 944
25 Total liabilities and equity		18 539 245	16 494 821
26 Credit related commitments	22	2 518 128	2 682 822

Signed and authorized for release on behalf of the Executive Board of the Group on 28 April 2017

I.P. Prozorov
Chairman of the Executive Board

S.V. Shamseeva
Chief accountant



Translation from the original in Russian language.

JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

	Notes	2016	2015
Interest income			
Loans and advances to legal entities		1 153 519	1 198 411
Loans and advances to individuals		551 622	530 716
Investment in lease		10 468	38 373
Securities		434 300	306 696
Due from banks		63 071	33 344
		<u>2 212 980</u>	<u>2 107 540</u>
Interest expense			
Term deposits of individuals		(854 451)	(891 812)
Term deposits of legal entities		(83 428)	(88 320)
Current/settlement accounts' balances		(37 195)	(17 075)
Due to banks		(31 093)	(43 713)
Debt securities		(866)	(5 791)
Other borrowings		(2 134)	(3 710)
		<u>(1 009 167)</u>	<u>(1 050 421)</u>
Net interest income		1 203 813	1 057 119
Allowance for impairment for loans and advances to customers, investment in lease	25	(398 128)	(515 352)
Net interest income less allowance for losses		805 685	541 767
Net fee and commission income	27	415 997	381 697
Gains less losses from trading with securities	26	49 434	104 431
Gains less losses from transactions with foreign currencies		237 839	13 685
Net gain / loss from revaluation of items in foreign currencies		(152 373)	52 622
Net gain / loss from disposal of property, plant and equipment, investment property, and non-current assets held for sale		(7 009)	-
Revaluation of property, plant and equipment	12	(709)	(2 599)
Revaluation of investment properties	12	(24 472)	18 499
Impairment of other assets, including non-current assets held for sale		(4 771)	(1 881)
Reserve for impairment of other assets in the other banks	25	16 418	(11 422)
Staff Costs	28	(503 343)	(457 299)
Administrative and Other Operating Costs	28	(381 124)	(287 589)
Depreciation and Amortization	12	(40 074)	(45 995)
Other operating income		5 205	19 480
Operating income (expenses)		(388 982)	(216 371)
Profit before tax		416 703	325 396
Income tax charge	19	(64 520)	(76 403)
Profit for the period		352 183	248 993
Other comprehensive income			
Gains/(loss) on property revaluation, net of tax		17 706	(7 754)
Loss on Financial Assets available-for-sale		12 003	(21)
Total comprehensive income for the year		381 892	241 218

Signed and authorized for release on behalf of the Executive Board of the Group on 28 April 2017

I.P. Prozorov
Chairman of the Executive Board

S.V. Shamseeva
Chief accountant



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

	<u>Notes</u>	<u>2016</u>	<u>2015</u>
Cash flows from operating activities			
Interest received		1 720 513	1 700 999
Paid interest		(1 009 437)	(1 053 008)
Income less expenses on operations with securities		501 781	422 812
Income less expenses from dealing with foreign current		237 839	13 685
Commissions received		535 053	440 580
Commissions paid		(126 628)	(75 374)
Other operating incomes received		5 521	19 480
Other operating expenses paid		(896 606)	(743 689)
Income tax paid		(64 977)	(94 278)
Cash flows from operating activities received before changes in operating assets and liabilities		903 059	631 207
Cash flows from changes in operating assets and liabilities			
<i>Net (increase)/decrease in operating assets</i>			
Mandatory balance with CBRF		(32 651)	34 928
Due from banks		(1 221 008)	(209 901)
Securities at fair value through profit or loss		(574 872)	(775 695)
Loans and advances to customers		495 479	(729 367)
Investment properties		-	(4 168)
Other assets		6 424	(125 787)
Due to banks		(166 046)	73 750
Customers' accounts		1 910 418	1 150 698
Debt securities issued		(7 814)	(111 366)
Other liabilities		(41 838)	84 791
Net cash received from operating activities		1 271 151	19 090
Cash flows from investing activities			
Acquisition and modernization of property, plant and equipment and investment property			
		(42 554)	(38 138)
Disposal of property, plant and equipment		3 239	65
Disposal of investment property		52 631	-
Disposal of non-current assets held for sale		32 699	-
Purchase of financial assets held to maturity and available-for-sale		(1 137 727)	(77 909)
Net cash paid in investing activities		(1 091 712)	(115 982)
Cash flows from financing activities			
Net investment in financial lease		112 667	147 396
Net cash received from financing activities		112 667	147 396
Effect of exchange rate on cash and cash equivalents		(152 375)	52 621
Net increase/(decrease) of cash and cash equivalents		139 731	103 125
Cash and cash equivalents for the beginning of the year	5	1 586 718	1 483 593
Cash and cash equivalents for the end of the year	5	1 726 449	1 586 718

Signed and authorized for release on behalf of the Executive Board of the Group on 28 April 2017

I.P. Prozorov
Chairman of the Executive Board

S.V. Shamseeva
Chief accountant



Translation from the original in Russian language.

JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

	Share capital	Revaluation reserve of Property, Plant and Equipment	Revaluation reserve of financial Assets held for selling	Retained earnings	Total for the Group
01 January 2015	620 283	85 538	-	1 570 905	2 276 726
Total comprehensive income for the year	-	(7 754)	(21)	248 993	241 218
31 December 2015	620 283	77 784	(21)	1 819 898	2 517 944
Total comprehensive income for the year	-	17 706	12 003	352 183	381 892
31 December 2016	620 283	95 490	11 982	2 172 081	2 899 836

In accordance with normative legal acts of Russian Federation regulating the banking activity, the Group must use financial statements prepared under Russian Accounting Standards ('RAS') as the basis for calculating distributable profit for the reporting year. The income should be used for paying dividends or for increase of Group's reserves.

As at 31 December 2016, the retained earnings of the Group calculated in accordance with RAS was 1 880 070 (2015: 1 617 994).

Signed and authorized for release on behalf of the Executive Board of the Group on 28 April 2017

I.P. Prozorov
Chairman of the Executive Board

S.V. Shamseeva
Chief accountant



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

1. Principal Activities

These consolidated financial statements include the data of Hlynov commercial Bank (Joint Stock Company) (hereinafter "the Bank") and its Subsidiary and unconsolidated structured company (together "Group"). The Bank was registered with the CBRF under the name "Kirovcoopbank" on 06 March 1990. In 1991 the Bank was renamed to Commercial Bank "Hlynov" (Joint Stock Company).

The Bank conducts its business under the license № 254 from Bank of Russia issued on 29 January 2016 to conduct banking operations in Russian Rubles and foreign currency and to attract deposits from individuals in Rubles and foreign currency. Since 21 September 2004 the Bank has been a member of the State Deposit Insurance system. The Bank also has licenses of professional participants of the Securities Market allowing it to act as broker and dealer.

The principal activity of the Group is to provide banking services to the population and legal entities in the Kirov district and the Mari El Republic.

The structure of the Bank comprises 33 supplementary offices, situated at Kirov and Kirov district, 1 operational office, situated at Yoshkar-Ola in Mari El Republic. The Bank does not have any branches.

As at 31 December 2016 the Group had 818 members of staff (2015: 799).

Berezin Andrey Olegovich, the deputy by the chairman of the board of directors, and Berezina Irina Feliksovna are the beneficiaries of the Bank, the persons, under whose control and significant influence the Bank operates, according to IFRS 10 and IAS 28.

The Bank owns 100% of, and controls "Leasing Hlynov" LLC that was purchased in 2004 and has been consolidated. The company focuses on providing financial lease services to corporate clients.

In August 2014 "Khlynov-Invest" LLC was included in the Group as an unconsolidated structured entity, with the Bank's share of 19%. The Bank has significant influence over the entity and has no control. The core activity of "Khlynov-Invest" LLC are real estate transactions, including the enforcement of claims received from the Bank through cessions agreements. The main source of financing of "Khlynov-Invest" LLC are loans from the Bank.

Due to the fact that the total assets of "Khlynov-Invest" LLC is less than 1% of the total assets of the Bank, the impact of the reported data of "Khlynov-Invest" LLC on the Group's financial statements found to be immaterial, so the company is not accounted for using the equity method and is not included in the consolidation perimeter.

Information about the carrying value of assets and liabilities, income and expenses of "Khlynov-Invest" LLC, recognized in the financial statements of the Group is presented in Note 24.



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

2. Operating Environment of the Group

Russian Federation economy still possesses a few of the developing markets' characteristics. Such characteristics include lack of practice of free national currency conversion in most countries outside of the Russian Federation and a relatively high inflation level, alongside others.

Moreover, Russian economy is highly influenced by world oil and gas prices. Significant Russian tax, currency and customs legislation is subject to interpretations and frequent changes.

The course of economic development of the Russian Federation is largely dependent on the effectiveness of the measures taken by the Government in the fields of economy, finance and monetary policy, improvements of the tax system, legal and regulatory framework and the development of political processes. The Group conducts its financial activity mainly on the territory of the Russian Federation thus exposing itself to the risks related to the state of the economy and financial markets of the Russian Federation.

In 2016, the economy of Russia reached better results that it had been expected. Since the dramatic recession of 2014, the financial and economic authorities of Russia in 2016 decreased the inflation rate almost twice and stabilize the dynamics of key macroeconomic indicators. All this led to the strengthening of the ruble and the gradual return of confidence in the Russian economy. The Russian economy more or less adapted to the level of oil prices at \$ 40 per barrel.

In general, analysts say that Russia's economic development is in a transitional phase, the most unfavourable part of the way has been passed. Now the economy will rise, albeit very smoothly. Forecasts of analysts can be considered relatively positive, slowly, but confidently the economy of the country is recovering and gaining momentum.

Management of the Group believes that it takes all the necessary measures aimed at maintaining stability and development of the Group's business in the economy conditions. Future situation in the economy and future legal and regulatory environment and its impact on the Group's activities can differ from the Management's expectations.

The Group pays significant attention to the analysis of operating risk and reveals all necessary information about admitted risks, procedures of its assessment, managing of risks and of the Group's capital in notes to financial statements.



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

3. Basis of Presentation

a) General

The consolidated financial statements of the Group have been prepared in accordance with IFRS which comprise existing standards and their interpretations approved by the International Accounting Standards Board ("IASB"), and International Accounting Standards ("IAS") and Standing Interpretations Committee interpretations ("SIC") approved by the International Accounting Standards Committee that remain in effect.

The Group maintains its accounting records in accordance with the Russian Accounting Standards ("RAS"). These consolidated financial statements are based on the Group's RAS analytical books and records adjusted and reclassified in order to comply with IFRS.

These consolidated financial statements are presented and rounded to thousands of Roubles (RUB) unless otherwise indicated. The Rouble is utilised as the reporting currency as the majority of the Group's transactions are denominated, measured, or funded in RUB, hence it is both the functional and reporting currency. Transactions in other currencies other than RUB are considered as transactions in foreign currencies.

b) Application of estimates and judgements

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

(i) Impairment of Loans

The Group reviews loans to customers on a regular basis for evidence of impairment. Such evidence would include late payments of capital or interest or negative financial information about the borrower. Material loans are reviewed individually and other are reviewed on a portfolio basis (by industry and region of the borrower). When impairment is required to be recognised it is based for individually material loans on Management's estimate of the future cash flows arising from the loan. This is based on their knowledge and experience of the counterparty, its industry and location.

The amount of impairment loss is calculated as the difference between the loan's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the loan's original effective interest rate. The aggregate of the allowances made during the year is included in the Statement of Comprehensive Income for the year.

(ii) Impairment losses on receivables other than loans

The Group reviews all its assets for impairment on a quarterly basis. In determining whether an impairment loss should be recorded in the statement of Profit or Loss and other comprehensive income, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from an asset. Management uses estimates based on their knowledge and experience to determine both the amount and timing of future cash flows.

(iii) Fair values

Unless otherwise indicated, the financial instruments that the Group stated in the consolidated financial statements have been measured at fair value in accordance with IFRS 13 "Fair Value Measurement".



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

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

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

(iv) *Related party transactions*

In the normal course of business, the Group enters into transaction with related parties. These transactions are predominantly priced at market rates. Judgment is applied in determining if transactions are priced at market or non-market rates where there is no active market for such transactions. The basis for judgment is the pricing of similar types of transactions with non-related parties and effective interest rate analysis.

(v) *Depreciation*

The Group applies the norms of depreciation based on the estimated useful life of its fixed assets. These estimates are based on Management's knowledge of assets and the use to which they are put. Estimates of useful lives are reviewed on an annual basis.

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

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

Amendments to IFRSs that are mandatory for the current year

The following revised standards became mandatory for the Group from 1 January 2016, but did not have a significant impact on the Group:

- IFRS 14 – Regulatory Deferral Accounts (issued in January 2014 and effective for an entity's first annual IFRS financial statements for periods beginning on or after 1 January 2016).
- Amendments to IFRS 11 – Accounting for Acquisitions of Interests in Joint Operations (issued May 6, 2014 and effective for annual periods beginning on or after 1 January 2016).
- Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation (issued May 6, 2014 and effective for annual periods beginning on or after 1 January 2016).
- Amendments to IAS 16 and IAS 41 – Agriculture: Bearer Plants (issued June 30, 2014 and effective for annual periods beginning on or after 1 January 2016).
- Amendments to IAS 27 – Equity Method in Separate Financial Statements (issued August 12, 2014 and effective for annual periods beginning on or after 1 January 2016, with earlier application permitted).
- Annual amendments to IFRS, 2014, (issued September 25, 2014 and effective for annual periods beginning on or after 1 January 2016).



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

- Amendments to IAS 1 - Disclosure Initiative (issued December 18, 2014 and effective for annual periods beginning on or after 1 January 2016).
- Amendments to IFRS 10, IFRS 12 and IAS 28 – Investment Entities: Applying the Consolidation Exception (issued December 18, 2014 and effective for annual periods beginning on or after 1 January 2016).

New and revised IFRS - issued but not yet effective

A number of new standards and amendments have been published that are mandatory for annual periods beginning on or after 1 January 2017 and which the Group has not yet adopted:

IFRS 9 – "Financial Instruments" (An entity choosing to apply the deferral approach does so for annual periods beginning on or after 1 January 2018)

The standard's updated version was issued in July 2014. The main changes relate to a) financial assets' impairment methodology; b) slight amendments to the classification and measurement by the way of adding a new category of financial instruments at "fair value through other comprehensive income" (FVTOCI) for a certain type of simple debt instruments.

Main requirements of IFRS 9 are presented below:

- all recognised financial assets that are currently within the scope of IAS 39 "Financial instruments: recognition and measurement" must be subsequently measured at either amortised cost or fair value. In particular, debt instruments that are held within a business model whose objective is to collect the contractual cash flows and have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding must be measured at amortised cost (net of any write down for impairment). A debt instrument that is held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets and has contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, must be measured at FVTOCI. All other debt and equity instruments are valued at FV. IFRS 9 also allows that if an equity investment is not held for trading, an irrevocable election can be made at initial recognition to measure the investment at FVTOCI, with dividend income recognised in profit or loss.
- Changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of that liability are presented in other comprehensive income, unless the presentation of the effect of the change in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as FVTPL is presented in profit or loss.
- The impairment model under IFRS 9 reflects expected credit losses, as opposed to incurred credit losses under IAS 39. Under the impairment approach in IFRS 9, it is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, an entity always accounts for expected credit losses and changes in those expected credit losses. The amount of expected credit losses should be updated at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, there is now no need to wait for the event confirming high credit risk to recognize the impairment.
- The general hedge accounting requirements of IFRS 9 retain the three types of hedge accounting mechanisms in IAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify as hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an "economic relationship". Retrospective assessment of hedge effectiveness is no longer required. Far more disclosure requirements about an entity's risk management activities have been introduced.

The Group's Management expects IFRS 9 "Financial instruments" to have a significant impact of the financial assets and financial liabilities figures presented in the financial statements of the Group.



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

IFRS 15 – Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018)

IFRS 15 was published in May 2015 and it established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. Upon its effective date, it will supersede the current standards regulating revenue recognition, including IAS 18 "Revenue", IAS 11 "Construction contracts" and the according interpretations.

The key principle of IFRS 15: it establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. In particular, the standard introduces a five-step model of revenue recognition:

- Stage 1: *Define the contract(s) with the customer;*
- Stage 2: *Define the contractual liabilities;*
- Stage 3: *Define the price of the deal;*
- Stage 4: *Distribute the deal's price between the contractual liabilities; and*
- Stage 5: *Recognise the revenue when/as the contractual obligations are fulfilled by the organization.*

According to IFRS 15 the entity recognizes the revenue after/as the obligations are fulfilled, after the transfer of control of the relevant goods or services. IFRS 15 contains more detailed requirements in relation to the accounting of different types of deals. IFRS 15 requires the disclosure of a larger volume of information as well.

Application of IFRS 15 will not have a significant impact on the Group reporting.

IFRS 16 – Leases (effective for annual periods beginning on or after 1 January 2019)

The new standard establishes principles for the recognition, measurement, presentation and disclosure of leases. All lease contracts allow a lessee to get the right to use the asset from the commencement of the lease, as well as to receive financing, if the lease payments are made during a period of time. Accordingly, IFRS 16 cancels the classification of leases as operational or financial as required by IAS 17, and instead introduces a single model for recording lease transactions for lessees. Lessees will be required to recognize: (a) assets and liabilities with respect to all leases with a validity period of more than 12 months, unless the value of the lease is insignificant, and (b) depreciation of the leased property is separate from interest on the lease obligations in the statement of Profits and losses. With respect to accounting for leases from the lessor, IFRS 16, in effect, retains the accounting requirements of IAS 17. Thus, the lessor continues to classify lease contracts as an operating or financial lease and, respectively, differently reflect them in the reporting. The Group is currently assessing how this new standard will affect its financial statements.

Amendments to IAS 7 - Disclosure Initiative (issued January 29, 2016 and effective for annual periods beginning on or after 1 January 2017)

Amendments to IAS 7 require disclosure of reconciliation of changes in liabilities arising from financial activities.

It is expected that the adoption of the following new amendments will not have a significant impact on the Group:

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



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

d) Inflation accounting

In the opinion of Management, effective from 1 January 2003, the Russian Federation no longer met the criteria of IAS 29 "Financial Reporting in Hyperinflationary Economies"; and therefore, the Group ceased applying IAS 29 to subsequent periods recognising only the cumulative impact of inflation indexing on non-monetary elements of the financial statements through 31 December 2002. Consequently, monetary items and results of operations as at 31 December 2003 and further are reported in actual, nominal amounts.

Non-monetary assets and liabilities acquired prior to 31 December 2002, and share capital transactions occurring before 31 December 2002 were restated by applying the relevant inflation factors to the historical cost ("restated cost") through 31 December 2002. Gains or losses on subsequent disposals are recognised based on the restated cost of the non-monetary assets and liabilities.

e) Reconciliation of RAS and IFRS equity and net income

	31 December 2016		31 December 2015	
	Equity	Net Profit	Equity	Net Profit
RAS	2 600 586	258 775	2 374 089	168 408
Additional allowance for loans, investments in lease	170 074	31 246	149 762	(58 330)
Interest expense/income	120 752	58 708	63 426	35 943
Revaluation of fixed assets, investment property, and, non-current assets	35 824	(13 563)	26 783	13 563
Recovered fixed assets	23 518	-	34 282	15 109
Income tax expense	20 558	(11 234)	26 304	17 875
Additional estimated decrease in the fair value of securities characterized by low activity and low liquidity of the market	16 936	-	-	-
Revaluation of financial assets at fair value through profit or loss at fair value	6 398	12 522	(6 851)	69 683
Recognition of derivative financial instruments	1 134	3 245	(2 111)	(2 111)
Recognition of financial assets at amortised cost	-	17	(17)	23
Reassessment of investments in financial lease	(281)	(12 977)	12 696	(10 001)
Commission on guarantees issued	(929)	7 572	(8 501)	22 610
Allowance for financial leasing	(1 333)	2 400	(3 733)	(2 890)
Write-off low value assets	(4 119)	(2 569)	(1 550)	(507)
Repairs of rented premises	(7 405)	38	(7 443)	(3 813)
Deposit insurance system	(14 333)	(4 071)	(10 262)	(813)
Staff costs	(15 151)	11 823	(26 974)	(1 200)
Additional allowance for due from banks	(15 567)	-	(15 567)	(6 256)
Additional depreciation	(21 882)	(8 409)	(24 235)	(21 659)
Additional allowance for other assets	(29 882)	17 055	(57 871)	13 359
Revaluation of securities for selling	-	-	(2 560)	-
Other	14 938	1 605	(1 723)	-
IFRS	2 899 836	352 183	2 517 944	248 993

f) 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 recognized amounts, and there is an intention to either settle assets and liabilities net or to realize the asset and settle the liability simultaneously. Income and expenses are not offset in the Statement of Profit or Loss and other Comprehensive Income except when required or permitted by accounting standards or a related interpretation and such cases are disclosed in the Group's accounting policy.



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

4. Significant Accounting Policies

a) Consolidation

Subsidiaries and associates are represented by companies the financial and operational policies of which the Bank controls directly or indirectly. Subsidiaries are included in the consolidated financial statements from the date of transfer of control of their operations to the Group and are excluded from consolidated financial statements effective from the date of loss of control. Subsidiaries are included in the consolidated financial statements using the acquisition method. The cost of the acquisition is estimated at fair value of net assets for the date of the acquisition taking into consideration the cost of expenses for the company acquisition. The excess of acquisition cost over fair value of net assets acquired by the subsidiary is reflected as Goodwill. The transactions between companies of the Group, balances on corresponding accounts including the retained earnings and inter-company balances of the Group are excluded.

The accounting policies of the subsidiaries were changed wherever necessary in accordance with the policies of the Group.

b) Recognition of Financial Instruments

The Group recognises financial assets and liabilities on its Statement of Financial Position when, and only when, it becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are recognised using trade date accounting.

Financial assets and liabilities are initially recognised at cost, which is the fair value of consideration given or received, respectively, including or net of any transaction costs incurred, respectively. Any gain or loss at initial recognition is recognised in the current period's Statement of Profit or Loss and other Comprehensive Income. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

c) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the CBRF, excluding mandatory reserves, and due from credit institutions that mature within one day of the date of origination and are free from contractual encumbrances.

d) Mandatory Balances with the Central Bank of the Russian Federation

Mandatory balances represent mandatory reserve assets which are not available to finance the Group's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the cash flow statement.

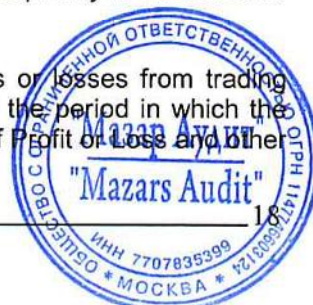
e) Due from Banks

In the normal course of business, the Group maintains current accounts or deposits for various periods of time with other banks. Amounts due from banks with a fixed maturity term are subsequently measured at amortised cost using the effective interest method. Those that do not have fixed maturities are carried at cost. Amounts due from banks are carried net of any allowance for impairment.

f) Financial Assets at Fair Value through Profit or Loss ("FVTPL")

Securities at FVTPL are securities which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term holding exists. Securities at FVPL are initially recognised at fair value and subsequently re-assessed at fair value, based on market quotations

All related realised and unrealised gains or losses are recorded within net gains or losses from trading activities in the Statement of Profit or Loss and other Comprehensive Income for the period in which the change occurs. Interest earned on trading securities is reflected in the Statement of Profit or Loss and other Comprehensive Income as interest income on securities.



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

All the transactions on acquisition / sale of the securities at FVTPL, that require delivery of an asset during a certain period of time (set by regulation or market practise) are reflected in accounting at the date when the rights on the asset are transferred.

g) Available for Sale ("AFS") financial assets

AFS financial assets are securities that management intends to hold for an indefinite period of time, which may be sold in response to liquidity policy or changes in financial market conditions. They can be sold depending on the Group's policy regarding liquidity or the current market situation. Management initially determines the classification of its securities at the time they are purchased and this assessment is regularly. AFS financial assets are initially recognised at cost (which includes transaction costs) and are subsequently valued at market value with gains and losses taken through the Statement of Changes in Equity except for losses arising from impairment.

In case when decline in fair value of AFS financial assets was reflected in the consolidated statement of Changes in Equity, and there is an evidence of impairment, the cumulative loss that was reflected in the statement of Changes in Equity is removed and reflected in the Statement of Profit and Loss and Other Comprehensive Income. This is not appropriate for impairment loss for equity instruments, that was reflected in the statement of Changes in Equity.

If the market data is not available, financial assets are reflected at fair value, assessed by the Management. All the transactions on acquisition / sale of financial assets AFS are reflected in accounting at the date when the rights securities are transferred. Unless securities have not yet transferred they are recognised as forward contracts.

h) Financial Assets Held to Maturity ("HTM")

This category includes financial instruments with fixed or determinable payments and fixed maturity that the Group has the intention and ability to hold to maturity.

After initial recognition, these securities are subsequently re-measured at amortized cost at the date of the financial statements. At each reporting date, the Group also assesses whether there is any objective evidence of impairment of securities carried at amortized cost in order to identify the need to calculate the impairment loss.

An impairment loss is calculated as the difference between the carrying amount and the expected future cash flows discounted at the effective interest rate that was effective at the time of initial recognition. An impairment loss is recognized in the statement of profit and loss and other comprehensive income of the reporting period.

i) Sale and Repurchase Agreements

Sale and repurchase ("repo") agreements are treated as secured financing transactions. Securities sold under sale and repurchase agreements are included in securities. The corresponding liability is presented under due to banks, amounts due to customers or other liabilities as appropriate. Securities purchased under agreements to resell ("reverse repo") are recorded as due from banks, loans to customers or other assets as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the repo agreement using the effective interest method.

j) Promissory Notes Purchased

Promissory notes purchased are included in securities, due from credit institutions or in loans and advances to customers, depending on their substance and are recorded and subsequently re-measured and accounted in accordance with the accounting policies for these categories of assets.

k) Loans and Advances to Customers

Loans are stated at amortised cost, net of allowances for impairment. Amortised cost is calculated as the amount outstanding after amortisation of the premium or discount over fair value arising at initial recognition using the effective interest method.



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

Individual loan or portfolio of homogeneous loans is considered impaired and impairment losses are considered incurred only if there are objective impairment evidence in a result of one or more events, that occur after the initial reflection of the loan (loans) in the reporting and have an impact on future cash flows of a loan or portfolio of homogeneous loans. Impairment losses should be measured reliably. The existence of an objective evidence of impairment is treated individually for loans that are greater than the level of materiality for financial reporting, and individually or on a portfolio basis for loans that do not exceed the materiality level. In the absence of objective evidence of impairment, the individually assessed loan (regardless of its size) is included in the portfolio of loans with homogeneous credit characteristics and is assessed for impairment on a portfolio basis.

The amount of impairment is calculated as the difference between the amount of the loan and the present value of future cash flows (less future credit losses that have not yet been incurred) discounted at the interest rate for this loan. The amount of reserves formed during the year reduces the annual aggregate profit.

Loans and advances to customers that can not be returned are written off against the reserve for possible losses. Such loans are written off after the completion of all necessary judicial procedures, after which the amount of loss is finally determined.

Mortgage loans held for sale are recognized as loans and advances to customers, because the nature of transactions conducted with them by the Group relates to transactions with loans, rather than securities.

l) Provisions for possible losses on financial assets

(i) Assets valued at amortised cost

When preparing consolidated financial statements, the Group creates provisions for possible impairment of financial assets or groups of financial assets. A financial asset or a group of financial assets is considered impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset ("loss event") and if the loss event (or events) has an impact on the estimated future cash flows of a financial asset that can be reliably estimated.

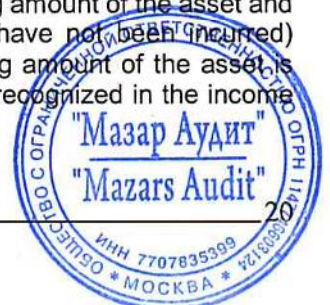
The criteria that the Group also uses to determine objective evidence of impairment include:

- overdue payments in principal or interests;
- the borrower has significant financial problems (for example, equity to total assets ratio, net profit, sales percentages, etc.);
- loan conditions violation;
- probability of bankruptcy;
- deterioration of the borrower's competitiveness;
- reduction in a collateral value;
- information about the degree and propensity to violation the terms of an agreement for similar financial assets by an issuer or borrower;
- CBRF credit rating decrease below the third category.

The approximate period between impairment and its determination is determined by the Management for each portfolio.

First, the Group determines whether objective evidences of impairment are exist separately for individually significant financial assets and individually or collectively for the financial assets that are not individually significant. If the Group determines that there is no objective evidence of impairment for individual financial assets, despite it is significant or not, the Group includes them in a group of financial assets with similar credit risk characteristics and identify them for impairment collectively. Assets, that impaired separately and have losses from impairment are not included in the collective assessment for impairment.

The amount of loss is measured by determining the difference between the carrying amount of the asset and the present value of future cash flows (excluding future losses on loans that have not been incurred) discounted at the initial effective interest rate of the financial assets. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the income statement and other comprehensive income.



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

If a loan or an investment held to maturity has a floating interest rate, the discount rate for determining the impairment loss is the current effective interest rate established by the contract. The Group can also assess the depreciation based on the fair value of the instrument, using the current market value.

The calculation of the present value of future cash flows of financial assets secured by collateral reflects cash flows that may arise as a result of disposal less the cost of acquisition or selling a collateral, despite that fact whether disposal is possible or not

For the purposes of collective assessment of impairment, financial assets are grouped according to similar characteristics of credit risk (for example, according to the Group's classification, that takes into account the type of funds, collateral, type of industry, timing and other necessary factors). The estimation of future cash flows of the group is reduced due to the effect of risk factors that reduce the ability of debtors to repay all amounts due according to the contractual terms for the assets being valued.

Future cash flows in a group of financial assets that are collectively assessed for impairment are determined on the basis of contractual cash flows in the group, as well as historical loss practices for assets with similar credit risk characteristics. They can also be determined on the basis of management statistics on the amounts of overdue debts that will arise as a result of the events that occurred, as well as on the possibility of recovering overdue debts. Statistics of past years are adjusted on the basis of current observable data to reflect the impact of current conditions that did not affect previous periods, as well as to eliminate the effect of past events that do not exist in the current period.

The calculation of future cash flow changes for asset groups should reflect and fully coincide with correlated events from period to period (such as changes in the unemployment rate, real estate prices, payment situation and other factors indicating possible losses and their volume). This principle and assumptions used to estimate future cash flows are reviewed annually by the Group to reduce the difference between estimates of probable losses and total damages.

Financial assets that can not be matured and for which all necessary procedures have been completed for the purpose of full or partial recovery and the final amount of the loss have been determined are written off against the provision for impairment.

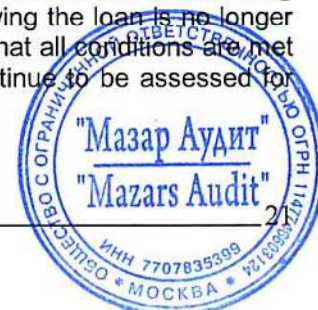
If in subsequent period the amount of impairment loss decreases and this decrease may objectively be related to an event, occurring after recognition of impairment (such as an increase in debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the provision created. This sum is reflected in the consolidated statement of Profit and Loss as apart of the movement to reduce fair value for loan losses.

(ii) Assets classified as available for sale

At each date of the consolidate statement of Financial Position the Group determines whether there are objective indicators that a financial asset or a group of financial assets available for sale is impaired. In case of equity instruments available-for-sale, a significant or prolonged decline in fair value of collateral to an indicator below its cost is considered for impairment. The cumulative loss, calculated as the difference between the acquisition price and current fair value less any impairment loss, is reflected in the consolidated statement of Profit and Loss and other comprehensive income, not in the consolidated statement of Changes in Equity. Impairment losses on equity instruments recorded in the consolidated statement of profit and loss and other comprehensive income are not reversed through the consolidated statement of profit and loss and other comprehensive income. If in a subsequent period, the fair value of a debt instrument available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of profit and loss and other comprehensive income, the impairment loss is recovered through the consolidated statement of profit and loss and other comprehensive income.

(iii) Renegotiated loans

When it is possible, the Group seeks to restructure loans without collection of collateral. Such a restructuring may include extending the maturity and agreeing on new loan terms. After reviewing the loan is no longer overdue. Management continuously monitors loans with revised terms to ensure that all conditions are met and there is a high probability of receiving future payments on them. Loans continue to be assessed for impairment individually or collectively.



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

m) Financial Guarantee Contracts

Potential liabilities arising under such contracts are initially recognised at fair value which is measured by reference to consideration received in respect of the contract unless it has been issued at non market rates.

The recognised amount is then amortised on a straight line basis by reference to time to maturity as this represents the reduction in potential liability remaining.

The counterparty is assessed on a regular basis using a similar methodology to determine the impairment of loans as described in note 4k. In the presence of impairment evidences the fair value of the guarantees is reassessed in accordance with the provisions of IAS 37.

n) Property, Plant and Equipment

Buildings are recorded in the consolidated statement of financial position at revalued amounts less depreciation and impairment losses subsequently accumulated. The revalued amount is the fair value at the date of revaluation and is determined by an appraisal based on the market value carried out by professional appraisers. Revaluations are made with sufficient frequency to ensure that the carrying amount does not differ materially from the estimated fair value at the reporting date.

A positive revaluation of buildings is credited to the property revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is credited to the Statement of Profit or Loss and other Comprehensive Income to the extent of the decrease previously charged. A decrease in carrying amount as a result of revaluation of buildings is recognized as an expense in that part that exceeds the revaluation reserve formed as a result of earlier revaluations of this asset. At the subsequent disposal or write-off of the revalued property, remained fund of revaluation is transferred directly to retained earnings.

Equipment is reflected at restated cost less accumulated depreciation and provision for impairment. Depreciation for the remaining groups of property, plant and equipment is accrued on a straight-line basis using the following estimated useful lives:

	<u>Years</u>
Buildings	30 – 100, including: 30 plus 1 month
- if the year of construction: 1940 – 1980	40
- if the year of construction: 1980 – 1990	50
- if the year of construction: after 2000	100
- New buildings and facilities that the Bank built itself	till 20
Structures	2 – 4
Computer and office equipment	3 – 21
Bank equipment	3 – 6
Furniture and production inventory	3 – 7
Vehicles	

The land owned by the Group is not depreciated.

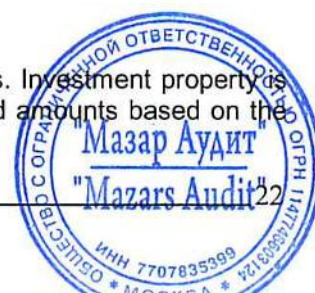
The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and showed separately in the Statement of Profit or Loss and other Comprehensive Income in line "Gains less losses from disposal of property, plant and equipment" at the moment of their occurrence.

o) Investment property

Investment property is a property owned by the Group that is held to earn rentals. Investment property is stated at fair value in the consolidated statement of Financial Position at revalued amounts based on the conclusion of independent appraisers, no amortization is accrued.

Translation from the original in Russian language.



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

Fair value is based on current prices for similar properties in the same location and condition. Any gain or loss arising from a change in fair value is recognised in the Statement of Profit or Loss and other Comprehensive Income.

If the investment property is used by the owner, it is reclassified to the property, plant and equipment category and its fair value at the date of reclassification is recognized as a cost for accounting purposes.

p) Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount is recovered principally not in the course of use in production activities but in sale. This condition is deemed to be met if the asset (or disposal group) is available for immediate sale in its current condition only under conditions that are usual, standard conditions for the sale of such assets (or disposal groups), and its sale should be characterized by a high degree of probability. The Management plans to realise an asset within one year from the date it is classified as held for sale.

The increase in the period required to complete the sale does not preclude the classification of the asset as held for sale if the reason for the delay is events or circumstances not controlled by the Group and there is sufficient evidence that the Group intends to execute the plan to sell the asset.

Initial recognition – at historical cost less accumulated depreciation and accumulated impairment losses. The accrual of depreciation ceases on the day following the day of such recognition.

Non-current assets held for sale are not depreciated.

Further non-current assets held for sale are measured at the lower of the two values: the carrying value at the time of the classification and the fair value less costs to sell. Fair value is based on the conclusion of independent appraisers.

q) Operating Leases

Lease of assets in which all risks and ownership rights remain with the lessor are classified as operating leases. Lease payments for operating leases are recognized as direct costs over the period of the lease and are included in operating expenses.

If the operating lease terminates before the lease expires, the necessary payments, representing the amounts of fines and penalties due to the lessor, are recognized as an expense in the period in which the operating lease was terminated.

r) Financial Lease

When the Group acts as a lessor, the discounted value of leasing payments ("net investment in leasing") represents the requirements for obtaining lease payments and is reflected in the item "Net investment in financial leasing". The difference between the gross amount of requirements for obtaining lease payments and their discounted value is disclosed as unearned finance income.

Leasing income is distributed over the course of the leasing period using the method of effective interest rate, which reflects a constant rate of profitability. Leasing income is reflected in consolidated Statement of Profit or Loss and other Comprehensive Income under "Interest income from leasing Investments". Net investments to financial leasing are reflected in the Statement of Financial Position less allowance for their impairment.

s) Due to Banks and Customers Accounts

Amounts due to credit institutions and customers are initially recognized in accordance with the principles of recognition of financial instruments under IAS 39. Subsequently, borrowings are reflected at amortized cost and the difference between the amount received and the repayment amount is reflected in the Consolidated Statement of Profit and Loss and Other Comprehensive Income over the period of borrowing using the effective interest method.

t) Debt securities issued



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

Debt securities issued represent promissory notes issued by the Group. They are accounted for according to the same principles used for amounts due to credit institutions and to customers.

u) Provisions

Provisions for legal claims or other purposes are recognised when the Group has (a present legal or constructive) obligation as a result of past events. At the same time, there is a high probability that the Group will need an outflow of economic resources to fulfil these obligations. The amount of obligations must be reliably estimated.

In the presence of a number of similar obligations, the probable need for an outflow of economic resources is determined by analysing a number of obligations in general. Provisions are recognized even if the degree of similarity of the outflow of economic resources relating to liabilities classified as one type is very small.

Provisions are measured at the present value of the costs required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk characteristic of the liability.

The increase in the provision due to the passage of time is reflected in the item "Interest expense".

v) Retirement and Other Benefit Obligations

Employee benefits in respect of services rendered during the reporting period, including accrued vacation pay and bonuses, as well as the corresponding payroll taxes, are recognized as an expense in the period in which they arise.

The Group does not have any pension arrangements separate from the State pension system of the Russian Federation, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Group has no post-retirement benefits or significant other compensated benefits requiring accrual.

w) Share Capital

Share capital, share premium and treasury shares are reflected at restated cost. Share capital contributions made in the form of assets other than cash are reflected at their fair value at the date of contribution.

x) Dividends

Dividends are reflected as a decrease in shareholders' equity in the reporting period in which they are declared. Information on dividends declared after the reporting date is disclosed in the subsequent events note. The distribution of the Group's profit is based on the net profit of the current year, calculated by RAS.

y) Taxation

Income tax expense reflected in the consolidated statement of profit and loss includes current tax expenses and changes in deferred tax. Current income tax expense is calculated in accordance with the legislation of the Russian Federation on taxes. Expenses for other taxes are included in operating expenses.

Deferred income tax is calculated using the balance-sheet liability method for all temporary differences between the tax base of assets and liabilities and their carrying amounts as shown in the consolidated financial statements.

Deferred tax assets are reflected in the amount that it is probable that taxable profit will be available against which temporary differences can be utilized.

z) Interest income and expenses

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognised within 'Interest income' and 'interest expense' in the Statement of Profit or Loss and other Comprehensive Income using the effective interest method.



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written-off as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Fee and Commission Income

Fee and commission income for the provision of loans that have not yet been issued, but whose issuance is probable, are determined (together with the corresponding direct costs) and accounted for as an adjustment to the effective interest rate on the loan. Revenues arising from the provision of services are reflected in accordance with the terms of the contract on a time-proportionate basis.

Foreign Currency Translation

Foreign currency transactions are reflected at the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Russian Roubles at the official CBRF exchange rates ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the Statement of Profit or Loss and other Comprehensive Income as gains less losses from foreign currencies (translation differences). Differences between the contractual exchange rate of a certain transaction and the Central Bank exchange rate on the date of the transaction are included in gains less losses from foreign currencies.

As of December 31, 2016, and December 31, 2015, the official exchange rate of the CBRF was 60.6569 rubles and 72.8827 rubles for 1 USD, respectively, and 63.8111 rubles and 79.6972 rubles for 1 Euro, respectively.

5. Cash and Cash Equivalents

	<u>2016</u>	<u>2015</u>
Cash on hand	695 237	785 080
Cash balances with the CBRF (other than mandatory reserve deposits)	463 299	318 822
Correspondent accounts with other banks:		
- Russian Federation	162 843	58 825
- Other countries	<u>10 461</u>	<u>154 664</u>
	173 304	213 489
Other market placements	<u>394 609</u>	<u>269 327</u>
	<u>1 726 449</u>	<u>1 586 718</u>

As at 31 December 2016 the aggregate amount of NOSTRO accounts with the biggest counterparty ("Alfa-Bank" OJSC) amounted to 137 718 or 79.47% of total Nostro accounts ((2015: VTB BANK (Deutschland) AG) 154 664 to 72.45%)

As at 31 December 2016 most of the balances of Other market placements are placements in NSCA "Payment Center" (LLC) amounted to 324 465 or 82.22% (2015: in NSCA "Payment Center" (LLC) 256 688 or 95.31%).

Information about the credit quality of NOSTRO accounts (based on Fitch ratings) with banks included in cash and cash equivalents is as follows:

	<u>2016</u>	<u>2015</u>
Rated BBB	7 466	22 921
Rated BB+	147 260	39



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

Rated BB	10 463	166 666
Rated BB-	4 435	1 222
Rated B	3 679	22 639
Other (including banks that do not have a credit rating)	<u>1</u>	<u>2</u>
	<u>173 304</u>	<u>213 489</u>

Geographical, currency and maturity analyses of cash and cash equivalents are disclosed in Note 30.

6. Mandatory Balances with the Central Bank of the Russian Federation ("CBRF")

The mandatory balance with the CBRF represents amounts deposited and not available for use in the Group's day to day operations. Credit institutions are required to maintain a non-interest earning cash deposit (mandatory reserve) with the CBRF, the amount of which depends on the level of funds attracted by the credit institution. The Group's ability to withdraw such deposit is significantly restricted by legislation, and therefore such amounts are excluded from cash and cash equivalents.

7. Due from banks

	<u>2016</u>	<u>2015</u>
Interbank loans	200 000	200 000
Deposits in CBRF	100 000	-
Promissory notes of credit institutions	-	72 110
Correspondent accounts with limited rights of use	111 095	67 692
Security deposits in other credit institutions	4 702	3 479
Reverse repurchase agreements	1 150 000	-
	1 565 797	343 281
Provision for impairment	<u>(15 567)</u>	<u>(15 567)</u>
	<u>1 550 230</u>	<u>327 714</u>

As of December 31, 2016, all reverse repurchase agreements were concluded with the Central Counterparty (the Bank "National Clearing Center" (joint stock company)) for a period of four to seventeen days, with rates ranging from 10.3% to 10.7% per annum.

As at 31 December 2016, a provision for impairment was created in the amount of 100.00% for balances of 15 567 in "CB "Sudostroitelny Bank" (LLC).

As of December 31, 2016, the aggregate balance due to other banks with the largest counterparty bank PJSC "Bank FC Otkritie" was 200 000 or 12.9% of the total amount due from other banks.

As at 31 December 2015, the aggregate balances due to other banks with the largest counterparty banks (JSC "Sberbank" 100 000 and PJSC "Bank FC Otkritie" 100 000) were 200 000 or 61.03% of the total amount due from other banks.

As at 31 December 2015, a provision for impairment was created in the amount of 100.00% for balances of 15 567 in "CB "Sudostroitelny Bank" (LLC).

Movements in the allowance for impairment due from banks are disclosed in Note 25.

The analysis by maturity, geographical, currency and interest rate analysis of funds with other banks is presented in Note 30.



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

8. Financial Assets at Fair Value Through Profit or Loss

	2016	2015
Corporate bonds	1 433 048	929 954
Bonds of credit organisations	1 360 127	1 273 360
Eurobonds	611 410	455 651
Government and municipal bonds	307 382	493 352
Corporate shares	2 152	1 910
Shares of credit organisations	1 111	1 188
	3 715 230	3 155 415

The detailed information of the Group's debt securities portfolio, measured at fair value through profit or loss, as of December 31, 2016 are as follows:

	Maturity (dates)		Coupon rate per annum (%)		Fitch rating	
	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum
Bonds of credit organisations	28.02.2017	20.12.2026	4.80	14.00	BB- Without rating	BBB-
Corporate bonds	18.04.2017	22.12.2049	7.90	14.75	Without rating	BBB-
Government and municipal bonds	17.12.2017	25.12.2021	6.35	12.20	rating	BBB-
Eurobonds	25.04.2017	17.04.2020	4.00	8.50	BB-	BB+

The detailed information of the Group's debt securities portfolio, measured at fair value through profit or loss, as of December 31, 2015 are as follows:

	Maturity (dates)		Coupon rate per annum (%)		Fitch rating	
	Minimum	Maximum	Minimum	Minimum	Maximum	Minimum
Bonds of credit organisations	18.08.2016	11.11.2025	8.25	18.50	B+	BBB-
Corporate bonds	23.09.2016	07.11.2028	7.70	18.75	B+	BBB-
Government and municipal bonds	20.05.2016	23.06.2021	6.20	12.65	Without rating	BBB-
Eurobonds	31.01.2016	27.12.2017	4.95	8.50	BB-	BBB-

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. The hierarchy is as follows:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges and exchanges traded derivatives like futures.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the OTC derivative contracts, traded loans and issued structured debt. The sources of input parameters like LIBOR yield curve or counterparty credit risk are Bloomberg and Reuters.
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

As of December 31, 2016, the classification of securities measured through profit or loss, according to sources of information about their fair value, was as follows:

	Level 1	Level 3	Total
Corporate bonds	1 433 048	-	1 433 048
Bonds of credit organisations	1 360 127	-	1 360 127
Eurobonds	611 410	-	611 410
Government and municipal bonds	307 382	-	307 382
Corporate shares	2 150	2	2 152
Shares of credit organisations	1 111	-	1 111
	3 715 228	2	3 715 230

As of December 31, 2015, the classification of securities measured through profit or loss, according to sources of information about their fair value, was as follows:

	Level 1	Level 3	Total
Bonds of credit organisations	1 273 360	-	1 273 360
Corporate bonds	929 954	-	929 954
Government and municipal bonds	493 352	-	493 352
Promissory notes	-	-	-
Eurobonds	455 651	-	455 651
Corporate shares	1 908	2	1 910
Shares of credit organisations	1 188	-	1 188
	3 155 413	2	3 155 415

Changes in financial assets relating to Level 3 during 2016 are as follows:

	Promissory notes	Corporate shares	Total
At 1 January 2016	-	2	2
Profit (loss) of the current year	-	-	-
Revaluation because of exchange rate changes	-	-	-
Acquisitions	-	-	-
Sold / Disposal	-	-	-
At 31 December 2016	-	2	2

Changes in financial assets relating to Level 3 during 2015 are as follows:

	Promissory notes	Corporate shares	Total
At 1 January 2015	282 388	4	282 392
Profit (loss) of the current year	27 770	-	27 770
Revaluation because of exchange rate changes	21 077	-	21 077
Acquisitions	504 638	-	504 638
Sold / Disposal	(835 873)	(2)	(835 875)
At 31 December 2015	-	2	2

The analysis by maturity, geographic, currency and interest rate analysis of financial assets at fair value through profit or loss is disclosed in Note 30.



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

9. Financial Assets Available-for-Sale

	2016	2015
Government and municipal bonds	230 752	-
Corporate bonds	771 776	41 383
Eurobonds	187 667	47 851
Bonds of credit organizations	51 280	-
	1 241 475	89 234

The detailed information of the portfolio of debt securities available-for-sale as of December 31, 2016 is as follows:

	Maturity (dates)		Coupon rate per annum (%)		Fitch rating	
	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum
Government and municipal bonds	22.06.2023	21.06.2024	9.640	10.250	BB-	BB+
Corporate bonds	20.11.2020	25.08.2026	4.900	12.300	BB	BBB-
Eurobonds	05.09.2019	28.03.2022	4.699	4.960	BB-	BB+
Bonds of credit organisations	16.09.2031	16.09.2031	9.500	9.500	BB+	BB+

As of December 31, 2016, all financial assets available-for-sale, according to sources of information, are related to Level 1.

The detailed information of the portfolio of debt securities available-for-sale as of December 31, 2015 is as follows:

	Maturity (dates)		Coupon rate per annum (%)		Fitch rating	
	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum
Corporate bonds	15.10.2025	15.10.2025	12.3	12.3	BB	BB
Eurobonds	13.02.2018	13.02.2018	7.75	7.75	BB+	BB+

As of December 31, 2015, all financial assets available-for-sale, according to sources of information, are related to Level 1.

10. Financial Assets Held to Maturity

	2016	2015
Municipal bonds	-	2 501
	-	2 501

The detailed information of the portfolio of debt securities held to maturity as of December 31, 2016 is as follows:

	Maturity (dates)		Coupon rate per annum (%)		Fitch rating	
	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum
Municipal bonds	x	x	x	x		

Translation from the original in Russian language.



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

The detailed information of the portfolio of debt securities held to maturity as of December 31, 2015 is as follows:

	Maturity (dates)		Coupon rate per annum (%)		Fitch rating	
	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum
Municipal bonds	29.11.2016	29.11.2016	8.5	8.5	BB+	BB+

The analysis by maturity, geographic, currency and interest rate analysis of financial assets held to maturity is disclosed in Note 30.

11. Loans and Advances to Customers

	<u>2016</u>	<u>2015</u>
Loans to individuals		
Consumer credits	2 585 879	2 553 373
Mortgages	435 212	457 523
Overdrafts	216 475	212 315
Other	48	48
Gross loans and advances to customers	<u>3 237 614</u>	<u>3 223 259</u>
Loans to legal entities		
Loans to small and medium enterprisers	5 087 742	5 408 652
Loans to major corporate clients	2 264 052	2 436 093
Federal and state structure, local government	658 129	734 625
Factoring	55 074	52 895
Others	76 145	84 783
Gross loans and advances to legal entities	<u>8 141 142</u>	<u>8 717 048</u>
Gross loans and advances (before allowance for impairment)	<u>11 378 756</u>	<u>11 940 307</u>
Less: Allowance for impairment	<u>(1 881 719)</u>	<u>(1 527 643)</u>
Gross loans and advances	<u>9 497 037</u>	<u>10 412 664</u>

As of December 31, 2016, loans to customers included 2 customers with total debt (less provision for possible losses) of 10% or more of the Group's capital; total loan amount 970 428 (as of December 31, 2015: 6 customers for the total amount of 1 892 651).

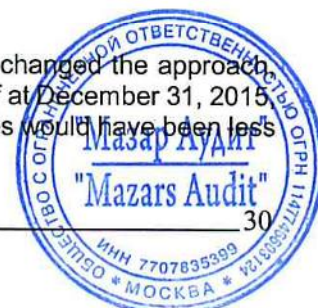
The cost of collateral accepted by the Group as collateral for loans granted was 12 103 820 (2015: 13 591 998).

As part of its activities, the Group sells mortgage loans granted to individuals to financial institutions: JSC Agency for Housing Mortgage Lending (53.53% of total sales for 2016), LLC Regional Investment Agency (19.66% of the total volume Sales for 2016), in 2016, the sale of mortgage loans of PJSC SCB Primorye Primotsbank (26.81% of the total sales for 2016) was also carried out.

The structure of the loan portfolio by industries of the economy is presented below.

Since the actual types of economic activities of borrowers in some cases differ from those officially registered, from December 31, 2016 the Group adopted a new approach: the industry of borrowers is determined based on the actual type of economic activity of borrowers when determining the amount of provisions for possible losses for jointly assessed loans to legal entities and sole proprietorship.

Impact of the change in approach: if as of December 31, 2016, the Group had not changed the approach, then the amount of provisions on possible losses would have been more by 23 526 (if at December 31, 2015 the Group had applied the new approach, the amount of provisions on possible losses would have been less by 239).



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

The table for December 31, 2016 presents a grouping of borrowers by industry based on the actual types of their economic activities.

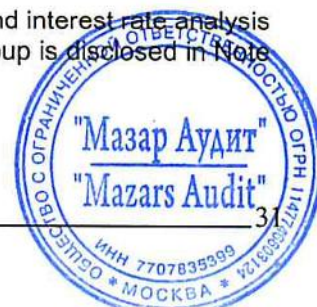
Industry	2016	
	Amount	Provision
Individuals	2 802 402	448 670
Industry	1 937 638	429 165
Agriculture	619 117	21 694
Construction	798 983	184 528
Trade	2 644 997	368 182
Transport and communication	336 114	181 444
Finance	18 014	2 869
Other	1 786 279	232 747
	10 943 544	1 869 299
Mortgages for sale	435 212	12 420
	11 378 756	1 881 719

Industry	2015	
	Amount	Provision
Individuals	2 765 736	418 147
Trade	2 709 171	340 627
Manufacturing industry	2 165 517	158 556
Construction	1 119 923	159 504
Municipal operation organs	734 625	34 228
Operations with immovable property, lease	547 660	122 858
Agriculture	415 080	25 645
Transport and communication	371 907	185 818
Production and distribution of electricity, gas and water	156 079	32 781
Light industry	113 087	3 393
Medicine and tourism	80 938	4 490
Hotels	75 292	7 336
Car manufacturing	66 837	2 009
Maintenance of residential properties	61 646	3 082
Timber	41 885	19 674
Financial	26 269	1 351
Social and personal services, culture	16 777	856
Fuel and energy sector	6 321	316
Chemical	2 914	87
Publishing	1 903	57
Polygraph	1 042	1 001
Professional legal assistance	1 007	1 007
Sport	660	33
Insurance	196	196
Education	174	9
Security services	138	7
	11 482 784	1 523 068
Mortgages for sale	457 523	4 575
	11 940 307	1 527 643

The current unimpaired loans include 224 loans for a total of 68 098 (as of December 31, 2015: 47 loans totalling 53 329), the terms of the contracts for which were revised, and which otherwise would be considered as overdue.

Information on movements in allowances for losses on loans and advances to customers is disclosed in Note 25.

Analysis of the loans and advances to customers by currency structure, maturity, and interest rate analysis are disclosed in Note 30. information on loans granted to related parties by the Group is disclosed in Note 32.



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

12. Net Investment in Financial Lease

	<u>2016</u>	<u>2015</u>
Minimum lease payments to be received	2 644	134 447
Less: future interest	<u>(182)</u>	<u>(23 018)</u>
	2 462	111 429
Less provision for losses	<u>(1 333)</u>	<u>(3 733)</u>
	<u>1 129</u>	<u>107 696</u>

Future minimum lease payments as of December 31, 2016 are distributed over time intervals as follows:

	<u>Minimum lease payments</u>	<u>Net present value of minimum lease payments</u>
No later than 1 year	2 644	2 462
Between 1 and 5 years	<u>-</u>	<u>-</u>
	<u>2 644</u>	<u>2 462</u>

Future minimum lease payments as of December 31, 2015 are distributed over time intervals as follows:

	<u>Minimum lease payments</u>	<u>Net present value of minimum lease payments</u>
No later than 1 year	78 853	62 836
Between 1 and 5 years	<u>55 594</u>	<u>48 593</u>
	<u>134 447</u>	<u>111 429</u>

13. Other Assets

	<u>2016</u>	<u>2015</u>
Accounts receivable and prepayments	76 856	69 694
Seized collateral	-	60 925
Settlements with the budget	6 042	14 206
Swap deals	1 134	-
Other	<u>4 206</u>	<u>8 212</u>
	<u>88 238</u>	<u>153 037</u>
Less: Provision for impairment	<u>(28 986)</u>	<u>(46 937)</u>
	<u>59 252</u>	<u>106 100</u>

Accounts receivable and prepayments include accounts receivable on credit card transactions.

As at December 31, 2016 the portion of the assets valued at 41 443 relating to "seized pledge" was reclassified to the Statement of Financial Position as non-current assets held to sale, Note 15.

As at 31 December 2016 accounts receivables and prepayments included receivables by two suppliers of properties according to agreements of financial lease with "Leasing-Hlynov" LLC on 19 217. The allowance for impairment was 100%.

As at December 31, 2015 the portion of the assets valued at 241 501 relating to "seized pledge" was reclassified to the Statement of Financial Position as non-current assets held to sale, Note 14.

Buildings and land, which were obtained by the Group as seized pledge in respect of making recoveries for its lending operations for a total of 37 774.

As at 31 December 2015 accounts receivables and prepayments included receivables by four suppliers of properties according to agreements of financial lease with "Leasing-Hlynov" LLC on 26 542. The allowance for impairment was 100%.



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

Movements in the allowance for impairment on other assets are disclosed in Note 25.
 Geographical, currency and maturity analyses of other assets are disclosed in Note 30.

14. Property, Plant and Equipment and Investment Property

	Land	Buildings	Vehicles	Office equipment and Other	Furniture and banking equipment	CIP	Total
Initial or estimated value							
As of December							
31, 2014	3 787	316 246	6 001	112 197	65 636	-	503 867
Additions	-	840	76	29 948	7 274	-	38 138
Transfer	-	-	-	3 465	(3 465)	-	-
Disposals	-	-	-	(870)	(1 956)	-	(2 826)
Revaluation	-	(8 466)	-	-	-	-	(8 466)
Modernization	-	-	-	-	-	-	-
As of December							
31, 2015	3 787	308 620	6 077	144 740	67 489	-	530 713
Additions	-	4 591	5 542	17 149	7 876	-	35 158
Transfer	-	13 070	-	-	-	-	13 070
Disposals	-	(2 183)	(4 018)	(16 678)	(23)	-	(22 902)
Revaluation	-	25 824	-	-	-	-	25 824
Modernization	-	3 009	-	-	300	-	3 309
As of December							
31, 2016	3 787	352 931	7 601	145 211	75 642	-	585 172
Depreciation							
As of December							
31, 2014	-	(26 418)	(3 984)	(61 739)	(45 020)	-	(137 161)
Charges for the year	-	(11 327)	(1 347)	(27 308)	(6 013)	-	(45 995)
Depreciation on revalued part	-	683	-	-	-	-	683
Disposals	-	-	-	870	1 891	-	2 761
As of December							
31, 2015	-	(37 062)	(5 331)	(88 177)	(49 142)	-	(179 712)
Charges for the year	-	(4 410)	(1 253)	(26 184)	(8 227)	-	(40 074)
Depreciation on revalued part	-	(4 399)	-	-	-	-	(4 399)
Disposals	-	-	3 777	16 512	67	-	20 356
As of December							
31, 2016	-	(45 871)	(2 807)	(97 849)	(57 302)	-	(203 829)
Residual value							
As of December							
31, 2016	3 787	307 060	4 794	47 362	18 340	-	381 343
As of December							
31, 2015	3 787	271 558	746	56 563	18 347	-	351 001
As of December							
31, 2014	3 787	289 828	2 017	50 458	20 616	-	366 706

Fixed assets are insured for a total of 50,154 (2015: 45,069).

As of December 31, 2016, the buildings and built-in premises owned and used by the Group have been revalued. The buildings and premises of the Group were evaluated by an independent appraiser "Vyatskoe Property Agency" on the basis of market (fair) value.



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

If the buildings and build-in premises had accounted at historical price, the carrying value of this assets would have been 203 429 (2015: 183 380).

As of December 31, 2016, fully depreciated items with a value of 96 057 (as of December 31, 2015: 90 427) are included in property, plant and equipment.

As of December 31, 2016, and December 31, 2015, the Group's fixed assets were not pledged.

	<u>Investment properties</u>
Initial or estimated value	
As of December 31, 2014	4 356
Additions	-
Transfer	241 501
Disposals	-
Revaluation	18 499
As of December 31, 2015	264 356
Additions	23 933
Transfer	(13 070)
Disposals	(62 352)
Revaluation	(24 472)
Modernization	4 087
As of December 31, 2016	192 482

Two independent appraisal companies - LLC "Vyatskoye Property Agency" and LLC EKF "Excon" - evaluated the fair value of Real estate temporarily unused in the core business, non-current assets intended for sale, labour items received under contracts of compensation, pledge, the appointment of which was not determined.

Accounting of investment property is carried at fair value, there are no depreciation charges.

Investment properties consist of 4 premises, 22 buildings, bus stop, transforming substation, railway, 16 land properties (2015: 7 premises, 26 buildings, bus stop, transforming substation, railway, 18 land properties); The objects are on the balance as seized pledge on the loan operations.

As of the reporting date, 1 premise, 6 buildings, 1 land property, bus stop, and transforming substation are leased to third parties.

In 2015 objects valued 241 501 were transferred from item "seized pledge" (sub-item of Other assets) to investment property. During the transformation the objects were revalued on 18 499 based on the market (fair) value.

The rental income from investment property was 1 025 (2015: 648). In 2016, operating expenses related to investment property amounted to 3 628 (2015: 654).

15. Non-current Assets Held for Sale

	<u>Non-current assets held for sale</u>
Initial or estimated value	
As of December 31, 2015	-
Additions	59 419
Transfer	41 443
Disposals	(30 680)
Revaluation	(11 772)
As of December 31, 2016	58 410
Less: Provision for losses	(896)
As of December 31, 2016	57 514



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

As of December 31, 2016, assets with a value of 41 443, that had related to Other assets were reclassified as non-current assets held for sale.

As of December 31, 2016, non-current assets held for sale included buildings and land properties that the Group that the Group seized for the purpose of reimbursement on the loan operations for a total of 57 362.

16. Due to Banks

	<u>2016</u>	<u>2015</u>
Current term loans and deposits from other banks	265 281	430 243
VOSTRO accounts	39	1 123
	<u>265 320</u>	<u>431 366</u>

As at 31.12.2016 and 31.12.2015 100% of the current term loans and deposits from other banks were represented by loans from OJSC "MSP Bank". Loans of OJSC "MSP Bank" are granted to finance lending to SMEs, providing the Bank meets the covenants of the rates of the funds, and of intended purpose utilization of the funds by SMEs (modernization of production, property, new equipment acquisition). Early termination of the loans is unlikely.

Geographical, currency, maturity and interest rate analyses of amounts due to banks are detailed in Note 30.

17. Customer Accounts

	<u>2016</u>	<u>2015</u>
Individuals		
Current accounts	1 601 716	1 015 819
Term deposits	9 896 679	9 162 827
	<u>11 498 395</u>	<u>10 178 646</u>
Other legal entities		
Current accounts	2 389 766	1 959 499
Term deposits	1 262 853	1 069 235
	<u>3 652 619</u>	<u>3 028 734</u>
State and Budget Organizations		
Current accounts	65 818	84 021
Term deposits	7 837	22 892
	<u>73 655</u>	<u>106 913</u>
	<u>15 224 669</u>	<u>13 314 293</u>

The breakdown of customer accounts per industry is presented in the following table:

In connection with the implementation of the new OKVED OK 029-2014, the data as of December 31, 2016 and as of December 31, 2015 are not partially comparable.

	<u>2016</u>	
	<u>Amount</u>	<u>%</u>
Individuals	11 498 395	75.5
Trade	1 121 938	7.4
Construction	628 592	4.1
Manufacturing industry	608 117	4.0
Transportation and storage	298 408	2.0
Professional, scientific and technical activities	258 866	1.7
Operations with real estate	186 888	1.2
Agriculture, forestry, hunting, fishing and fish farming	110 517	0.7
Information and communication activities	104 691	0.7
Water supply; Water disposal, organization of waste collection and disposal, pollution control activities	61 338	0.4
Activity of hotels and public catering establishments	48 501	0.3
Mining	47 751	0.3



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

Activities administrative and related additional services	47 021	0.3
Providing with electric energy, gas and steam; air conditioning	46 073	0.3
Financial and insurance activities	42 456	0.3
Education	30 337	0.2
Activities in the field of health and social services	29 740	0.2
Activities in the field of culture, sports, leisure and entertainment	7 073	0.1
Public administration and military security; social Security	1 671	0.0
Other	46 290	0.3
Total customer accounts	15 224 669	100.0

	2015	
	Amount	%
Individuals	10 178 646	76.5
Trade	950 363	7.1
Services	620 211	4.7
Industry	572 413	4.3
Construction	548 868	4.1
Transport and telecommunication	216 764	1.6
Agriculture	67 984	0.5
Financial	50 059	0.4
Health facilities	44 528	0.3
Education	20 045	0.2
Insurance	909	0.0
Fuel and energy	78	0.0
Other	43 425	0.3
Total customer accounts	13 314 293	100.0

On 31 December 2016 and on 31 December 2015 the Group did not have clients, who had balances on customer accounts in amount of 10% and more of Group's capital.

Analysis of geographical, currency, and maturity is disclosed in Note 30.

Balances of term deposits and current accounts of related parties are disclosed in Note 32.

18. Debt Securities Issued

	2016	2015
Promissory notes	10 552	18 594
	10 552	18 594

As of December 31, 2016, the promissory notes issued by the Bank were acquired by 62 investors, the maximum share of one investor in the total amount of issued bills is 13.24% (as of December 31, 2015: promissory notes were acquired by 52 investors, the maximum share of one investor in the total amount of promissory notes issued was 22.10%).

As at 31 December 2016 promissory notes issued in amount of 10 552 were used as guarantee of given by the Group bank guarantees (as at 31 December 2015: 18 594).

Analysis by currency structure and maturity, interest rate and geographical analysis of securities issued are disclosed in Note 30.

19. Taxation

The corporate income tax expense comprises:

	2016	2015
Current income tax expense	64 977	94 278

Translation from the original in Russian language.



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

Changes in deferred tax related to origination and write-off of temporary differences	(457)	(17 875)
	64 520	76 403

The corporation tax rate applicable to the majority of the Group's income was 20% for 2016 (2015: 20%).

The effective income tax rate differs from the statutory income tax rate. Comparison of the income tax expense based on comparison of statutory rate with actual is as follows:

	2016	2015
Profit before tax	416 703	325 396
Statutory tax rate	20%	20%
Theoretical income tax expense at the statutory rate	83 341	65 079
Tax on state securities income taxable at different rates	(2 596)	(3 103)
Non-taxable items	(16 225)	14 427
Income tax expense	64 520	76 403

Differences between IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial purposes and for income tax purposes. The tax effect of the movement on these temporary differences is recorded at the rate of 20% (2015: 20%).

Deferred tax assets and liabilities as of December 31, 2016 include the following elements:

Effect of deductible temporary differences	2016	Impact on equity	Impact on SOCI	2015
Assets				
Property, plant, and equipment	(35 184)	(4 426)	(8 987)	(21 771)
Financial assets at fair value through profit or loss	4 161	-	9 216	(5 055)
Financial assets available-for-sale	287	(3 000)	3 298	(11)
Financial assets held to maturity	(3 344)	-	864	(4 208)
Loans and advances to customers	8 014	-	(6 472)	14 486
Due from banks	-	-	4 521	(4 521)
Investments in financing leasing	7 297	-	2 359	4 938
Investment properties	5 258	-	9 413	(4 155)
Non-current assets held to sale	2 131	-	2 131	-
Accounts receivables	390	-	(2 615)	3 005
Liabilities				
Provisions for impairment on loans and promissory notes	7 147	-	(12 215)	19 362
Provisions for impairment on other assets	(11 784)	-	(2 093)	(9 691)
Other	18 860	-	1 037	17 823
	3 233	(7 426)	457	10 202

Deferred tax assets and liabilities as of December 31, 2015 include the following elements:

Effect of deductible temporary differences	2015	Impact on equity	Impact on SOCI	2014
Assets				
Property, plant, and equipment	(21 771)	(2 560)	5 519	(24 730)
Financial assets at fair value through profit or loss	(5 055)	-	(23 716)	18 661
Financial assets available-for-sale	(11)	5	(16)	-
Financial assets held to maturity	(4 208)	-	(3 966)	(42)
Loans and advances to customers	14 486	-	9 801	(5 315)
Due from banks	(4 521)	-	(4 521)	-
Investments in financing leasing	4 938	-	398	4 540

Translation from the original in Russian language.



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

Investment properties	(4 155)	-	(4 010)	(145)
Accounts receivables	3 005	-	1 511	1 494
Liabilities				
Provisions for impairment on loans and promissory notes	19 362	-	45 705	(26 343)
Provisions for impairment on other assets	(9 691)	-	(17 404)	7 713
Staff costs	-	-	(5 155)	5 155
Other	17 823	-	3 729	14 094
	10 202	(2 555)	17 875	(5 118)

20. Other Liabilities

	2016	2015
Accounts payables	42 144	42 763
Accounts payables to staff	40 059	27 050
Deferred income	29 169	61 175
Other borrowings	-	50 000
Settlements of budgetary payments	26 132	18 903
Deferred income on guarantees issued	929	8 501
Swap deals	-	2 111
Other	435	2 121
	138 868	212 624

Other borrowings are the loan of LLC "Leasing-Hlynov", received from LLC "Vytski Privoz" for 1 year, interest rate is 14%.

Geographical, currency and maturity analyses on other liabilities are disclosed in Note 30.

21. Share Capital

Statutory share capital authorised, issued and fully paid comprises:

	2016			2015		
	Number of shares ('000)	Par value	Value	Number of shares ('000)	Par value	Value
Common shares	12 100	0.05	605 000	12 100	0.05	605 000
Treasury shares			(6 915)			(6 915)
IAS 29 adjustments			22 198			22 198
Total share capital			620 283			620 283

All ordinary shares have a par value of RUB 50 (not thousands) per share, rank equally and carry one vote. In 2016, no dividends were declared (2015: no dividends).

In 2016 and 2015 the Group did not increase share capital.

In 2016 and in 2015, dividends were not declared and were not paid.

Shareholders of the Group were as follows:

Shareholder	2016	2015
	%	%
Rekha Holdings Limited	20.0	20.0
LLC "Strike"	10.0	10.0
LLC "Monolit"	10.0	10.0
Quest Advisory Restructing Ltd.	9.3	9.3
LLC "Avangard"	8.9	8.9

Translation from the original in Russian language.



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

LLC "Konkurent"	8.8	8.8
LLC "Norma"	8.4	8.4
LLC "Standart"	7.8	7.8
LLL "NTI"	6.6	6.6
Individuals with less than 5% each (132)	7.8	7.8
Legal entities with less than 5% each (14)	2.4	2.4
	100.0	100.0

The control of Rekha Holdings Limited was implemented by Renfin Limited Fund. Renfin Limited Fund consists of major quantity of institutional and particular investors.

22. Future Payments and Contingent Liabilities

Court cases

In the normal course of business, the Group is rarely subject to court cases and complaints. Management believes that the probable liabilities, that can be arise in a result of such cases or complaints, will not have material reverse effect on the financial position or results of the Group in the future.

Future payments on operating lease

The table below shows the minimum amount for operating leases where the Group acts as a lessee:

	2016	2015
Not later than 1 year	30 099	29 677
From 1 to 5 years	41 020	56 708
Later than 5 years	2 510	2 510
	73 629	88 895

Commitments on capital investments

As at 31 December 2016 and 31 December 2015 the Group had not entered into any capital investment commitments which would require disclosure or recognition in the consolidated financial statements.

Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required.

The Group is potentially exposed to the risk of incurring losses in an amount equal to the total amount of unused liabilities. However, the probable amount of losses is lower, since the customers usually abide by creditworthiness standards, described in the loan agreements.

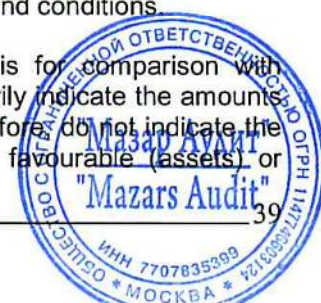
Credit related commitments comprise:

	2016	2015
Commitments on credit lines	660 115	689 448
Commitments on overdrafts	498 153	517 111
Guarantees issued	1 327 167	1 426 211
Unused Guarantee Limits	32 693	50 052
	2 518 128	2 682 822

Derivatives

Foreign exchange and other derivative financial instruments are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the Statement of Financial Position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

unfavourable (liabilities) as a result of fluctuations in market rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable and, thus, the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly over time.

As at 31 December 2016, the Group had 7 derivative financial instruments - swap deals and 2 conversion transactions after the reporting period (December 31, 2015: the Group 7 derivatives - swap deals)

	Notional amount		Fair value		CBRF ex-rate	
	31.12.16	31.12.15	31.12.16	31.12.15	31.12.16	31.12.15
USD/RUB (buy/sell)						
Less than one month	515 584	182 207	1 495	(1 240)	60.6569	72.8827
EUR/RUB						
Less than one month	153 147	119 546	(355)	(871)	63.8111	79.6972
CNY/RUB (CNY - Chinese Yuan)						
Less than one month	524	-	(8)	-	8.7282	11.2298
RUB/CYN						
Less than one month	271	-	2	-	8.7282	11.2298

As of December 31, 2016, the gross financial result of 1 134 is included in Gains less losses from transactions with foreign currencies in the Statement of Profit and Loss and Other Comprehensive Income and the claim of 1 134 is disclosed separately under Other assets in the Statement of Financial Position.

As of December 31, 2015, the gross financial result of (2 111) is included in Gains less losses from transactions with foreign currencies in the Statement of Profit and Loss and Other Comprehensive Income and the liability of 2 111 is disclosed separately under Other liabilities in the Statement of Financial Position.

23. Investment in Subsidiaries

As of December 31, 2016, and December 31, 2015, the Bank participated in the capital of "Leasing-Hlynov" LLC, the main activity of which is leasing services. The company operates in Russia. As of December 31, 2016, and December 31, 2015, the Group's interest in the subsidiary's capital was 100%.

24. Investment in Unconsolidated Structured Entities

In August 2014 LLC "Hlynov-Invest" was included in the Group as an unconsolidated structured entity, with the Bank's share of 19%. The Bank has significant influence over the entity and has no control. The core activity of LLC "Hlynov-Invest" are real estate transactions, including the enforcement of claims received from the Bank through novation agreements. The main source of financing of LLC "Hlynov-Invest" are loans from the Bank.

Due to the fact that the total assets of LLC "Hlynov-Invest" is less than 1% of the total assets of the Bank, the impact of the reported data of LLC "Hlynov-Invest" on the Group's consolidated financial statements found to be immaterial, so the company is not accounted for using the equity method and is not included in the consolidation perimeter.

Information about the carrying value of assets and liabilities, income and expenses of LLC "Hlynov-Invest", recognized in the consolidated financial statements of the Group is presented below:

Consolidated Statement of Financial Position as at 31 December 2016		Consolidated Statement of Profit or Loss and Other Comprehensive Income for the period ended 31 December 2016	
	31 December 2016		2016
Assets		Interest income	
Financial assets at fair value through profit or loss	2	Loans and advances to legal entities	1 196
Loans and advances to customers	-	Net interest income	1 196
Total assets	2	Provision for impairments on loans and advances to customers	9 884

Translation from the original in Russian language.



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

Consolidated Statement of Financial Position as at 31 December 2015		Consolidated Statement of Profit or Loss and Other Comprehensive Income for the period ended 31 December 2015	
		31 December 2015	2015
Assets			Interest income
Financial assets at fair value through profit or loss	2		Loans and advances to legal entities
Loans and advances to customers	-		
Total assets	2		Net interest income
			Provision for impairments on loans and advances to customers
Liabilities			Net interest income less after provision for losses
Customer accounts	625		Commission income less commission expenses
Total Liabilities	625		Other operation income
			Administrative and other operating expenses
Credit related commitments	22		Operating expenses
			Profit for the period
			Total comprehensive income for the year
			Net interest income less after provision for losses
			Commission income less commission expenses
			Other operation income
			Administrative and other operating expenses
			Operating gains and expenses
			Profit for the period
			Total comprehensive income for the year

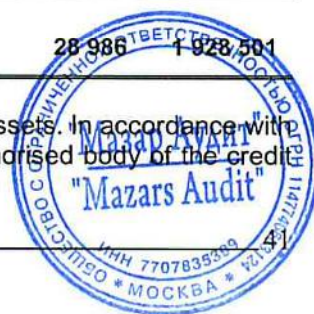
The Group is not exposed to any other risks other than credit risk in respect of LLC "Hlynov-Invest".

25. Allowance for Impairment

The movements in allowance for impairment of financial instruments were as follows:

	Due from Banks	Loans and advances to customers	Investments in lease	Non-current assets held for sale	Other assets	Total
As of December 31, 2014	9 311	1 034 214	843	-	43 274	1 087 642
Create a provision	6 256	512 462	2 890	-	5 166	526 774
Written-off against the provision	-	(19 033)	-	-	(1 503)	(20 536)
As of December 31, 2015	15 567	1 527 643	3 733	-	46 937	1 593 880
Create a provision	-	400 528	(2 400)	896	(17 314)	381 710
Written-off against the provision	-	(46 452)	-	-	(637)	(47 089)
As of December 31, 2016	15 567	1 881 719	1 333	896	28 986	1 928 501

Allowance for losses on debit balance sheet items are deducted from the related assets. In accordance with the Russian legislation, loans may only be written off with the approval of an authorised body of the credit institution and, in certain cases, based on the authorized government body



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

26. Income Less Expenses from Trading Securities

Income less expenses from trading securities comprises the following elements:

	<u>2016</u>	<u>2015</u>
Net revaluation of securities at fair value	26 365	95 907
Net income from the sale and redemption of securities	30 878	9 539
Other expenses from trading securities	<u>(7 809)</u>	<u>(1 015)</u>
	<u>49 434</u>	<u>104 431</u>

27. Commission Income and Expenses

	<u>2016</u>	<u>2015</u>
Commission income		
Commission from payment operations	252 529	193 853
Cash operations	118 473	115 373
Commission from transaction with plastic cards	77 239	51 643
Commission on guarantees issued	46 950	47 002
Commission from insurance companies	44 138	43 398
Commission from loans to customers	3 279	4 685
Commission from brokerage operations	1	-
Commission on other operations	16	1 117
Total commission income	<u>542 625</u>	<u>457 071</u>
Commission expense		
Commission from transaction with plastic cards	(96 259)	(47 711)
Commission from payment operations	(17 548)	(15 807)
Commission on collection	(7 119)	(6 540)
Insurance premium for creditors life insurance	(4 349)	(4 051)
Commission from interbank operations	(1 033)	(66)
Cash operations	(283)	(749)
Commission on transaction with securities	(37)	(450)
Total commission expenses	<u>(126 628)</u>	<u>(75 374)</u>
Income less expenses	<u>415 997</u>	<u>381 697</u>

28. Staff, Administration and Other Operating Costs

	<u>2016</u>	<u>2015</u>
Salary	(233 689)	(224 156)
Bonuses	(150 979)	(134 382)
Other long-term deferred payments	(8 548)	-
Social funds	<u>(110 127)</u>	<u>(98 761)</u>
	<u>(503 343)</u>	<u>(457 299)</u>
Acquisition and maintenance of software	(63 613)	(32 977)
Deposit insurance system payment	(50 152)	(39 064)
Taxes other than income tax	(33 332)	(27 877)
Buildings and land rent	(32 642)	(33 526)
Maintenance of building	(29 507)	(19 274)
Acquisition of stationery and PCs	(29 166)	(18 740)
Advertising and marketing	(24 484)	(23 523)
Postage, phone, and telegraph expenses	(18 625)	(13 624)
Repair of fixed assets	(15 493)	(16 045)
Maintenance of computer facilities and ATMs, vehicles, information services	(10 312)	(11 002)
Security	(8 651)	(9 938)
Manufacture, acquisition, forwarding of forms, printing expenses	(7 386)	(8 087)
Staff training, business trip and representative expenses	(6 943)	(6 092)
Net expenses related to the receipt and sale of collateral	(4 188)	(5 781)
Write-off of bad debts	(3 508)	(8)
State fee paid	(2 664)	(3 405)
Insurance of property	(978)	(539)
Rating assignment	(258)	(212)
Staff insurance	(106)	(104)
Other	<u>(39 116)</u>	<u>(17 771)</u>



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

(381 124)

(287 589)

29. Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument can be exchanged in the course of business between two willing 'arms' length' parties apart from forced liquidation. The best assurance of fair value is the market price of the financial instrument. The Group, in accordance with available market information and different methods of valuation, estimated the fair value of the financial instruments it holds. However, to interpret market information with the purpose of determining fair value it is necessary to exercise professional judgment.

Although, for estimating the fair value of financial instruments, management uses the most up to date market information, it may not always represent the value that can be realized in current conditions.

Financial instruments held at fair value

Cash and cash equivalents and financial assets and liabilities measured at fair value through profit or loss are reflected in the statement of financial position at fair value.

For some securities, external market quotes are not available. The fair value of such assets was measured according to the results of recent sale of shares to third parties, analysis of other information such as discounted cash flows and the financial information of companies as well as other methods of estimation.

Due from financial institutions

The fair value of funds deposited under a floating rate is equal to their carrying value. Fair value of funds deposited under a fixed rate is estimated based on the discounted cash flows using the market interest rates of the stock exchange of cash instruments for the instruments with similar level of credit risk and maturity. The Management considers that the fair value of due from financial institutions does not differ from their book value as at 31 December 2016 and 31 December 2015. This is explained by an existing practice of revising the interest rates to reflect current market conditions, because of which, interest on the majority of balances are accrued under market interest rates.

Loans and advances to customers

Loans and advances to customers are recorded net of allowance for impairment. The estimated fair value of loans and advances to customers represents the discounted amount of future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value. The Management considers that the fair value of loans and advances to customers did not differ significantly from their book value as at 31 December 2016 and 31 December 2015. This is explained by an existing practice of revising the interest rates to reflect current market conditions, therefore interest on the majority of balances are accrued under market interest rates.

Liabilities at amortized cost

The fair value of instruments with market value is based on market quotes. The fair value of instruments with uncertain maturity date is the amount repayable on demand. The fair value of instruments with fixed interest rate without market value is based on discounted cash flows calculated using interest rates of new instruments with similar credit risk and maturity date.



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

30. Financial Risk Management

Information Notes 30, 31, 33 presented including the requirements of Indication of Bank of Russia from 03 Dec 2015 No. 3876-U "On the forms, procedure and terms of disclosure of parent credit institutions of banking groups of information on risks taken, the procedures for their assessment, risk management and capital" (hereinafter – the Indication 3876-U).

Information in accordance with the requirements of 1.1. Indication 3876-U

Information from the consolidated financial statements as at 31 December 2016¹ and consolidated accounts and other information on January 01, 2017²

№	Article's name	Information from consolidated financial reporting		"Information from consolidated accounts and other information on the activities of the banking group"		Identification code
		the line number	Information on the reporting date, KRUB.	the line number in the form 040980 2	Information on the reporting date, KRUB.	
1	2	3	4	5	6	7
Assets						
1.	Cash and Mandatory Balances with the CBRF	1,2	1 840 320	1, 2	1 272 407	
2.	Due from Banks	3	1 550 230	3	636 476	
3.	Financial assets at fair value through profit or loss:	4	3 715 230	4	3 140 019	
3.1.	derivative financial instruments		0	4.1	0	
3.2.	other financial assets held for trading		3 715 230	4.2	3 140 019	
4.	Credits (loans) to Banks			6.1	1 452 682	
5.	Loans to legal entities (non-Banks) and individuals	7	9 497 037	6.2	9 290 311	
6.	Net Investment in Financial Lease	8	1 129		0	
7.	Financial assets at fair value through profit or loss, transferred without derecognition		0	5	0	
8.	Financial assets available-for-sale	5	1 241 475	7	1 365 260	
9.	Deferred tax asset	9	3 233	12	13 588	
10.	Assets and groups of assets held for sale and other assets	10, 13	116 766	13, 14	198 709	
11.	Financial assets held to maturity	6	0	9	445 855	
12.	Investment in subsidiaries		0	8	0	
13.	Goodwill and intangible assets:	11	36 624	11	24 221	
13.1.	Goodwill		0	11.1		
13.2.	Intangible assets (except for the rights to service mortgage loans)	11	36 624	11.2	24 221	
13.3.	the rights to service mortgage loans		0	11.3		
14.	Fixed assets and inventories	11	344 719	10	355 090	
15.	Investment properties	12	192 482	10.1	192 482	
16.	Total Assets	14	18 539 245	15	18 387 100	
Liabilities						
17.	Central bank's deposits			16		
18.	Due to Banks	15	265 320	17	265 320	
19.	Customer Accounts (non-Banks)	16	15 224 669	18	15 224 648	
20.	Liabilities to deliver securities and to return collateral sold		0		0	

¹ Consolidated statement of financial position at 31 December 2016, as presented in these financial statements
² The consolidated balance sheet as of 01 January 2017, drawn up in accordance with Russian accounting standards (reporting form 0409802, the Bank of Russia dated 12 November 2009 No. 2332-U)



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

21.	Financial liabilities at fair value through profit or loss		0	19	0	
21.1.	derivative financial instruments		0	19.1	0	
21.2.	other financial liabilities held for trading		0	19.2	0	
22.	Debt Securities Issued	17	10 552	20	10 632	
23.	Other liabilities	18	138 868	22, 23	88 008	
24.	Deferred Tax Liability		0	21	23 588	
24.1.	Deferred Tax Liability, associated with the occurrence of goodwill		0	21.2		
24.2.	Deferred Tax Liability, associated with the recognition of intangible assets (excluding the rights to service mortgage loans)		15 243	21.3	5 404	
24.3.	Deferred Tax Liability, associated with the recognition of rights to service mortgage loans		0	21.4		
24.4.	Subordinated loan		0			
25.	Provisions for possible losses		0	24	111 620	
26.	Obligations on pensions		0			
27.	Total Liabilities	19	15 639 409	25	15 723 816	
Equity						
28.	Share capital	20	620 283	26	598 085	
28.1.	the base capital		605 510	26.1	583 312	
28.2.	additional capital					
28.3.	additional paid-in capital		14 773		14 773	
29.	Retained Earnings	21	2 172 081	33	1 880 070	
30.	Other comprehensive income and other components of equity	22,23	107 472	29, 30, 31, 32, 34	185 129	
31.	Total Equity	24	2 899 836	36	2 663 284	

Translation from the original in Russian language.



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

Information in accordance with the requirements of 1.2. Indication 3876-U

Territory code according to OKATO	Code of credit institution (branch)	
	to OKPO	registration number (/serial number)
33	10919075	254

Bank statements

A REPORT ON THE CAPITAL ADEQUACY
TO COVER THE RISK, SIZE OF RESERVES FOR POSSIBLE
LOSSES ON LOANS AND OTHER ASSETS
(published form)

on 01 Jan 2017

Parent credit institution of a banking group

Hlynov Commercial Bank (Joint Stock Company) Group

(full corporate and abbreviated corporate names)

Postal address

610002, Kirov region, Kirov, street Uritsky, d. 40

Form code on OKUD 0409808

Quarterly (Annual)

Section 1. Information about the capital adequacy

(KRUB)

line number	The name of the tools (indicator)	Explanations number	The value of the instrument (the value index) at the reporting date		The value of the instrument (the indicator) at the beginning of year	
			to be included in the calculation of capital	not included in the calculation of capital in the period up to 1 January 2018	to be included in the calculation of capital	not included in the calculation of capital in the period up to 1 January 2018
1	2	3	4	5	6	7
Sources of core capital						
1	Share capital and equity income, total, including formed by:		590 327	X	590 327	X
1.1	ordinary shares (shares)		590 327	X	590 327	X
1.2	preferred shares		0	X	0	X
2	Retained earnings:		1 605 734	X	1 416 268	X
2.1	past years		1 616 612	X	1 449 586	X
2.2	the reporting year		-10 878	X	-33 318	X
3	Reserve Fund		90 775	X	90 775	X
4	Shares of the share capital, subject to phase-out exclusion from the calculation of own funds (capital)		0	X	0	X
5	Tools equity of subsidiaries belonging to third parties		0	0	0	0
6	Total sources of share capital (line 1 +/- line 2 + line 3 - line 4 + line 5)		2 286 836	X	2 097 370	X
Indices, decreasing sources of share capital						
7	Adjustment of the trading portfolio		0	0	0	0
8	Goodwill, net of deferred tax liabilities		0	0	0	0
9	Intangible assets (excluding goodwill and amounts of the rights to service mortgage loans), net of deferred tax liabilities		14 533	9 688	5	7
10	deferred tax asset dependent on future profits		7 015	4 676	0	0
11	Reserves cash flow hedge		0	0	0	0
12	not fully established reserves for possible losses		0	0	0	0
13	Income from securitizations		0	0	0	0
14	Income and expenses related to the change in credit risk on liabilities measured at fair value		0	0	0	0

Translation from the original in Russian language.



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

15	The pension plan assets defined benefit		0	0	0	0
16	Investments in own shares		0	0	0	0
17	Cross-ownership of shares		7 015	0	7 015	0
18	Insignificant investments in equity instruments of financial institutions		0	0	0	0
19	Significant investments in the core capital instruments of financial institutions		0	0	0	0
20	The rights to service mortgage loans		0	0	0	0
21	Deferred tax assets not dependent on future profits		0	0	0	0
22	Total amount of significant investments and deferred tax assets in the part exceeding 15 percent of the value of basic capital, including:		0	0	0	0
23	significant investments in the base capital instruments of financial institutions		0	0	0	0
24	the rights to service mortgage loans		0	0	0	0
25	Deferred tax assets not dependent on future profits		0	0	0	0
26	Total amount of other indicators that reduce the sources of base capital set by the Bank of Russia, including:		0	0	0	0
26.1	indicators to be gradual exclusion from the calculation of own funds (equity)		0	X	0	X
27	The negative value of additional capital		9 688	X	7	X
28	Total indicators that reduce the sources of base capital (sum of lines 7 to 22 and lines 26 and 27)		38 251	X	7 027	X
29	Total base capital (line 6 - line 28)		2 248 585	X	2 090 343	X
Sources of additional capital						
30	Total amount of instruments additional capital and share premium, including:		0	X	0	X
31	classified as equity		0	X	0	X
32	classified as liabilities		0	X	0	X
33	Instruments of additional capital subject to phase-out exclusion from the calculation of own funds (equity)		0	X	0	X
34	Total instruments of additional capital of subsidiaries belonging to third parties, including:		0	X	0	X
35	Instruments of additional capital of subsidiaries subject to phase-out exclusion from the calculation of own funds (equity)		0	X	0	X
36	Total sources of additional capital (line 30 + line 33 + line 34)		0	X	0	X
Indices, decreasing sources of additional capital						
37	Investments in own instruments of additional capital		0	0	0	0
38	reciprocal cross-ownership instruments additional capital		0	0	0	0
39	Insignificant investment in the instruments of additional capital of financial organizations		0	0	0	0
40	Significant investment in the instruments of additional capital of financial organizations		0	0	0	0
41	Total other indicators that reduce the sources of additional capital set by the Bank of Russia, including:		9 688	X	7	X
41.1	Total amount of indicators to be gradual exclusion from the calculation of own funds (equity), including:		9 688	X	7	X
41.1.1	intangible assets		9 688	X	7	X
41.1.2	own stocks (shares), redeemed (repurchased) from shareholders (participants)		0	X	0	X
41.1.3	shares (stakes) of subsidiaries and dependent financial organizations and credit organizations - residents		0	X	0	X
41.1.4	sources of own funds, created using improper assets		0	X	0	X

Translation from the original in Russian language.



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

41.1.5	the negative value of additional capital formed in connection with the adjustment of the amount of own funds (equity) in the amount of sources of additional capital formed by investors using improper assets		0	X	0	X
42	The negative value of additional capital		0	X	0	X
43	Total indices, decreasing sources additional capital (sum of lines 37 through 42)		9 688	X	7	X
44	Total additional capital (line 36 - line 43)		0	X	0	X
45	Total fixed capital (line 29 + line 44)		2 248 585	X	2 090 343	X
Sources of additional paid-in capital						
46	Instruments of additional paid-in capital and share premium		352 720	X	285 528	X
47	Instruments of additional paid-in capital, subject to phase-out exclusion from the calculation of own funds (equity)		0	X	0	X
48	Tools additional paid-in capital of subsidiaries belonging to third parties, including:		0	X	0	X
49	instruments of additional paid-in capital of the subsidiaries subject to phase-out exclusion from the calculation of own funds (equity)		0	X	0	X
50	Reserves for possible losses		0	X	0	X
51	Total sources of additional paid-in capital (line 46 + line 47 + line 48 + line 50)		352 720	X	285 528	X
Indicators reducing the sources of additional paid-in capital						
52	Investments in own instruments of additional paid-in capital		0	0	0	0
53	Mutual cross-ownership instruments of additional paid-in capital		0	0	0	0
54	Insignificant investments in instruments of additional paid-in capital of financial institutions		0	0	0	0
55	significant investment in additional paid-in capital instruments of financial institutions		0	0	0	0
56	Total other indicators reducing sources of additional paid-in capital set by the Bank of Russia, including:		719	X	1 782	X
56.1	indicators to be gradual exclusion from the calculation of own funds (equity), all of them:		288	X	1 069	X
56.1.1	sources of capital for formation of which investors used improper assets		0	X	0	X
56.1.2	overdue receivables with a duration exceeding 30 calendar days		288	X	1 069	X
56.1.3	subordinated loans granted to credit institutions - resident		0	X	0	X
56.1.4	the excess of the total amount of loans, Bank guarantees and sureties provided to its shareholders (participants) and insiders over its maximum size		0	X	0	X
56.1.5	investments in construction and acquisition of fixed assets and inventories		0	X	0	X
56.1.6	the difference between the fair value of the share due to out-of-society parties, and the amount at which the share was implemented to another participant		0	X	0	X
57	Total indicators reducing the sources of additional paid-in capital (sum of lines 52 to 56)		719	X	1 782	X
58	Total additional paid-in capital (line 51 - line 57)		352 001	X	283 746	X
59	Total own funds (equity) (line 45 + line 58)		2 600 586	X	2 374 089	X
60	Assets weighted by risk level:		X	X		X
60.1	subject to phase-out exclusion from the calculation of own funds (equity)		0	X	0	X
60.2	necessary to determine the adequacy of base capital		19 747 804	X	18 368 584	X
60.3	needed to determine fixed capital adequacy		19 747 804	X	18 368 584	X

Translation from the original in Russian language.



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

60.4	necessary to determine the adequacy of own funds (equity)		19 840 632	X	18 460 819	X
The adequacy of own funds (equity) and allowances to the adequacy of own funds (equity), %						
61	Adequacy base capital (line 29: line 60.2)		11,39	X	11,38	X
62	Adequacy fixed capital (line 45: line 60.3)		11,39	X	11,38	X
63	Adequacy of own funds (equity) (line 59: line 60.4)		13,11	X	12,86	X
64	Total allowances to the adequacy of own funds (equity), including:		5,75	X	not available	X
65	premium maintain capital adequacy		1,25	X	not available	X
66	counter-cyclical premium		0	X	not available	X
67	surcharge for systemic importance of banks		not available	X	not available	X
68	The base capital available for the maintenance allowances to the adequacy of own funds (equity)		5,1074	X	not available	X
Adequacy of own funds (equity), %						
69	Adequacy ratio base capital		4,5	X	5	X
70	Adequacy ratio fixed capital		6	X	6	X
71	Adequacy ratio of own funds (equity)		8	X	10	X
The indicators adopted in the reduction of sources of capital, not exceeding the established materiality thresholds						
72	Insignificant investments in equity instruments of financial institutions		1 111	X	1 188	X
73	Significant investments in the capital instruments of financial institutions		0	X	0	X
74	The rights to service mortgage loans		0	X	0	X
75	Deferred tax assets not dependent on future profits		0	X	0	X
Restrictions on inclusion in the calculation of the additional paid-in capital reserves for possible losses						
76	The provisions for losses included in the calculation of additional paid-in capital, in respect to the items to calculate credit risk, which applies the standardized approach		0	X	0	X
77	Restrictions on inclusion in the calculation of the additional paid-in capital sums of provisions for possible losses when using a standardized approach		0	X	0	X
78	The provisions for losses included in the calculation of additional paid-in capital, in respect to the items to calculate credit risk, which applies an approach based on internal models		0	X	0	X
79	Restrictions on inclusion in the calculation of the additional paid-in capital sums of provisions for possible losses when using the approach based on internal models		0	X	0	X
Instruments subject to phase-out exclusion from the calculation of own funds (equity) (applicable from 1 January 2018 and 1 January 2022)						
80	The current limitation to the inclusion in the composition of the sources of base capital instruments subject to phase-out exclusion from the calculation of own funds (equity)		not available	X	not available	X
81	Some tools not included in the basic sources of capital due to restrictions		not available	X	not available	X
82	The current limitation to the inclusion in the composition of the sources of additional capital instruments subject to phase-out exclusion from the calculation of own funds (equity)		not available	X	not available	X
83	Some tools not included in the sources of additional capital due to restrictions		not available	X	not available	X
84	The current limitation to the inclusion in the composition of the sources of additional paid-in		not available	X	not available	X

Translation from the original in Russian language.



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

	capital instruments subject to phase-out exclusion from the calculation of own funds (equity)					
85	Some tools not included in the sources of additional paid-in capital due to restrictions		not available	X	not available	X

Note.

Information about the data of the balance sheet, which is the source for the compilation of section 1 of the Report in this note on page 56.

Section 2. Information on the size of the credit, operational and market risks borne by capital

Subsection 2.1. Credit risk in using standardized approach

(KRUB)

line number	Name of the indicator	Explanations number	Information on the reporting date			Information on the beginning of the reporting year		
			The value of the assets (tools), estimated by the standardized approach	Assets (tools), net of provisions for possible losses	The value of the assets (tools) risk-weighted	The value of the assets (tools), estimated by the standardized approach	Assets (tools), net of provisions for possible losses	The value of the assets (tools) risk-weighted
1	2	3	4	5	6	7	8	9
1	Credit risk on assets reflected in the balance sheet		13 150 840	11 479 465	8 999 443	14 211 133	12 821 438	10 318 489
1.1	Total assets with a risk ratio <1> 0 percent, including:		1 333 047	1 333 047	0	1 185 118	1 185 118	0
1.1.1	Cash and Mandatory Balances with the CBRF		1 333 047	1 333 047	0	1 185 118	1 185 118	0
1.1.2	credit requirements and other requirements are secured by guarantees of the Russian Federation, the Ministry of Finance and the Bank of Russia and collateral of public debt securities of the Russian Federation, the Ministry of Finance and the Bank of Russia		0	0	0	0	0	0
1.1.3	credit requirements and other requirements to Central banks or governments of countries with country rating "0", "1" <2>, including secured by guarantees issued by these countries		0	0	0	0	0	0
1.2	Total assets with a risk weighting of 20 percent, including:		1 448 065	1 433 719	286 744	1 502 233	1 495 962	299 192
1.2.1	credit requirements and other requirements to subjects of the Russian Federation, municipalities, and other organizations secured by the guarantees and securities of constituent entities of the Russian Federation and municipal formations		826 833	812 535	162 507	884 497	878 227	175 645
1.2.2	credit requirements and other requirements to Central banks or governments of countries with country rating of "2", including secured guarantees (collateral securities)		0	0	0	0	0	0

Translation from the original in Russian language.



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

1.2.3	credit requirements and other requirements to the credit organizations - residents of countries with country rating of "0", "1", having a long-term credit rating of <3>, including secured guarantees	10 461	10 461	2 092	154 664	154 664	30 933
1.3	Total assets with a risk coefficient of 50 percent, including:	0	0	0	243 499	242 122	121 061
1.3.1	credit requirements and other requirements in foreign currency secured by guarantees of the Russian Federation, the Ministry of Finance and the Bank of Russia and collateral of public debt securities of the Russian Federation, the Ministry of Finance and the Bank of Russia denominated in foreign currency	0	0	0	0	0	0
1.3.2	credit requirements and other requirements to Central banks or governments of countries with country rating of "3", including secured guarantees (collateral securities)	0	0	0	0	0	0
1.3.3	credit requirements and other requirements to the credit organizations - residents of countries with country rating of "0", "1", not having the ratings long-term credit and to the credit organizations - residents of countries with country rating of "2", including secured guarantees	0	0	0	0	0	0
1.4	Total assets with a risk weight of 100 percent, including:	10 369 728	8 712 699	8 712 699	11 280 283	9 898 236	9 898 236
1.4.1	loan indebtedness of legal entities and individuals	9 258 416	7 730 134	7 730 134	10 128 724	8 857 348	8 857 348
1.4.2	investments in securities of legal entities and credit institutions	233 046	232 726	232 726	387 840	386 668	386 668
1.5	Assets with a risk weight of 150 percent - credit requirements and other requirements to Central banks or governments of countries with country rating of "7"	0	0	0	0	0	0
2	Total assets and other risk factors, including:	X	X	X	X	X	X
2.1	Total low-risk factors, including:	1 193 520	1 193 520	238 704	0	0	0
2.1.1	mortgage loans with risk weight of 50 percent	0	0	0	0	0	0
2.1.2	mortgage loans with risk weight of 70 percent	0	0	0	0	0	0
2.1.3	requirements of clearing participants	1 193 520	1 193 520	238 704	0	0	0
2.2	Total with elevated risk factors, including:	1 409 916	1 131 580	1 604 602	1 264 457	1 025 807	1 462 175
2.2.1	with a risk ratio of 110 percent	0	0	0	0	0	0
2.2.2	with a risk ratio of 130 percent	534 342	463 846	603 000	448 763	382 671	497 472
2.2.3	with a risk ratio of 150 percent	875 574	667 734	1 001 602	815 694	643 136	964 703
2.2.4	with a risk ratio of 250 percent	0	0	0	0	0	0

Translation from the original in Russian language.



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

2.2.5	Total with a risk ratio of 250 percent, including:	0	0	0	0	0	0
2.2.5.1	for transactions involving the assignment of mortgage agents or specialized companies cash requirements, including the certified mortgage	0	0	0	0	0	0
3	Total loans for consumer purposes, including:	48 060	34 531	40 747	25 658	17 897	25 135
3.1	with a risk ratio of 140 percent	18 150	8 929	12 500	25 546	17 848	24 987
3.2	with a risk ratio of 170 percent	0	0	0	0	0	0
3.3	with a risk ratio of 200 percent	0	0	0	0	0	0
3.4	with a risk ratio of 300 percent	114	44	134	112	49	148
3.5	with a risk ratio of 600 percent	0	0	0	0	0	0
4	Total credit risk on contingent liabilities of credit nature, including:	2 518 128	2 406 508	1 454 496	2 690 925	2 610 602	1 598 508
4.1	on financial instruments with a high risk	1 359 859	1 304 366	1 305 821	1 476 263	1 444 657	1 446 112
4.2	on financial instruments, medium risk	318 198	296 754	148 675	319 324	301 523	150 968
4.3	for financial instruments with low risk	0	0	0	7 297	7 024	1 428
4.4	for financial instruments with no risk	840 071	805 388	0	888 041	857 398	0
5	The credit risk on derivative financial instruments	0	X	0	0	X	0

<1> Classification of assets by risk groups produced in accordance with paragraph 2.3 of Bank of Russia Instruction No. 139-I.

<2> Country assessment is given in accordance with the classification of the export credit agencies participating in the Agreement of member countries of the Organization for economic cooperation and development (OECD), "main principles of providing and using export credits with official support" (information about country assessments are published on the official website of the Bank of Russia in its information-a telecommunication network "the Internet" in the section "Banking supervision").

<3> Ratings of the long-term creditworthiness of the credit institution are determined based on rated by international rating agencies ratings: Standard & Poor's or Fitch Ratings or Moody's Investors Service.

Subsection 2.2. Operational risk

(KRUB(number))

line number	Name of the indicator	Explanations number	Information on the reporting date	Information on the beginning of the reporting year
1	2	3	4	5
6	Total operational risk, including:		226 343	176 987
6.1	Total income for the purposes of calculation of capital to cover operational risk, including:		1 508 950	1 179 912
6.1.1	net interest income		862 740	744 263
6.1.2	net non-interest income		646 210	435 649
6.1.3	number of years preceding the date of calculation of the operational risk		3	3

Subsection 2.3. Market risk

(KRUB)

line number	Name of the indicator	Explanations number	Information on the reporting date	Information on the beginning of the reporting year
1	2	3	4	5
7	Total market risk, including:		4 673 352	2 844 174
7.1	Total interest rate risk, including:		366 415	227 039
7.1.1	Common		70 796	20 419
7.1.2	Special		295 618	206 620
7.1.3	gamma risk and VEGA risk on options are included in the calculation of interest rate risk		0	0

Translation from the original in Russian language.



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

7.2	Total equity risk, including:		522	495
7.2.1	Common		261	248
7.2.2	Special		261	248
7.2.3	gamma risk and VEGA risk on options are included in the calculation of the equity risk		0	0
7.3	Total foreign currency risk, including:		0	0
7.3.1	gamma risk and VEGA risk on options are included in the calculation of the foreign currency risk		0	0
7.4	Total commodity risk, including:		6 932	0
7.4.1	the main commodity risk		5 777	0
7.4.2	additional commodity risk		1 155	0
7.4.3	gamma risk and VEGA risk on options are included in the calculation of the commodity risk		0	0

Section 3. Information on the amount of provisions for possible losses on loans and other assets

(KRUB)

line number	Name of the indicator	Explanations number	Information on the reporting date	Increase (+) / decrease (-) during the reporting period	Information on the beginning of the reporting year
1	2	3	4	5	6
1	Total actually formed provisions on possible losses, including:		2 064 332	397 861	1 666 471
1.1	on loans, loan and similar debt		1 884 073	389 857	1 494 216
1.2	other assets for which there is a risk of incurring losses, and other losses		68 835	-27 230	96 065
1.3	contingent credit related commitments and securities, the rights for which are certified by the depositories that do not meet the criteria of the Bank of Russia, reflected on off-balance accounts		111 424	35 234	76 190
1.4	for operations with residents of offshore zones		0	0	0

Section 4. Information about financial leverage

line number	Name of the tool	Explanations number	Information on the reporting date	The value on the date apart one a quarter from reporting	The value on the date apart two quarters from reporting	The value on the date apart three quarters from reporting
1	2	3	4	5	6	7
1	Fixed capital, KRUB		2 248 585	2 254 568	2 259 353	
2	The value of balance sheet assets and off-balance sheet requirements under the risk to calculate the financial leverage, KRUB		20 353 570	19 725 130	18 763 468	
3	Financial leverage for "Basel III", %		11.05	11.43	12.04	

Section 5. Key features of the equity instruments

line number	The name of the tool features	Description of tool features
1	2	3
1	Abbreviated name of the Issuer of the capital instruments	1-credit institution-resident 254 CB Hlynov
2	The identification number of the tool	2.01 10100254B
3	Applicable law	643 RUSSIA
Regulatory environment		
4	The level of capital, which includes the tool during the transition period of "Basel III"	4.01 not available
5	The level of capital, which includes the tool after the end of transition period of "Basel III"	5.01 base capital 5.02 additional paid-in capital

Translation from the original in Russian language.



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

6	The level of consolidation at which the instrument is included in equity	6.01 on an individual basis and the level of the banking group
7	Tool type	7.01 ordinary shares
8	The value of the instrument included in the calculation of equity	8.01 598 085 KRUB
9	The nominal value of the instrument	643 598 085 RUSSIAN RUBLE
10	The classification of the instrument for accounting purposes	10.01 Share capital
11	Date of issue (engagement location) tool	11.01 13.02.1995 11.02 27.10.1995 11.03 31.12.1997 11.04 15.12.1998 11.05 15.08.1999 11.06 20.07.2000 11.07 14.08.2000 11.08 03.07.2001 11.09 12.11.2001 11.10 12.03.2002 11.11 19.06.2002 11.12 23.06.2003 11.13 26.05.2004 11.14 25.11.2004 11.15 16.06.2005 11.16 07.12.2005 11.17 10.08.2005 11.18 27.12.2006 11.19 29.10.2007 11.20 04.05.2008
12	The availability of period for the instrument	12.01 indefinite
13	The maturity date of the instrument	13.01 without limitation of the period
14	The existence of the right of early redemption (repayment) of the instrument agreed with the Bank of Russia	14.01 no
15	Initial date (dates) of the possible implementation of the right of early redemption (repayment) of the instrument, the conditions of implementation of such right and the amount of repayment (redemption)	15.01 not available
16	Subsequent date (dates) of implementation of the right of early redemption (repayment) tool	16.01 not available
Interest/dividends/coupon yield		
17	The type of rate on the tool	17.01 not available
18	Rate	18.01 not available
19	The conditions for termination of the payment of dividends on ordinary shares	19.01 not available
20	Mandatory dividend	20.01 completely at the discretion of the parent credit institution and (or) participant of the banking group
21	Conditions providing increase of payments on the instrument or other incentives for early redemption (maturity) of the instrument	21.01 no
22	The nature of the payments	22.01 non-cumulative
23	The convertibility of the tool	23.01 nonconvertible
24	Conditions, upon the occurrence of which is the conversion tool	24.01 not available
25	Full or partial conversion	25.01 not available
26	Conversion rate	26.01 not available
27	Mandatory conversion	27.01 not available
28	The level of capital, in which tool is converted tool	28.01 not available
29	Abbreviated name of the Issuer of the instrument, in which is converted tool	29.01 not available
30	Deductibility of the instrument to cover losses	30.01 not available
31	Conditions, upon the occurrence of which the bank write off the tool	31.01 not available
32	Full or partial write-off	32.01 not available
33	Permanent or temporary write-off	33.01 not available
34	The recovery mechanism	34.01 not available
35	Subordinated instrument	35.01 not available
36	Compliance with the Regulations of the Bank of Russia No. 395-P and N 509-P	36.01 yes
37	Description of inconsistencies	37.01 not available

Translation from the original in Russian language.



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

The Section "Reference".

Information about the movement in the provisions for possible losses on loans, loan and similar debt.

1. Formation (additional crediting) of reserve during the reporting period (KRUB),	
Total	4 230 313 , including:
1.1. loan	1 893 315 ;
1.2. changes in the quality of loans	1 782 716 ;
1.3. change of the official exchange rate of foreign currency against ruble established by the Bank of Russia,	0 ;
1.4. other reasons	554 282 .
2. Recovery (decrease) of reserve during the reporting period (KRUB),	
Total	3 840 456 , including:
2.1. writing off bad loans	46 452 ;
2.2. repayment of loans	1 951 858 ;
2.3. changes in the quality	1 474 946 ;
2.4. change of the official exchange rate of foreign currency against ruble, established by the Bank of Russia,	0 ;
2.5. other reasons	367 200 .

Chairman of the Executive Board



I.P. Prozorov

Chief accountant

S.V. Shamseeva

the contractor
 Scaredina N. Sh.
 Tel: 252-777 (1162)

28.04.2017



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

Comparative information on the main items of own funds (equity) of the Bank group, indicators reducing their value and the corresponding indicators that are included in the consolidated accounts as of 01.01.2017

№	Consolidated balance sheet (form 0409802)			Report on the level of capital adequacy (section 1 of the form 0409808)		
	The name of the item	line number	Information on the reporting date	Name of the tool	line number	Information on the reporting date
1	2	3	4	5	6	7
1	Total "Funds of shareholders (participants)", "Share premium", including:	26,27	598 085	X	X	X
1.1	related to the underlying capital	X	583 312	"Total share capital and share premium, including formed: " minus line "Cross-ownership of shares (shares)"	1, 17	583 312
1.2	classified in additional capital	X	0	Instruments of additional capital and share premium classified as equity	31	0
1.3	classified in additional paid-in capital	X	14 773	"Instruments of additional paid-in capital and share premium"	46	14 773
2	Total "Due to Banks", "Customer Accounts (non-Banks)", including:	17,18	15 489 968	X	X	X
2.1	subordinated loans are allocated to the additional capital	X	0	Instruments of additional capital and share premium, classified as liabilities	32	0
2.2	subordinated loans are allocated to the additional paid-in capital	X	X	Total "Instruments of additional paid-in capital and share premium"	46	0
2.2.1				including: subordinated loans	X	0
3	Total "Fixed assets and inventories", "Goodwill and intangible assets", including:	10, 11	571 793	X	X	X
3.1	intangible assets reduce the base capital, including:	X	14 533	X	X	X
3.1.1	business reputation (goodwill), net deferred tax liabilities (line 5.1 table)	X	0	"Goodwill, net of deferred tax liabilities" (line 5.1 table)		0

Translation from the original in Russian language.



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

3.1.2	other intangible assets (excluding goodwill), net deferred tax liabilities (line 5.2 table)	X	14 533	"Intangible assets (excluding goodwill and amounts of the rights to service mortgage loans), net of deferred tax liabilities" (line 5.2 table)	9	14 533
3.2	intangible assets reduce additional capital	X	9 688	"intangible assets", subject to phase-out exception	41.1.1	9 688
4	Total "deferred tax assets", including:	12.1	11 691	X	X	X
4.1	deferred tax asset dependent on future profits	X	11 691	"Deferred tax asset dependent on future profits"	10	7 015
4.2	deferred tax assets not dependent on future profits	X	0	"Deferred tax assets not dependent on future profits"	21	0
5	Total "deferred tax assets", including:	21.1	18 184	X	X	X
5.1	reducing goodwill (line 3.1.1 table)	X	0	X	X	0
5.2	reduce other intangible assets (line 3.1.2 table)	X	0	X	X	0
6	Total "Own stocks (shares) repurchased from shareholders (participants)", including:	28	0	X	X	X
6.1	reduce base capital	X	0	"Investments in own shares (stocks)"	16	0
6.2	reducing additional capital	X	0	"Investments in own instruments additional capital", "own shares (shares), redeemed (repurchased) from shareholders (participants)", to be phased exception	37, 41.1.2	0
6.3	reducing additional paid-in capital	X	0	"Investments in own instruments of additional paid-in capital"	52	0
7	Total "Funds in credit institutions", "Credits (loans) and receivables", "Financial assets, available-for-sale", "Investments held to maturity", including:	3, 6, 7, 9	13 190 584	X	X	X
7.1	nonsignificant investments in the base capital of financial institutions	X	1 111	"nonsignificant investments in instruments of the base capital of financial institutions"	18	0
7.2	significant investments in the base capital of financial institutions	X	0	"significant investments in instruments of the base capital of financial institutions"	19	0
7.3	nonsignificant investments in additional capital of financial organizations	X	0	"nonsignificant investments in instruments of additional capital of financial organizations"	39	0
7.4	significant investments in additional capital of financial organizations	X	0	"significant investments in instruments of additional capital of financial organizations"	40	0
7.5	nonsignificant investments in additional paid-in capital of financial institutions	X	0	"nonsignificant investments in instruments of additional paid-in capital of financial institutions"	54	0

Translation from the original in Russian language.



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

7.6	significant investments in additional paid-in capital of financial institutions	X	0	"significant investments in instruments of additional paid-in capital of financial institutions"	55	0
-----	---	---	---	--	----	---

Information in accordance with the requirements of section 1.3. Instructions 3876-U

Territory code according to OKATO	Code of credit institution (branch)	
	to OKПО	registration number (/serial number)
33	10919075	254

INFORMATION ABOUT MANDATORY STANDARDS, THE INDICATOR OF FINANCIAL LEVERAGE AND LIQUIDITY COVERAGE RATIO
(published form)

on 01 Jan 2017

Parent credit institution of a banking group

Hlynov Commercial Bank (Joint Stock Company) Group
(full corporate and abbreviated corporate names)

Postal address 610002, Kirov region, Kirov, street Uritsky, d. 40

Form code on OKUD 0409813
Quarterly (Annual)

Section 1. Information about mandatory standards

(%)

line number	Name of the tool	Explanations number	Standard value	The actual value	
				at the reporting date	at the beginning of year
1	2	3	4	5	6
1	Adequacy norm of base capital of the Bank (H1.1), a banking group (H20.1)		4.5	11.4	11.4
2	Adequacy norm of fixed capital of the Bank (H1.2), a banking group (H20.2)		6.0	11.4	11.4
3	Adequacy norm of own funds (equity) of the Bank (H1.0), a banking group (H20.0)		8.0	13.1	12.9
4	Adequacy norm of own funds (equity) non-Bank credit organizations having the right to implementation of money transfers without opening Bank accounts and related other banking operations (H1.3)				
5	The norm of instant liquidity of the Bank (H2)				
6	The Bank's current liquidity norm (H3)				
7	Long-term liquidity norm (H4)				
8	The norm of maximum risk per borrower or per group of related borrowers of the Bank (H6)			max min	max min
9	The norm of maximum amount of major credit risks (H7), a banking group (H22)		800.0	249.8	222.7
10	The norm of maximum amount of loans, Bank guarantees and sureties granted by the Bank to its participants (shareholders) (H9.1)				
11	The norm of total magnitude specific risk of Bank's insiders (H10.1)				
12	The norm of usage of own funds (equity) of the Bank for the purchase of shares (stakes) of other legal entities (H12) ratio of usage of own funds (equity) of the banking group for the acquisition of the parent credit institution of the banking group		25.0		

Translation from the original in Russian language.



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

	and members of the banking group's shares (stakes) of other legal entities (H23)				
13	The norm of the amount of liquid assets with a deadline in the next 30 calendar days to total liabilities RNKO (H15)				
14	Liquidity norm of non-Bank credit organizations having the right to implementation of money transfers without opening Bank accounts and related other banking operations (H15.1)				
15	The norm of maximum aggregate value of loans to customers – participants of settlements for completion of settlements (H16)				
16	The norm of the provision of RNKO on its behalf and at its own expense loans to borrowers, excluding customers – participants of calculations (H16.1)				
17	The norm of minimum ratio of size of mortgage cover and issue volume of mortgage-backed bonds (H18)				
18	The norm of maximum risk per borrower or group of related borrowers of the Bank group (H21)		25.0	20.4	22.8

Section 2. Information on the calculation of financial leverage

Subsection 2.1. Calculation of the amount of balance sheet assets and off-balance sheet requirements under risk to calculate the financial leverage

line number	Name of the tool	Explanations number	Amount
1	2	3	4
1	Total size of the assets in accordance with the balance sheet (published form)		18 387 100
2	Amendment in terms of investment in the capital credit, financial, insurance or other organizations reporting data of which are included in the consolidated financial statements, but not included in the calculation of own funds (capital), the required ratios and sizes (limits) of open currency positions of a banking group		0
3	Amendment in part of the fiduciary assets, reflected in accordance with the rules of accounting, but not included in the calculation of financial leverage		0
4	Amendment in part of derivative financial instruments (derivatives)		0
5	Amendment in terms of lending securities		700 000
6	Amendment in part of the conversion to credit equivalent of contingent liabilities of credit nature		1 533 282
7	Other amendments		270 429
8	Total value of balance sheet assets and off-balance sheet requirements with the risk adjusted to calculate the financial leverage		20 349 953

Subsection 2.2. Table of calculation of financial leverage

line number	Name of the tool	Explanations number	Amount
1	2	3	4
The risk on balance sheet assets			
1	Total amount of balance sheet assets		17 008 539
2	The amendment reduces the amount of tool adopted in the reduction in the sources of fixed capital		38 251
3	Total value of balance sheet assets risk-adjusted (difference between lines 1 and 2)		16 970 288
Risk of transactions with derivatives			
4	The current credit risk of transactions with derivatives		0
5	Total potential credit risk to the counterparty for transactions with derivatives		0
6	The amendment for the nominal amount of the provided collateral for transactions with derivatives to be written off from the balance sheet in accordance with accounting rules		in accordance with Russian accounting rules not available
7	The amendment reduces the amount of transferred variation margin in prescribed cases		

Translation from the original in Russian language.



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

8	Amendment to the requirements of the Bank - clearing member to a Central counterparty for execution of client transactions		0
9	Amendment to account for credit risk in respect of underlying (base) asset on issued credit derivatives		0
10	Amendment reduces in part the issued credit derivatives		0
11	The value of credit risk on derivatives with amendments		0
Risk of operations securities lending			
12	Total requirements for operations of lending securities (excluding netting)		1 150 000
13	The amendments for the amount of netting cash (assets and liabilities) for transactions securities lending		0
14	The amount of the credit risk of the counterparty to the securities lending		700 000
15	The amount of the risk on guarantee operations securities lending		0
16	Total requirements for operations, securities lending with amendments (sum of lines 12, 14, 15 minus line 13)		1 850 000
Risk on contingent liabilities of credit nature (KPB')			
17	Total nominal value of credit risk on contingent liabilities of credit nature (KPB')		2 406 508
18	The amendment in the application of credit conversion equivalent		873 226
19	Total value of credit risk of contingent liabilities of credit nature (KPB') with amendments (the difference between lines 17 and 18)		1 533 282
Equity and risks			
20	Fixed capital		2 248 585
21	Total value of balance sheet assets and off-balance sheet with risk requirements for the calculation of financial leverage (sum of lines 3, 11, 16, 19)		20 353 570
Figure of financial leverage			
22	Figure of financial leverage according to "Basel III"		11.05

Chairman of the Executive Board

I.P. Prozorov

Chief accountant

S.V. Shamseeva



the contractor
 Scaredina N. Sh.
 Tel: 252-777 (1162)
 28.04.2017



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

Main risks

Considering the structure and the nature of the Group's activities it is mainly influenced by banking risks (the possibility of losses due to occurrence of adverse events related to the internal and / or external factors' impact inherent in banking activities).

The Group includes in the main types of risks in its activities: credit, market, operational, liquidity, regulatory, legal, loss of reputation, strategic. In addition, in the framework of the procedures for controlling significant risks of the Bank takes into account the manifestation of risk concentration.

The Group includes in significant group of its risks: credit risk, liquidity risk, market risk, interest rate and equity risks.

The sources of occurrence of the most significant risks of the Group are:

- for credit risk - late and / or incomplete execution of the counterparty's (debtor's) obligations to the Bank / Lease company under the contracts;
- for liquidity risk - the imbalance of financial assets and liabilities or unexpected need for immediate and one-off performance of the Group of its financial obligations;
- for stock risk - adverse changes in the market value of the financial instruments of the trading portfolio of the Group (under the influence of factors related to both the issuers and the general fluctuations in market prices;
- for interest rate risk of the Group's portfolio - adverse changes in interest rates of assets, liabilities and off-balance sheet instruments of the Group.

The group determines the methodology of evaluation in respect of each of the significant risks. It includes recruitment and data sources used for risk assessment, methods used to reduce risk and manage residual risk. These parameters are reflected in the relevant internal regulatory documents (regulations) of the organization of management some sort of significant risk.

Credit risk is significant for the Group. The group ensures that documented procedures for the management of credit risk included at least the following:

- procedure of granting of loans and making decisions on their results;
- methodology of assessing the financial position of counterparties (borrowers), the quality of the loan, the methodology for determining the amount of requirements own funds (capital);
- methodology of determining and procedure for establishment the limits (the risk limit for one borrower (group of related borrowers), industry (sector) of the economy, other limits);
- standard requirements for security.

Market risk (excluding foreign exchange and commodity risks), including interest rate risk of the banking portfolio, is meaningful for the Group. The group ensures that documented procedures for the management of market risk included at least the following:

- partitioning tools on the tools of the banking and trading portfolio;
- the definition of the trading portfolio, the composition of the instruments that form it;
- list of assets (liabilities) sensitive to changes in interest rates;
- methods of measuring market risk and determining capital requirements against market risk;
- methodology for determining the value of the instruments of the trading portfolio;
- a system of limits and the order of their establishment;
- the level of decision-making on the implementation of the operations connected with risk taking.

Liquidity risk is significant for the Group. The group ensures that documented procedures for managing liquidity risk included at least the following:

- the factors of its occurrence;
- description of responsibility and authority of subdivisions, involved in the acceptance, assessment, control and minimize the risk of loss of liquidity, the interaction of these units and resolve disputes among them;
- formalized description of procedures for determining the needs of the Group's funding needs, including the identification of excess/shortage of liquidity and the limit values of excess/deficit of liquidity (liquidity limits);
- an order to analyze the liquidity position at various time horizons (short term, current and long-term liquidity);



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

- the procedure for establishing liquidity limits and determine the methods of control over observance of limits, the procedure for informing management bodies about violations, as well as their elimination;
- procedures for daily liquidity management and liquidity management at longer time intervals;
- methods of analysis of liquidity of assets and stability of liabilities;
- the decision-making procedure in case of "conflict of interest" between liquidity and profitability, due, for example, low yield liquid assets, high cost of borrowing;
- procedures of restoring liquidity, including the decision-making procedures for mobilization (implementation) of liquid assets, other possible (and most affordable) ways to attract additional resources in the event of a liquidity deficit;
- the order of preparation of liquidity forecasting;
- a system of internal reporting of liquidity risk.

In case of exceeding the threshold values of individual risks, this information shall be immediately notified to the management bodies of the Group. Followed by management decisions to minimize risks and reduce the adverse impact on the financial performance of the Group. Liability for exceeding the threshold values of the individual risks set forth in the respective internal regulatory documents of the Group, including those governing the system of remuneration of employees carrying out operations bearing risk, and individuals taking risks.

Operational risk is not relevant for the Group. In the framework of risk assessment methods and capital adequacy requirements, set by normative acts of Bank of Russia, operational risk is one of those types of risks, which provides the load on the own funds (capital) of the Group.

The sources of operational risk include: disparity in the nature and scope of its operations or the requirements of current legislation internal policies and procedures of Bank operations and other transactions, their violation by employees of the Group or other persons, failure of functionality applied by the Group information, technological and other systems or the disturbance of their functioning and also impact of external events.

The group ensures that documented procedures for managing operational risk include at least the following:

- methods of identifying and assessing the level of accepted operational risk with respect to various activities of the Group, including methods of assessment and analysis of the probability of operational risks;
- the procedure for the consideration and investigation of the facts of operational losses and their causes;
- the frequency of rating authorities (in accordance with their powers under the statutes the members of the Group and internal documents of the Group) of the results of these investigations, and also assessment of the achieved level of operational risk management.

The main provisions of the strategy in the field of risk and capital management

The group follows a strategy of risk and capital management, which is aimed at ensuring the adequacy of capital to cover accepted and potential risks, to strengthen the financial stability of the Group and its effective functioning, implementation of regulatory requirements governing the activities of credit organizations.

To achieve these objectives, the strategy of risk and capital management involves the implementation of such basic tasks as identifying risks; evaluating them for significance; the formation of the aggregate valuation; the assessment of capital adequacy to cover the total amount of risk based on aggregation of individual risk assessments; capital planning according to the results of the aggregated assessment; stress testing.

In order to preserve its financial stability on a continuous basis in the long term, including the stress conditions, the head organization in the Group determines, also at the stage of business planning, target risk levels that represent a combination of expected and unexpected losses from the sale of a particular type of risk; evaluates the adequacy of capital to cover the total volume of risks; allocates capital through a system of limits on the types of significant risks, areas, and departments performing functions related to the acceptance of the significant risks; and also provides a reserve of capital to cover risks, evaluate the quantitative methods, risks, distribution of which in the structural units of the parent organization of the Group is impossible or difficult for the implementation of business development provided by the Group's development strategy.

Risk management is tied to a balanced motivation system formed to meet the requirements of the Instruction of Bank of Russia of 17 June 2014 № 154-I "On the procedure of evaluation of the remuneration system in



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

a credit organization and the order of sending credit institution an order to eliminate violations in its system of remuneration", including a list of persons taking the risks, bearing risks and performing risk control.

The parent organization of the Group in order to ensure sustainable functioning on a continuous basis in the long term, including in stressful situations, defines the risk appetite, which consists in a set of qualitative and quantitative indicators.

Among the quantitative tools of risk appetite belong indicators of capital adequacy.

A key indicator of risk appetite is the maximum level of capital adequacy to cover expected and unexpected risk – the aggregate risk potential.

The parent organization of the Group sets the overall risk potential, which will provide a reserve of capital to cover expected and unexpected risks as classified and not classified as significant. In establishing the total risk potential of the parent organization of the Group comes from the phase of the business cycle and takes into account forecast changes in the Bank of Russia's requirements to the minimum permissible numerical value of the required H1.0.

Amount of capital required to cover risks and indicators that characterize certain types of significant risks are also quantitative indicators of risk appetite. Indicators that characterize certain types of significant risks are:

- for credit risk – the volume of provisions for possible losses in the context of portfolio credit requirements;
- for market risk – the internal limits of the negative revaluation of the securities of the trading portfolio and for sale on the open currency position;
- for interest rate risk in the banking book – interest sensitivity GAP (the gap in the space-time structure of claims and obligations sensitive to changes in interest rates) to changes in market rates;
- for liquidity risk - liquidity management strategy, providing a system of limits, including the limit values of mandatory liquidity ratios; limiting values of coefficients of liquidity shortage; the average balance on the correspondent account in the division of the Bank of Russia; the balance limits storage of cash in cash Desk;
- for concentrations risk – indicators of concentration of certain types of significant risks, including various forms of concentration. In the framework of procedures to limit the risks of concentration of the developed system of limits and alarm values to help limit the risks of concentration in respect of individual major counterparties (groups of related counterparties), and in terms of counterparties belonging to specific economic sectors, geographical areas, and developed a system of indicative levels and their signal values with respect to risk concentration of the resource base.

Among the qualitative indicators of risk appetite are indicators for individual risk assessment:

- risk assessment and compliance with the established risk appetite while decisions making about entering new markets, about implementing new operations (introducing new products);
- the ratio of risk and profitability while management decisions making.

In these cases, identifies potential risks, determines the likelihood of their implementation, assessment of potential risks in terms of their importance, calculate expected and unexpected losses, weighed by the ratio of "potential profit potential loss", the procedures fixed in the internal regulatory documents governing the procedure of entering new markets, start new products. Acceptable is such a procedure and such completeness of the information provided for purposes of management decisions that will ultimately comply with the established aggregate risk potential.

In order to monitor the capital adequacy implemented procedures for the allocation of capital through a system of limits on the types of significant risks, areas, and departments performing functions related to the acceptance of significant risks.

In monitoring aggregate risk potential and capital limits set by the limit system, and also the early warning system that informs about the usage of the established limits.

Reporting in risk management framework and the Group's capital includes the following documents: the report on significant risks, a report on the conduct of stress testing, the evaluation report of capital adequacy, report on key risks, compliance report of the obtained results of the activities aspects inherent in the Strategy, including the results of the execution ICAAP, information on the implementation of mandatory standards. Composition, procedure and frequency of reporting and submission to the relevant management



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

bodies and departments of the parent organization Groups allow you to bring the amount of information and within the time period that will be sufficient for taking appropriate management decisions.

The Board of Directors, the Board, the Chairman of the Board, head of the risk management Department and heads of other units of the parent organization of the Group review the reports and use the information in current activities and in the course of strategy development, including the conformity of the accepted risks and set limits, for making decisions about changing the structure and size of capital.

The Board of Directors is informed of the shortcomings in the methodology of risk assessment and management, the achievement of signal values, the facts of exceeding the established limits and actions taken to eradicate them, as revealing such facts.

On the basis of information contained in reports on risk and capital management, development of measures to reduce risk, including, for example, can include: tightening of the capital limits to cover the risks, limits on volumes of transactions (transactions) limits the ultimate level of losses in the structural units and other measures characteristic of reducing certain types of risk.

In addition to the practical implementation of the system capital management Group sets before itself a number of tasks which will contribute to improving the effectiveness of risk management in the Bank.

In particular, the formation of the credit portfolio benchmark focused primarily on quality and yield; stricter requirements to the assessment of the reality of the activities of customers and counterparties, including the reliability of accounting information.

A strategic task for the nearest future is to ensure that system health planed ENiVD because large unexpected losses from the risks related with IT-systems and staff can become catalysts for the most negative scenarios in terms of nervousness and General mistrust on the markets.

As for investments in securities, preference was given to highly reliable and liquid securities with fixed yield are included in the Lombard list of the Bank of Russia. The first task of the portfolio - maintaining a liquidity reserve. It is also expected that the securities portfolio should be diversified not only by instrument, maturity and issuers, but also on the amounts of investments.

Operations in the money market include primarily of REPO transactions with a Central counterparty and transactions currency SWAP. The primary purpose of such operations is a short – term placement of funds and optimal liquidity management.

On the interbank lending market, due to the large number of reviews of licenses and procedures for the redevelopment of the banks intend to use the principle of "caution" in the selection of counterparties for placing funds and not to consider MBC as a tool to accommodate significant amounts of resources.

In the context of macroeconomic instability and of the free exchange rate of the national currency, the Group should have maximally conservative approach to the management of exchange risks. Operations with foreign currency in the interbank market should be mainly to meet the needs of customers while conducting foreign exchange and cashless conversion operations. In commission own foreign currency transactions, special attention should be paid to minimize the currency risk, the priority will be given to mechanisms for hedging currency risks.

The main factor determining further development of the Group, it becomes tougher regulatory pressure from the Bank of Russia and other authorities, which makes it necessary to adapt to the new requirements and to make the relevant organizational, technological and methodological changes. In this context, the qualified strategic risk management should be a key competence of the Group management for the coming period.

In order to ensure an effective system of risk management and capital management the Group develops and implements:

- a documented risk management policy at the Group level defining goals and objectives of the risk management system, the key principles of organization and operation of said system;
- a set of guidelines governing the interaction of units and personnel in the implementation of the risk management process in the context of each type of risk, penalties for non-compliance with the established limits, restrictions or other regulations controlling risks;
- internal capital adequacy assessment procedures adopted to cover the potential risks of the Group;
- a system of methods for calculating the level of risk by risk objects, with an indication of risk mitigation techniques;
- information technologies of management accounting, data collection and processing.



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

- systems of stress testing portfolios and the Group's operations on exposure to unlikely but significant in terms of potential loss events;
- contingency plans to restore the activity of the Group in the event of an emergency contingency.

The main objectives of the risk management of the Group:

- maintaining received risk at a level consistent with the strategic objectives;
- maximising the profitability of the business lines to the level of taken risks;
- ensure safety of assets and capital in the implementation of adverse events.

Thus, the basis of the Group's risk management system are the prudential requirements of the Bank of Russia, as well as internal risk management approaches, allowing to estimate the Group's ability to compensate for losses that may arise as a result of risks and identify a set of actions that must be taken to reduce the level of risks to financial sustainability, conservation and development of the Group's capital.

Information about the structure and organization of the units engaged in risk management, the risk reporting system

One of the basic elements of the implementation of the risk management policy is a system of decision-making authority. The system of decision-making authority is intended to ensure the proper functioning of the risk management system, giving it the required flexibility in combination with sustainability at each level of management.

The management bodies of the Group engaged risk management at the level of the Group and at the level of the members of the Group are the Board of Directors, the Board and committees of the parent organization of the Group. In addition to management bodies in the management of individual Group's risk involved, risk Department, internal control service the internal audit service of the parent organization of the Group, heads of structural units of the Group within its authority and areas of responsibility.

The risk management process is integrated into all business processes and activities of the Group. Identification, assessment and risk minimization is carried out at all levels, from ordinary employees to members of the Board of the Parent company of the Group, under the coordination of a single center, which is a specialized service on risk management head organisation of the Group (risk-division).

The activities of the Group's risk department are focused on creating united standards and principles of risk management at the level of the Group, the construction of a centralized risk management system, within which the identification, assessment, control and minimization of the entire spectrum of risks is inherent in the Group. The objective of the risk department is to limit the total possible losses of the Group and implementation of procedures to reduce risks, improve the reliability of processes to achieve strategic objectives and established performance indicators.

In the construction of the Group's risk management system the Group adheres to the following principles:

- integration of risk management into the overall management of the Group;
- introduction and development of management processes designed on an ongoing basis to identify, measure, monitor and control all the risks inherent in its activities;
- formation of the management structure that clearly delineates areas of responsibility, authority and accountability;
- identify and control the scope of potential conflicts of interest divisions and employees of the Group's decision-making at risk management and transactions;
- providing units involved in risk management, adequate and comprehensive information of financial and operational nature, information on compliance with the regulatory requirements, as well as received from outside market information about events and conditions that are relevant to decision-making; timely updating of policies, methodologies, techniques and procedures for risk management in accordance with changes in the business environment;
- implementation of international risk management practices.

Defined periodicity (frequency) of the movement of the information flow on the risks accepted by the Group is designed to ensure the timely adoption of certain management decisions in relation to the specific activities of the Bank and depends on the severity of the identified current and potential problems.

There is daily monitoring of primary liquidity reserves of the parent organization of the Group and of the limits on transactions with counterparty banks.



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

Monthly market risk report contains information on compliance with limits established by the parent organization of the Group on the revaluation of trading portfolio of securities (including in the context of individual issuers), limits on operations with foreign currency; information about the level of interest rate risk accepted by the Bank, the magnitude and extent of the balance of assets and liabilities of the parent organization of the Group, sensitive to changes in interest rates.

Monthly liquidity risk report contains the information about the amount of liquidity reserves, limiting the values of the coefficients of the deficit (excess) liquidity, size and degree of equilibrium of claims and liabilities, the assessment of liquidity risk.

Quarterly assets analysis report exposed to credit risk, includes information about the dynamics of financial coefficients characterising various aspects of the Bank's credit policy; determining the level of compliance actually formed of the portfolio declared in the strategic documents the parameters; determining the ratio of "risk/return" on the loan portfolio; evaluation of the level of risk concentration of the portfolio; the calculation and analysis of indicators of loan portfolio quality.

Quarterly report of stress testing provides information about the losses, which the Group may incur in case of stress situations, and their impact on the financial result and capital.

On a monthly basis the risk Department, under the internal capital adequacy assessment procedures (ICAAP), is made and communicated to the members of the management Board of the parent credit institution of the Group report on the assessment of capital adequacy of the parent organization of the Group. ICAAP report includes information about the aggregated amount of risks taken by the parent organization of the Group, also about the taken volumes for each significant parent organization of a Group of risk; the results of stress-testing used within ICAAP; the amount of capital available to the parent organization of the Group; the results of the evaluation of capital adequacy of the parent organization of the Group; the results of the execution ICAAP, including compliance with the planned (target) level of capital and its adequacy, the planned (target) risk levels and targeted risk structure limits capital to cover risks.

Quarterly reports of operational, reputational and legal risk contain information about the level of these risks on the basis of the adopted indicators.

Quarterly comprehensive risk report contains indicators, events, and procedures that characterize the significant Group risks. In this report, there are analyzed key factors for the cumulative risk and capital, credit and market risk, liquidity risk and non-financial risks and the external environment within the framework of the macroeconomic environment, financial markets and banking system. Risk-division reports to the Board and the Board of Directors of the parent organization of the Group.

Report on the emergency shall be brought to the Board of Directors of the parent organization of the Group extraordinary upon receipt of the negative information and its processing.

Reports of the subsidiaries' activities are regularly reviewed parent credit institution Group.

Information on the procedures of conducting stress-testing

The main purpose of stress testing the Group is to identify, assess and take measures to prevent potential considerable one-time losses that can have disastrous consequences for the Group (the termination of activities - as a whole or for some area of business).

Objectives and results of the stress testing are:

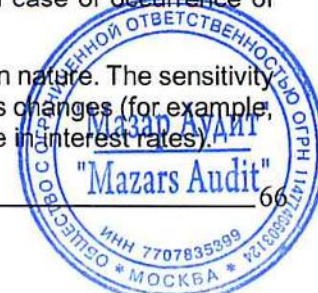
- assessment of readiness to crisis situations;
- the ability to plan the size of the necessary reserve, which covers identified risks of the capital;
- the ability to adjust the business model.

The main methods for stress testing are:

- scenario analysis (based on historical or hypothetical events);
- sensitivity analysis of the portfolio of the Bank's assets to changes in risk factors and the calculation of the maximum loss.

Scenario analysis mainly focuses on the strategic prospects for the Group. It allows to assess the potential simultaneous impact of several risk factors on the activities and financial result in case of occurrence of extreme, but probable events.

Unlike scenario analysis the results of the sensitivity analysis are mostly short term in nature. The sensitivity analysis estimates the direct impact on the asset portfolio and other tools risk factor's changes (for example, increase/decrease in the exchange rate of the national currency; increase/decrease in interest rates).



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

Stress testing is performed on the basis of own scenarios and modify parameters of the risk factors taking into account the recommendations made by the Bank of Russia.

When maximum loss is calculated, also there are determined a combination of risk factors, negative dynamics, the potential to bring the maximum loss.

Procedures of stress testing allow to estimate the maximum expected losses for probable events that do not directly fit into the current economic trends.

Testing is carried out once a quarter.

Information about the test results communicated to the members of the management Board of the parent organization of the Group. This information is communicated to the Board of Directors of the parent organization of a Group within the report on key risks.

Update (actualization) of floating parameters of the scenarios of stress testing is carried out at intervals equal to the test. Update (actualization) of the fixed parameters of the scenarios of stress testing and methodology of stress testing is based on changes in market and General economic conditions, as well as the risk profile of the Group, but at least once a year. In the development and updating of scenarios involved structural subdivisions whose activity has a direct impact on the change in the level Group's exposure to certain risks.

Methods of conducting stress testing in the Group and the parameters of the stress tests are developed by the risk-division of the parent organization Group and approved by the Board of Directors of the parent organization of the Group in accordance with the internal normative documents of the Group.

Description of control procedures of undertaken risks on the part of the Bank's management and banking group's participants

Control over compliance with established rules and procedures for the management of banking risks is carried out in the *framework* of the internal control system.

Risk management is an integral part of management decision-making both at the Bank's level and Group's level. Specialized risk unit of the Group provides comprehensive risk report, containing indicators, events and processes that characterize the significant risks to the Bank's management bodies on a regular basis with the internal frequency regulations.

The competence of the Board of Directors of the parent organization of the Group include:

- control over the current activities in accordance with approved strategy;
- control over the activities of Executive bodies the members of the Group management of banking risks;
- control over the completeness and frequency of audits, the internal audit service of the Bank risks management system;
- control over the completeness and frequency provided by the risk-division reports on the evaluation of the level of major banking risks;
- control over the policy rewards and motivation, which must not contrary to the policy of risk management;
- control over the prevention of simultaneous prolonged excessive exposure to several risks on the Group as a whole;
- control over the prevention of disproportionate increases in exposure increase the profitability of the respective business areas;
- control over the completeness and frequency provided by the head of internal control service also reports on significant regulatory risks within the Group.

The competence of the Board of the parent organization of the Group include:

- construction and operation of the system of internal control;
- control of the conformity of the condition and the size of certain risks set out in the strategy, levels of profitability and constraints, including the adequacy of the banking risk management system the current size of accepted risks;
- avoiding disproportionate development of one of the activities of the Group in relation to other activities, to the detriment, and contrary to the adopted strategy;
- prevention of the use of the infrastructure Group for legalization of criminal proceeds and financing of terrorism;

Translation from the original in Russian language.



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

- prevent prolonged detention of certain types of business (activities) of the Group under the influence of the corresponding excessive risk, including the decision on termination/suspension of activity of divisions of the Group (or the limitation of their tasks and functions) that carry excessive banking risks;
- avoid imbalance of liabilities and assets, leading to a breach of the liquidity and solvency of the Group.

Managerial bodies of the other Group's participants carry out continuous monitoring of the undertaken risks in their areas of activity.

Brief description of risk management procedures and assessment methods

The Group's risk management system involves the construction of a detailed risk classification, reflecting the specificity of the Group's operations and services in the financial markets.

Parent organization of the Group developed a methodology for estimating risks in terms of their importance, the main parameters which are based on:

- the volume of the transactions in certain areas of activity;
- limits the risks taken;
- the level of losses that may be caused by the realization of the estimated type of risk.

Each existing and potential risk is identified and taken into account when assessing the capital adequacy of the parent organization of the Group through internal procedures for assessing capital adequacy.

To assess risk, the Group uses qualitative and quantitative parameters based on an assessment of macroeconomic and microeconomic factors using the theory of financial instruments with fixed income, probability theory, mathematical statistics.

Monitoring of banking risks is performed by regular studies of the system of indicators (including statistical, financial) of the Group's activities. The frequency of monitoring of banking risks is determined on the basis of significance of the particular risk for the relevant activities, internal process and info-technological systems.

The procedures of stress testing are made for each of the significant types of risks. Separate stress testing of risk concentrations is not possible, but the risk factors of concentration are taken into account in the stress tests of important types of risks.

The main methods of minimising the risks of the Group are:

- establishing limits - on the kinds and types of risks, assessment of which may be expressed numerically;
- diversification - distribution of the total risk by individual objects in order to prevent its concentration on a single object or counterparty;
- creating provision for possible loss of value of assets as a result of the events of risks;
- to maintain capital adequacy of the parent organization of the Group in order to ensure the stability of its operations and protection of depositors and other creditors against possible losses;
- insurance.

In the framework of the internal control system monitors the implementation of measures designed to maintain risk at a given level, control of compliance with established risk management procedures and the level of risks accepted by the Group.

The risk management process is critical to maintain a stable activity of the Group and each individual employee within the Group is accountable for the risk exposures relating to his responsibilities.

In order to ensure its sustainable operation on a continuous basis in the long term, including in stressful conditions, the Group determines the maximum size of the aggregate risk it is willing to accept on the basis of the goals established in its development strategy, targets of business development, current and expected risk structure (risk potential).

Risk potential is determined by the Group in the form of a set of qualitative and quantitative indicators. As a key indicator of risk potential of the Group considers the ultimate level of adequacy of equity (capital) needed to cover all major types of risks. Assessment of capital adequacy to cover the total value of banking risks, which the Group is willing to accept, (estimated cumulative risk) is determined by correlating the total



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

amount of required capital the Group and the amount of available Group capital. The total amount of Group's required capital is determined in accordance with the requirements of Instructions of Bank of Russia from 15.04.2015 No. 3624-U "On requirements to risk management system and capital of credit organizations and banking groups" based on aggregating the evaluations of important risks. The total amount of Group's required capital should cover expected and unexpected losses from the realization of risk factors, including stressful conditions, and to provide a reserve for coverage of potential risks as well as risks, evaluate quantitative methods.

Additionally, the parent organization of the Group carries out the self-assessment procedure (method of assessing the maturity of the process by its' direct participants) to assess the conformity of the management of each individual risk system to the nature, scope and conditions of the Group's activities.

Information about significant risks arising in the Group's activities

Credit risk

The most significant for the Group is credit risk, which arises mainly in the process of lending and investment activities in the implementation of documentary operations.

Documented procedures for managing the Group's include:

- the procedure for granting loans and making decisions about their issue;
- methodology for assessing the financial position of counterparties (borrowers), loan quality, the methodology for determining the size requirements for equity (capital);
- methodology for determining and setting limits;
- standard requirements for collateral.

The management of the Group's risk is based on the following principles:

- Comprehensive evaluation – covers all aspects of credit banking to define the true level of the Group's credit risk and to develop the necessary instruments to regulate it;
- Systemic economical and non-economic indicators of the borrower's creditworthiness, which determine the degree of risk;
- Efficiency response of the Group to external and internal changes, which express in the increasing the risk of loan portfolio and the application of the necessary methods for its regulation;
- Objectivity, concretion and accuracy of credit portfolio risk assessment, which based on reliable information and conclusions and recommendations for improving the quality of the loan portfolio should be based on accurate analytical calculations;
- Integration of credit risk management processes into the direct activities of each employee of the Group, whose activities are related to the occurrence of an asset in the Group that has a credit risk.

Based on above principles the main objectives of credit risk management should be achieved:

- Achievement of the highest possible level of return on investment while maintaining the level of credit risk within the limits (risk tolerance)
- Improving the quality of the Group's loan portfolio by minimising its risk

The Group's credit risk management objective achieves based on a systemic, complex approach that involves the following tasks:

- Obtain operative and objective information about the state and amount of credit risk;
- Qualitative and quantitative assessment (measurement) of credit risk;
- Establishment of correlation between individual types of risks to evaluate activities planned to limit the impact of one type of risk on the growth or reduction of the level of other risks;
- Creation of a credit risk management system and a rapid and adequate response system aimed to preventing critical level of credit risk for the Group.

The management of credit risk is a sequence of actions organized in certain way, divided into the following stages:

- Identification of factors (sources) of credit risk;



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

- Assessment of the degree of credit risk;
- Choice of strategy (risk acceptance, rejection of an operation or application of possible ways of risk reduction);
- Minimization of risk;
- Control of changes in the level of credit risk (evaluation of the results of the decision-making).

The division of credit risk into the risk of an individual borrower and the risk of the portfolio considering the characteristics of each type of risk in the management process.

Credit risk management carry out using the following measures.

Internal regulatory documents regulate the procedures for the initial and subsequent analysis of the borrower's activities, the quality of the documents submitted for analysis, the quality of provision with the formulation of the professional judgment on the degree of credit risk and the amount of the reserve for possible losses.

Credit risk assessment carry out during the review of loan application, during the subsequent monitoring, and during the consideration of applications related to changes on the term of the original loan agreement.

The decision to credit extension is made by a collegiate body – the Credit Committee (for loans with insignificant credit risk a simplified procedure for approval within limits of authority of responsible persons is provide).

Constant monitoring of the performance of the terms of each loan agreement, safety and liquidity of the pledged property, financial position of borrower is carry out.

At the portfolio level, there is a diversification of credit operations by customer categories, customer industry, types of collateral and so on.

The method of insurance actively applies (mortgaged property, life and health of individual borrowers).

A specialized structural unit for dealing with distressed assets form to minimize the consequences of the implementation of credit risks.

Means of automation of the decision-making system allow to improve the quality and speed of the process of reviewing loan applications without losing its reliability, creating a friendly and transparent communication for participants.

Programs for the professional development of staff can improve the quality of execution of procedures and processes.

The Group strives to dissect the functions of loan officers by providing loans and functions for assigning internal credit rating of the borrower to eliminate conflicts of interest.

Within the framework of internal procedures for assessing the capital adequacy of the Group's head organization, the amount of credit risk losses calculated in accordance with a moderate stress scenario add to the capital buffer.

Information about the segmentation of credit risk by counterparty type and the structure of the concentration of customer loan portfolio by industries is shown in Note 11.

Impairment policies

The result of the assessment of credit risk is the distribution of loan assets by categories of credit quality in accordance with the rating scale that reflects the level of credit risk.

Credit quality of the borrower, which is a tool that facilitates the definition of existence of the objective evidence of impairment, is based on the following criteria:

- Assessment of the financial position of the borrower;

Translation from the original in Russian language.



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

- Assessment the quality of service of the debt;
- Any other significant factors.

RAS provisions are created in accordance with the regulations of the Bank of Russia (on loan and similar debts – CBR Provision from 26.03.2004 № 254-P "On the Procedure for Making Provisions by Credit Institutions for Possible Losses on Loans, Loans and Similar Debts", on other assets – CBR Regulation from 20.03.2006 № 283-P "On the Loss Provisioning Procedure for Credit Institutions") and internal documents of the Group.

Impairment testing is performed for financial reporting purposes in accordance with IFRS only for losses arising on the date of the financial statements, based on objective evidence of impairment.

A provision for impairment shown in the balance sheet under RAS is determined on the basis of the five risk categories. The largest reserve is created for the last two categories.

The table below shows the percentage of the Group's on-balance sheet items relating to loans and advances and the associated impairment allowance for each of the Bank's CBRF rating categories:

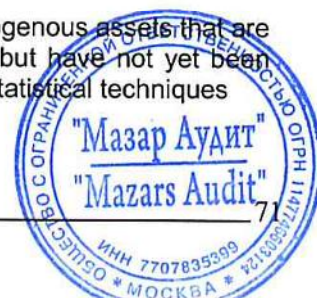
Risk category	31 December 2016			31 December 2015		
	Loans and advances (%)	Provision for impairment (%)	Overall provision rate (%)	Loans and advances (%)	Provision for impairment (%)	Overall provision rate (%)
I	0.00	0.00	0.00	0.75	0.00	0.00
II	62.54	11.33	3.02	70.65	14.54	2.54
III	25.67	22.40	14.52	19.30	14.33	9.17
IV	1.70	5.91	57.84	1.27	7.58	73.84
V	10.09	60.36	99.53	8.03	63.55	97.71
	100.00	100.00	16.64	100.00	100.00	12.34

The internal rating tool assists management to determine whether objective evidence of impairment exists as defined under IAS 39, based on the following criteria set out by the Group:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral, and
- Downgrading below III category.

The Group's policy requires the review of individual financial assets that are above the materiality thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed items are determined by an evaluation of the incurred loss at balance sheet date on a case-by-case basis, and are applied to all individually significant accounts. The assessment usually encompasses collateral held (including review of its enforceability) and the anticipated receipts for that individual account.

Collectively assessed impairment allowances are provided for: (i) portfolios of homogenous assets that are individually below materiality thresholds; and (ii) losses that have been incurred but have not yet been identified, by using the available historical experience, experienced judgment and statistical techniques



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

The Group's maximum exposure to credit risk is generally recorded in the carrying amounts of financial assets in the statement of financial position. The impact of possible netting off assets and liabilities to reduce potential credit exposure is not significant. For guarantees and liabilities on granting loans maximum exposure to credit risk is equal to the sum of liabilities.

The Group uses the same credit policies in respect of contingent liabilities as it does in respect to balance sheet financial instruments. These policies are based on minimising risks procedures of approval of deals, using limits and monitoring.

As of 31 December 2016, the analysis of credit quality of loans to legal entities portfolio is presented below:

Loans to legal entities 31 December 2016	Loans	Impairment allowances	Loans less impairment allowances	Allowance for impairment to gross loans
Collectively assessed				
No overdue:	7 065 233	597 398	6 467 835	8.5%
Overdue:	129 978	37 148	92 830	28.6%
Less than 30 days	16 426	4 076	12 350	24.8%
31- 60 days	1 554	388	1 166	25.0%
61- 90 days	13 408	3 753	9 655	28.0%
91 - 180 days	50 906	14 460	36 446	28.4%
More than 180 days	47 684	14 471	33 213	30.3%
Total collectively assessed	7 195 211	634 546	6 560 665	8.8%
Individually assessed				
No overdue:	157 552	109 178	48 374	69.3%
Overdue:	788 379	676 905	111 474	85.9%
Less than 30 days	165 432	140 321	25 111	84.8%
31- 60 days	39 549	19 774	19 775	50.0%
61- 90 days	-	-	-	-
91 - 180 days	22 040	11 822	10 218	53.6%
More than 180 days	561 358	504 988	56 370	90.0%
Total individually assessed	945 931	786 083	159 848	83.1%
Total loans to legal entities	8 141 142	1 420 629	6 720 513	17.4%

As of 31 December 2016, the analysis of credit quality of loans to individual's portfolio is presented below:

Loans to individuals 31 December 2016	Loans	Impairment allowances	Loans less impairment allowances	Allowance for impairment to gross loans
Collectively assessed				
No overdue:	2 772 457	166 676	2 605 781	6.0%
Overdue:	101 913	15 390	86 523	15.1%
Less than 30 days	82 604	11 232	71 372	13.6%
31- 60 days	9 455	1 321	8 134	14.0%
61- 90 days	5 667	743	4 924	13.1%
91 - 180 days	4 187	2 094	2 093	50.0%
More than 180 days	0	0	-	-
Total collectively assessed	2 874 370	182 066	2 692 304	6.3%
Individually assessed				
No overdue:	39 674	31 739	7 935	80.0%
Overdue:	323 570	247 285	76 285	76.4%
Less than 30 days	1 344	672	672	50.0%
31- 60 days	723	72	651	10.0%
61- 90 days	357	107	250	30.0%



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

91 - 180 days	13 616	6 808	6 808	50.0%
More than 180 days	307 530	239 626	67 904	77.9%
Total individually assessed	363 244	279 024	84 220	76.8%
Total loans to legal entities	3 237 614	461 090	2 776 524	14.2%

As of 31 December 2015, the analysis of credit quality of loans to legal entities portfolio is presented below:

Loans to legal entities 31 December 2015	Loans	Impairment allowances	Loans less impairment allowances	Allowance for impairment to gross loans
Collectively assessed				
No overdue:	7 897 822	(498 382)	7 399 440	6.3%
Overdue:	147 189	(40 285)	106 904	27.4%
Less than 30 days	32 297	(7 854)	24 443	24.3%
31- 60 days	17 693	(5 875)	11 818	33.2%
61- 90 days	47 396	(14 264)	33 132	30.1%
91 - 180 days	13 780	(3 753)	10 027	27.2%
More than 180 days	36 023	(8 539)	27 484	23.7%
Total collectively assessed	8 045 011	(538 667)	7 506 344	6.7%
Individually assessed				
No overdue:	161 846	(109 878)	51 968	67.9%
Overdue:	510 191	(456 376)	53 815	89.5%
Less than 30 days	-	-	-	-
31- 60 days	-	-	-	-
61- 90 days	54	(54)	-	100.0%
91 - 180 days	6 417	(4 754)	1 663	74.1%
More than 180 days	503 720	(451 568)	52 152	89.6%
Total individually assessed	672 037	(566 254)	105 783	84.3%
Total loans to legal entities	8 717 048	(1 104 921)	7 612 127	12.7%

As of 31 December 2015, the analysis of credit quality of loans to individual's portfolio is presented below:

Loans to individuals 31 December 2015	Loans	Impairment allowances	Loans less impairment allowances	Allowance for impairment to gross loans
Collectively assessed				
No overdue:	2 740 870	(168 406)	2 572 464	6.1%
Overdue:	157 170	(15 692)	141 478	10.0%
Less than 30 days	111 663	(10 664)	100 999	9.6%
31- 60 days	15 049	(1 584)	13 465	10.5%
61- 90 days	14 597	(1 532)	13 065	10.5%
91 - 180 days	4 815	(130)	4 685	2.7%
More than 180 days	11 046	(1 782)	9 264	16.1%
Total collectively assessed	2 898 040	(184 098)	2 713 942	6.4%
Individually assessed				
No overdue:	24 000	(19 200)	4 800	80.0%
Overdue:	301 219	(219 424)	81 795	72.8%
Less than 30 days	1 539	(1 232)	307	80.1%
31- 60 days	93	(9)	84	10.0%
61- 90 days	565	(350)	215	62.1%
91 - 180 days	28 654	(14 345)	14 309	50.1%

Translation from the original in Russian language.



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

More than 180 days	270 368	(203 488)	66 880	75.3%
Total individually assessed	325 219	(238 624)	86 596	73.4%
Total loans to legal entities	3 223 259	(422 722)	2 800 537	13.1%

In 2016, the movement of the provision for impairment of loans to legal entities was as follows:

	Large corporate clients	SMEs	Municipal, federal and governmental organizations	Factoring	Other	Total
As at 1 January 2016	162 468	820 801	34 228	2 641	84 783	1 104 921
Charge for the period	34 538	298 794	8 584	-	(3 341)	338 575
Loans written-off	-	(15 713)	-	-	(6 666)	(22 379)
Amounts recovered	-	-	-	(488)	-	(488)
As at 31 December 2016	197 006	1 103 882	42 812	2 153	74 776	1 420 629

In 2016, the movement of the provision for impairment of loans to individuals was as follows:

	Overdrafts	Term loans	Mortgage loans	Other	Total
As at 1 January 2016	40 170	377 929	4 575	48	422 722
Charge for the period	7 154	47 442	7 845	-	62 441
Loans written-off	-	(24 073)	-	-	(24 073)
Amounts recovered	-	-	-	-	-
As at 31 December 2016	47 324	401 298	12 420	48	461 090

In summary:

	Individuals	Legal entities	Total
As at 1 January 2016	422 722	1 104 921	1 527 643
Charge for the period	62 441	338 575	401 016
Loans written-off	(24 073)	(22 379)	(46 452)
Amount recovered	-	(488)	(488)
As at 31 December 2016	461 090	1 420 629	1 881 719

In 2015, the movement of the provision for impairment of loans and advances to legal entities was as follows:

	Large corporate clients	SMEs	Municipal, federal and governmental organizations	Factoring	Other	Total
As at 1 January 2015	124 534	547 301	-	9 139	76 046	757 020
Charge for the period	37 934	289 567	34 228	-	8 737	370 466
Loans written-off	-	(16 067)	-	-	-	(16 067)
Amount recovered	-	-	-	(6 498)	-	(6 498)
As at 31 December 2015	162 468	820 801	34 228	2 641	84 783	1 104 921

In 2015, the movement of the provision for impairment of loans to individuals was as follows:

	Overdrafts	Term loans	Mortgage loans	Other	Total
As at 1 January 2015	18 768	250 150	8 276	-	277 194
Charge for the period	21 402	130 745	-	48	152 195
Loans written-off	-	(2 966)	-	-	(2 966)
Amount recovered	-	-	(3 701)	-	(3 701)
As at 31 December 2015	40 170	377 929	4 575	48	422 722

Translation from the original in Russian language.



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

In summary:

	Individuals	Legal entities	Total
As at 1 January 2015	277 194	757 020	1 034 214
Charge for the period	152 195	370 466	522 661
Loans written-off	(2 966)	(16 067)	(19 033)
Amount recovered	(3 701)	(6 498)	(10 199)
As at 31 December 2015	422 722	1 104 921	1 527 643

Information about the amount of credit risk mitigation

The Group is developing a number of policies and practices to mitigate credit risk. The most traditional are collateral and guarantees, which are common practice. The main types of collateral for loans are real estate, vehicles, equipment, inventory, goods in turnover.

Deposits bearing market risk, occupy an insignificant share in the structure of collateral (as at 31 December 2016 – 0.19%, as at 31 December 2015 – 1.19% of the book value of the assets accepted as collateral).

The proposed collateral in terms of property and property rights must comply with such requirements as: lack of legal prohibitions and restrictions of the Group to perform security transactions, no restrictions to the rights of the lender in the event of the need for the proposed foreclosure of the mortgaged property, the value of collateral should cover the amount owed and must be liquid.

In general collateral can be divided into the following risk groups: the collateral of high-risk group (goods for sale, raw materials, claims); average-risk group (unfinished construction, machinery and equipment, vehicles, etc.); low-risk group (property complexes, real estate, securities, etc.).

Depending on the object of collateral, requirements of the Group and the law, the evaluation of the collateral is provided by: department of the collateral, economists and independent appraisers.

Evaluation of collateral is carried out: previously (to determine the possibility of adopting the proposed customer property as collateral for a loan under consideration), and during the term of the loan agreement.

The frequency of collateral objects' inspection during the term of the loan agreement is defined by the economist and depends on the information available on the state, maintenance, usage of the collateral. In cases where there is no negative information about the content and operation with the collateral, the service life of the collateral object is much higher than the period of the loan agreement, collateral object inspection is performed at least once a year. Mandatory inspection of availability and condition of the collateral is carried out when the borrower provides an application for renewal. Monitoring I and II category of quality collateral is carried out on a regular basis, but not less than once a quarter.

The following table shows the types of assets accepted as collateral as of December 31, 2016 and December 31, 2015 and their book value:

	31 December 2016	31 December 2015
Real estate	6 178 879	6 783 335
Goods in turnover	2 262 725	2 470 086
Vehicles	1 378 692	1 603 766
Fixed assets and equipment	1 294 072	1 643 843
Securities	989 452	1 090 968
Total	12 103 820	13 591 998

The following table presents an analysis of the present value of loans to customers, secured by collateral:

	31 December 2016	31 December 2015
Loans secured by real estate and rights to it	3 648 509	3 449 985
Loans secured by vehicles	841 254	1 068 403
Other collateral (including manufacturing equipment, other equipment and inventory)	2 353 803	3 065 183

Translation from the original in Russian language.



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

Unsecured loans	4 535 190	4 356 786
	<u>11 378 756</u>	<u>11 940 307</u>
Less: Provision for impairment	(1 881 719)	(1 527 643)
	<u>9 497 037</u>	<u>10 412 664</u>

During 2016, the Group applied to recovery of collateral for the purpose of reimbursement for credit operations in the amount of 67 621 (2015: 121 770). These assets are included in non-current assets held for sale (see Note 15). The Group's policy with regard to the realization of such collateral assets usually involves selling them to third parties at the highest possible fair value.

Geographical risk

The geographical risk of is the risk that the Group may incur losses as a result of the influence of political or economic factors in the country of operations or holding of assets. The Group operates in Russia predominantly for Russian customers, and therefore, as analyzed in the table below it has a significant concentration of Russia exposure. The Group has no specific policy, objectives or processes for managing country risk, although in general it seeks to keep exposure to countries other than Russia as low as possible.

The geographic concentration of the Group's assets and liabilities as at 31 December 2016 is set out below:

	Russia	OECD	Other countries	Total
Assets				
Cash and cash equivalents	1 715 988	10 461	-	1 726 449
Mandatory balances with the CBRF	113 871	-	-	113 871
Due from banks	1 550 230	-	-	1 550 230
Financial assets at FVPL	3 103 820	611 410	-	3 715 230
Financial assets AFS	1 053 808	187 667	-	1 241 475
Loans and advances to customer	9 497 037	-	-	9 497 037
Net investment in finance lease	1 129	-	-	1 129
Other assets	58 863	389	-	59 252
Non-current assets available for sale	57 514	-	-	57 514
Deferred tax assets	3 233	-	-	3 233
Property, plant and equipment	381 343	-	-	381 343
Investment property	192 482	-	-	192 482
	<u>17 729 318</u>	<u>809 927</u>	-	<u>18 539 245</u>
Liabilities				
Due to banks	265 320	-	-	265 320
Customer accounts	15 221 526	275	2 868	15 224 669
Debt securities issued	10 552	-	-	10 552
Deferred tax liabilities	-	-	-	-
Other liabilities	138 868	-	-	138 868
	<u>15 636 266</u>	<u>275</u>	<u>2 868</u>	<u>15 639 409</u>
Net balance sheet position	<u>2 093 052</u>	<u>809 652</u>	<u>(2 868)</u>	<u>2 899 836</u>

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

	Russia	OECD	Other countries	Total
Net balance sheet position	<u>1 865 612</u>	<u>657 915</u>	<u>(5 683)</u>	<u>2 517 844</u>

Translation from the original in Russian language.



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

Counterparty credit risk

The head organization of the Group commits "swap" transactions with the settlement date for them on the next business day after the conclusion of the transaction. In accordance with the types of derivative financial instruments (DFI) reflected in Bank of Russia Ordinance No. 3565-U "On Types of Derivative Financial Instruments" dated 16 February 2015, these transactions are not classified as DFI. With other types of DFI, the Group does not perform the transaction. Therefore, the Group does not have a counterparty risk for transactions with DFI. With swap transactions, in accordance with the procedures defined by internal regulatory documents, an assessment is made of the ability of the counterparty to fulfill its obligations under transactions, and limits are set for transaction volumes for each counterparty.

The credit risk of the counterparty may arise from the Group when the repo transactions are made by the lead credit organization. In this case, the risk assessment is carried out in accordance with the procedures defined by the internal regulatory documents of the Group. In order to limit the risk and determine the amount of provisions for possible losses on accepted security, the Group is guided by the requirements of Chapter 6 of Bank of Russia Regulation No. 254-P of 26.03.2004 "On the procedure for the formation by credit institutions of provisions for possible losses on loans, loan and equivalent debt".

RAS provisions are created in accordance with the regulations of the Bank of Russia (on loan and similar debts – CBR Provision from 26.03.2004 № 254-P "On the Procedure for Making Provisions by Credit Institutions for Possible Losses on Loans, Loans and Similar Debts", on other assets – CBR Regulation from 20.03.2006 № 283-P "On the Loss Provisioning Procedure for Credit Institutions") and internal documents of the Bank.

In accordance with internal procedures for assessing capital adequacy the Group's head organization allocates a capital reserve to cover other financial and non-financial risks, including the counterparty risk. This type of risk is not significant for the Bank. A separate methodology is not applied for determining economic capital and establishing limits in terms of risk on the counterparty.

Market Risk

The Group takes an exposure to market risk. Market risk arises from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market fluctuations.

The Group manages market risk through periodic evaluation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements.

To assess the market risk such measurement methods as VaR, GAP, spread, estimating the change in net interest income, scenario analysis are used.

As part of market risk, commodity risk is taken into account, which, as applied to the Group's activities, can be realized with respect to the collateral received as a commodity. The value of commodity risk is calculated in accordance with the Bank of Russia Regulation No. 511-P dated 03.12.2015 "On the procedure for calculating the market risk by credit institutions". More complex procedures for managing commodity risk are not carried out because of the insignificance of the effect of this type of risk on the financial result of the Group. The implementation of commodity risk will not have a significant negative impact on compliance with mandatory regulations or the emergence of other situations that threaten the interests of depositors and creditors. In assessing individual risks for the sake of relevance, commodity risk is considered insignificant.

Market risk management of the Group is based on the following principles:

- the adequacy of the nature and extent of activities, in accordance with which the Group maintains its market risk management infrastructure in a state of sufficient quality for the organization of the process;
- segregation of the sources of market risk;
- responsibility for the accepted risk, according to which departments empowered to carry out operations related to market risk, are responsible for the effective use of these powers;
- centralization of market risk management and continuous monitoring;
- limitation of possible losses, according to



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

- Limitation of possible losses, according to which the total amount of the established limits should not exceed the regulatory ratios established by the Bank of Russia and internal documents.

As the measures taken to minimize market risk, the Group:

- Annually approves a common strategy of actions on the securities market, providing a number of constraints on the structure and quality of the trading portfolio;
- Carries out periodic monitoring of the markets (money, foreign exchange, stock), by monitoring the magnitude and rate of change of market indicators according to the approved list;
- Establishes and maintains constant monitoring of limits for issuers of securities that form the trading portfolio, carries out an assessment of risks of individual portfolio issuers' activities;
- Limits the size of the open currency position (OCP) in volumes that allow limiting the scale of the negative impact on the Group's position on non-critical levels even in the case of the most negative scenarios in the foreign exchange market (sharp changes in exchange rates, devaluation of the ruble, etc.);
- supports the sign of the cumulative gap between interest-bearing assets and liabilities in accordance with the current trends of changes in interest rates (in terms of interest rate risk).

A key component of market risk limitation is a system of limitations on the counterparties (the issuers), the volume and types of operations, liability limits and stop loss and stop out limits. All kinds of limits are established by the authorized body of the Group, which the attention of the information on their compliance is brought to. Monitoring the compliance with the limits is carried out on a regular basis.

As part of the internal procedures for assessing the capital adequacy of the parent organization of the Group, the amount of market risk losses calculated according to a moderate stress scenario is also included in the capital buffer.

Information about the size of the Group's market risk calculated in accordance with RAS is presented in Subsection 2.3 of the Form 0409808 "Report on the level of capital adequacy for covering risks, the amount of provisions for possible losses on loans and other assets" of this Note, p. 60. The load on capital to cover market risk as of 01.01.2017 was 4 673 352, including 4 580 181 for interest risk coverage, 6 523 for stock risk, and 86 648 for commodity risk. The load on capital to cover market risk as of 01.01.2016 was 2 844 174, including 2 837 982 for interest risk coverage and 6 192 for stock risk.

Market risk of securities

Market risk is exposed to securities that are accounted for at current (fair) value (securities of the trading portfolio). Debt securities are subject to stock and interest rate risks. The source of stock risk is an unfavorable change in market prices, the dynamics of which are related to factors specific to this particular instrument, or factors affecting all instruments traded on the market. The source of interest rate risk is a negative change in interest rates. Market risk of securities arises when the Group has a long or short position on a financial instrument.

Identification of this risk involves monitoring the stock market price of the trading portfolio instruments, information about the volumes of trading in securities on the organized securities market, as well as gathering information on the key macro indicators, which may affect the change in market prices (price dynamics).

In order to manage the market risk of securities, the issuer's risk assessment and compliance with limits are assessed and monitored.

Risk of the issuer is the risk of impairment of securities as a result of deterioration in the financial position of the issuer and (or) its business reputation. To minimize the risk of the issuer, these factors are monitored on a regular basis.

The main tool for managing market risk of securities is the system of limits.

When forming a portfolio of securities, preference is given to highly reliable and liquid securities.

Securities transactions are a source of income assuming the investment risk tolerance and sustainable liquidity ratios of the Bank and Group as a whole.



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

The Group expects to use the securities portfolio as a tool to regulate liquidity, including the use of securities to raise funds in the interbank market and refinancing operations of the Bank of Russia. In this regard, the basis of the portfolio consists of securities included in the Lombard list of the Bank of Russia.

To ensure a balance of assets and liabilities by maturity during the formation of a portfolio of securities newly purchased securities must be evenly distributed by maturity (offers), without creating a concentration of the individual time intervals, except in cases when such a concentration is justified by the need to cover liquidity shortages.

The Group assets exposed to the market risk of securities are disclosed in Notes 8 and 9.

The analysis of the sensitivity of the financial result and equity to the stock risk is presented below.

	2016		2015	
	Profit before tax	Equity	Profit before tax	Equity
10% increase in quoted equity securities prices	326	261	310	248
20% increase in quoted equity securities prices	652	522	619	495
40% increase in quoted equity securities prices	1 304	1 044	1 238	991
10% decrease in quoted equity securities prices	(326)	(261)	(310)	(248)
20% decrease in quoted equity securities prices	(652)	(522)	(619)	(495)
40% decrease in quoted equity securities prices	(1 304)	(1 044)	(1 238)	(991)

An analysis of sensitivity of the Group's net profit before tax and equity to changes in quoted debt securities, based on positions existing as at 31 December 2016 and 31 December 2015 is presented in the table below. Sensitivity analysis is performed for three possible scenarios: fluctuations in the range of 10% of sensitivity is the most optimistic scenario, while fluctuations in the range of 40% sensitivity reflect the most stressful version of the situation on the markets in financial instruments, taking into account the events that took place in the Russian economy in 2016.

	2016		2015	
	Net profit before tax	Equity	Net profit before tax	Equity
10% increase in quoted debt securities prices	371 197	396 276	315 232	259 324
20% increase in quoted debt securities prices	742 394	792 551	630 464	518 648
40% increase in quoted debt securities prices	1 484 788	1 585 102	1 260 928	1 037 297
10% decrease in quoted debt securities prices	(371 197)	(396 276)	(315 232)	(259 324)
20% decrease in quoted debt securities prices	(742 394)	(792 551)	(630 464)	(518 648)
40% decrease in quoted debt securities prices	(1 484 788)	(1 585 102)	(1 260 928)	(1 037 297)

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. There is also a risk that borrowers with a revenue stream in foreign currency will also be adversely affected and this could impact their ability to pay. Currency classification of monetary assets and liabilities is based on the currency they are denominated in.

The basic procedure to identify the factors of foreign exchange risk for individual operations and transactions, as well as in certain areas of activity is the monitoring of exchange rates, the prices of forward exchange instruments. The main instruments of regulation of currency risk are single exchange rate policy and control system of OCP (open currency position).

In its activities, the parent organization of the Group adheres to a conservative policy of minimizing the currency risk - it does not conduct speculative operations and holds minimal OCP. In the ForEx market, through interbank transactions and transactions on the exchange, the Bank conducts timely conversion operations to regulate OCP arising from transactions with customers, which minimizes the currency risk to the level of insignificant.



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

As at 31 December 2016, the Group had the following positions in currencies:

	<u>RUB</u>	<u>USD</u>	<u>EUR</u>	<u>Other</u>	<u>Total</u>
Assets					
Cash and cash equivalents	1 384 833	117 808	216 770	7 038	1 726 449
Mandatory balances with the CBRF	113 871	-	-	-	113 871
Due from banks	1 548 410	1 820	-	-	1 550 230
Financial assets at FVPL	3 043 091	604 460	67 679	-	3 715 230
Financial assets at AFS	991 504	249 971	-	-	1 241 475
Loans and advances to customers	9 497 037	-	-	-	9 497 037
Net investment in financial lease	1 129	-	-	-	1 129
Other assets	57 525	1 651	76	-	59 252
Non-current assets available for sale	57 514	-	-	-	57 514
Deferred tax assets	3 233	-	-	-	3 233
Property, Plant and Equipment	381 343	-	-	-	381 343
Investment property	192 482	-	-	-	192 482
	<u>17 271 972</u>	<u>975 710</u>	<u>284 525</u>	<u>7 038</u>	<u>18 539 245</u>
Liabilities					
Due to banks	265 320	-	-	-	265 320
Customer accounts	14 640 612	448 272	128 524	7 261	15 224 669
Debt securities issued	10 552	-	-	-	10 552
Other liabilities	138 845	23	-	-	138 868
	<u>15 055 329</u>	<u>448 295</u>	<u>128 524</u>	<u>7 261</u>	<u>15 639 409</u>
Net on-balance sheet position	<u>2 216 643</u>	<u>527 415</u>	<u>156 001</u>	<u>(223)</u>	<u>2 899 836</u>

As at 31 December 2015, the Group had the following positions in currencies:

	<u>RUB</u>	<u>USD</u>	<u>EUR</u>	<u>Other</u>	<u>Total</u>
Net on-balance sheet position	<u>2 217 207</u>	<u>181 339</u>	<u>119 387</u>	<u>11</u>	<u>2 517 944</u>

The table below shows the parameters characterising the sensitivity of the Group's capital to the fluctuation of the ruble against the US dollar and the Euro in the range of 10% (increase or decrease) in the range of 20% (increase or decrease), and the range of 40% (increase or decrease) while all other variables remain constant. Fluctuations in the range of 10% of sensitivity is the most optimistic scenario, while fluctuations in the range of 40% sensitivity reflect the most stressful version of the situation in the currency markets and is based on real events that took place in the Russian economy in 2016. The sensitivity analysis indicated below includes only the analysis of open foreign currency positions of the Bank at the balance sheet date and shows what effect would have currency fluctuations in the range of 10%, 20%, 40%.

	<u>31 December 2016</u>		<u>31 December 2015</u>	
	<u>Net profit before tax</u>	<u>Equity</u>	<u>Net profit before tax</u>	<u>Equity</u>
Strengthening of USD for 10%	52 742	42 193	18 134	14 507
Strengthening of USD for 20%	105 483	84 386	36 268	29 014
Strengthening of USD for 40%	210 966	168 773	72 536	58 028
Weakening of USD for 10%	(52 742)	(42 193)	(18 134)	(14 507)
Weakening of USD for 20%	(105 483)	(84 386)	(36 268)	(29 014)
Weakening of USD for 40%	(210 966)	(168 773)	(72 536)	(58 028)
Strengthening of Euro for 10%	15 600	12 480	11 939	9 551
Strengthening of Euro for 20%	31 200	24 960	23 877	19 102
Strengthening of Euro for 40%	62 400	49 920	47 755	38 204

Translation from the original in Russian language.



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

Weakening of Euro for 10%	(15 600)	(12 480)	(11 939)	(9 551)
Weakening of Euro for 20%	(31 200)	(24 960)	(23 877)	(19 102)
Weakening of Euro for 40%	(62 400)	(49 920)	(47 755)	(38 204)

Liquidity Risk

Liquidity risk arises from the fact that the maturity of assets and liabilities does not match in terms of currencies.

The complete coincidence of requirements and obligations with respect to these parameters is not characteristic for banking groups, since their operations are of a diverse nature and are concluded under different conditions. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The following factors are identified for the emergence of liquidity risk:

- structural – that are related to the actual structure of claims and liabilities in terms of amounts and terms at which the amount of outgoing payments exceeds the amount of outflows in a separate time (liquidity deficit);
- probabilistic – that are connected with the implementation of adverse probabilistic or accidental events that negatively altered the structure of payment flows on the day of payments towards the emergence / increase of the liquidity deficit.

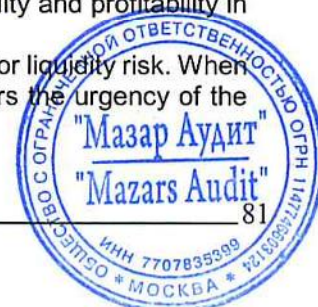
In terms of liquidity risk management and fund raising, limits and inter-group lending activities, the management bodies, departments and officials of the Group are involved, including: the board of directors and the board (including the Deputy Chairman of the Board which oversees liquidity management issues), the asset and liability management Committee (ALMC), a Large credit committee (LCC), the Treasury, the department of risk management and financial analysis, planning and economic department, cash operations department, the internal audit and control, as well as other departments engaged in transactions affecting the payment position of the parent organization of the Group and implement measures to restore liquidity in the event of unforeseen circumstances.

The Bank clearly shares the authority and responsibility for managing liquidity risk between the Group's management bodies, including Committees and departments. Departments are predominantly authorized to perform on a regular basis: measuring the liquidity position of the parent organization of the Group and its forecast, liquidity reserves, analysing and monitoring liquidity risk, making proposals and recommendations concerning liquidity issues, managing liquidity position. The ALMC's authority mainly includes: forming the optimal structure of the balance sheet of the parent organization of the Group, determining the liquidity management policy, monitoring the liquidity situation, setting liquidity limits and monitoring their implementation, participating in the preparation and implementation of the action plan to restore liquidity in a crisis situation. LCC's authorities in relation to liquidity risk management are concentrated on: determining optimal credit conditions that ensure efficient use of resources; determining the list of clients whose lending should / should not stop and taking measures to early repay loans in the face of liquidity shortages.

Treasury functions and liquidity risk management functions are divided between the relevant divisions of the Group, while in order to minimize the liquidity risk, other divisions of the Group are involved in the liquidity management process, which directly or indirectly can affect the payment position of the head of the Group organization. The interaction of the units involved in the liquidity management process is carried out on a regular basis, is to exchange information to assess liquidity risk, to prepare recommendations for its management and direct management. Liquidity management is controlled by ALMC.

The liquidity risk management policy is based on the following principles:

- Liquidity management is carried out daily and continuously;
- The methods and tools used to assess liquidity risk should not conflict with Bank of Russia regulatory documents, risk management policies;
- In a process of decision making, the Bank resolves the conflict between liquidity and profitability in favor of liquidity;
- Every transaction affecting the liquidity situation should be taken into account for liquidity risk. When assets are placed in various financial instruments, the Group strictly considers the urgency of the source of resources and its volume;



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

- Carrying out of a major transaction is analyzed provisionally for compliance with the current liquidity situation and the established limits;
- Carried out the planning liquidity requirements.

In managing liquidity risk, the Group follows the policy of maintaining the liquidity reserve necessary to cover a possible deficit in the payment position. Taking into account the size of the liquidity reserves, the Group determines the limiting values of liquidity indicators and builds up the optimal structure of claims and liabilities. On a daily basis, liquidity reserves are calculated to manage the current payment position. To determine the payment position in the future, liquidity reserves are recalculated monthly. At the same time, the size of the Group's need for the Group's head office in liquidity reserves is determined.

To assess and analyze liquidity, the Group uses the following methods:

- coefficient method (regulatory approach);
- method of assessing the gap in maturities of assets and liabilities, including modelling of alternative scenarios with the calculation of liquidity indicators: excess (deficit) liquidity, ratio of surplus (deficit) liquidity and its limits;
- forecasting cash flows.

The methodology for measuring the liquidity position of the parent organization of the Group is based on the recommendations of the Bank of Russia set out in Letter No. 139-T of July 27, 2000 "On Recommendations for the Analysis of the Liquidity of Credit Institutions." The distribution of balance sheet assets and liabilities and off-balance items is carried out in terms of terms and types of currencies. In each interval, the value of the gap is calculated. Gaps are calculated as a cumulative result, and without build-up. Additionally, to assessing the liquidity risk the Group calculates the discontinuities and its cumulative magnitude taking into account stress scenarios, providing adverse changes in the flow of payments to the side, which worsens the liquidity of the credit institution. The size of the gaps is calculated in both absolute and relative terms. The values of the gaps are compared with their limiting values. The liquidity reserves are calculated to determine acceptable levels of gaps.

As at 31 December 2016, the values of the gaps calculated for management purposes by an accrual basis in rubles and the ruble equivalent of foreign currencies, as well as liquidity reserves, were as follows:

	Short-term perspective (From "on demand" to 7 days inclusive)	Medium-Term perspective (From "on demand" to 30 days inclusive)	Short-term perspective (From "on demand" to 1 year inclusive)
Scenario 1			
Accumulated gap [*] , mln.RUR.	128	190	-1 303
Gap ratio	0,03	0,03	-0,09
Scenario 2			
Accumulated gap [*] , mln.RUR.	2 969	2 963	1 191
Gap ratio	0,70	0,52	0,08
Scenario 3			
Accumulated gap [*] , mln.RUR.	1 939	1 933	453
Gap ratio	0,46	0,34	0,03
Scenario 4			
Accumulated gap [*] , mln.RUR.	566	920	-179
Gap ratio	0,13	0,16	-0,01
Value of liquidity reserves. mln. RUR	4 738	6 423	6 488
Limit value of the fracture coefficients:			
With a liquidity deficit	1,12	1,12	0,46
With excess liquidity	1,00	1,00	1,00

*Negative value indicates a shortage of liquidity, a positive - the excess



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

As at 31 December 2015, the Group had the following indicators:

	Short-term perspective (From "on demand" to 7 days inclusive)	Medium-Term perspective (From "on demand" to 30 days inclusive)	Short-term perspective (From "on demand" to 1 year inclusive)
Scenario 1			
Accumulated gap*, mln.RUR.	-1 631	-1 983	-1 398
Gap ratio	-0,52	-0,44	-0,13
Scenario 2			
Accumulated gap*, mln.RUR.	1 190	778	1 150
Gap ratio	0,38	0,17	0,10
Scenario 3			
Accumulated gap*, mln.RUR.	277	-135	557
Gap ratio	0,09	-0,03	0,05
Scenario 4			
Accumulated gap*, mln.RUR.	-941	-974	-224
Gap ratio	-0,30	-0,22	-0,02
Value of liquidity reserves. mln. RUR	2 997	3 770	3 962
Limit value of the fracture coefficients:			
With a liquidity deficit	0,96	0,84	0,35
With excess liquidity	1,00	1,00	1,00

* Negative value indicates a shortage of liquidity, a positive - the excess.

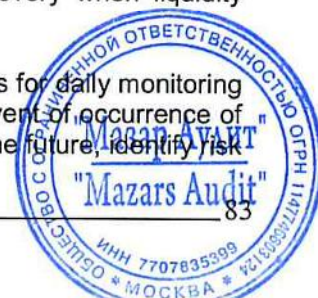
As the main methods for reducing liquidity risk, the Group applies methods such as setting ranges of mandatory liquidity ratios, limit values for gap coefficients, setting limits for cash, limits on active operations, managing the risk of concentration of the resource base, and maintaining liquidity reserves.

In addition, the parent organization of the Group forms a reserve for capital to cover potential losses from the realization of liquidity risk under stressful conditions. For this, stress testing is carried out with respect to liquidity risk. The object of risk is the incoming and outgoing payments flows of the credit organization, distributed according to the terms of their implementation. Stress testing is based on the assessment of gaps (GAP) in the volumetric-temporal structure of requirements and obligations. The burden on the financial result and capital is calculated as the sum of costs from activities to reduce the gap. Stress-testing is carried out according to several types of scenarios, providing unfavorable changes in the volume-time structure of incoming and outgoing payments flows to the degree of variation from moderate to critical. The scenarios of the non-return of a portion of the allocated funds and the outflow of a part of the resources are necessarily taken into account. The result of stress testing under a scenario as close to realistic as possible is used as a reserve for capital to cover potential losses from the realization of liquidity risk. Based on the results of all stress testing scenarios, an overall assessment of the Group's exposure to liquidity risk is made, the factors most at risk and the areas that are at greater risk of liquidity are identified.

When managing the liquidity risk associated with liquidity risk in assets that have quoted an active market, the Group applies a discount factor to these assets to reduce their cost, corresponding to a certain stress scenario.

In cases of emergencies, the Group has developed an action plan aimed at restoring liquidity, in accordance with which the liquidity of the parent organization of the Group is monitored, an analysis of the "peak" situation and measures for its elimination, as well as measures to abolish the "emergencies mode". The head credit institution monitors the dynamics of customer funds, the values of liquidity ratios, the balance on the correspondent account with the Bank of Russia. When the signal levels of the monitored indicators are reached, the causes of these events are analyzed and a conclusion is made about the occurrence / non-occurrence of a "peak" situation. Measures to eliminate the "peak" situation include actions to eliminate panic of depositors and outflow of funds from corporate accounts, work in the interbank lending market and correspondent account with the Bank of Russia, asset restructuring, liquidity recovery when liquidity indicators approach critical values.

The action plan, aimed at liquidity recovery, in cases of emergency situations provides for daily monitoring of events, instant management of adverse events in liquidity and is realized in the event of occurrence of these events. Stress testing allows to predict possible appearance of liquidity risk in the future, identify risk



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

factors, determine the amount of potential losses. The parameters of the plan scenarios and stress testing are different and meet the requirements of the application.

The liquidity risk on a monthly basis is prepared by reports containing: a coefficient analysis of liquidity, an analysis of the gap in the maturity of claims and liabilities with the calculation of liquidity and liquidity reserves. In order to forecast cash flows on a daily basis, a daily forecast is generated for managing instant liquidity, a payment calendar (cash flow forecast) is generated on a weekly basis, and a liquidity balance is formed on a monthly basis (as well as on any required date), containing information on assets and liabilities on maturity. More than that, the parent credit organization prepares statements in accordance with the form and within the time limits that comply with the requirements of the Bank of Russia Directive No. 2332-U of November 12, 2009 "On the list, forms and procedure for drawing up and submitting forms of reporting of credit institutions to the Central Bank of the Russian Federation" (since 01.01 .2017 this document becomes invalid in connection with the issuance of the Instruction of the Bank of Russia of November 24, 2016 No. 4212-U "On the list, forms and procedure for drawing up and submitting forms of reporting of credit institutions to the Central Bank of the Russian Federation").

Control in the liquidity management system is designed to ensure that the conducted operations are checked for the procedures adopted and includes key moments of control:

- compliance with the liquidity management procedures established in the Group and the implementation of recommendations on the results of inspections;
- attraction and placement of funds within the established limits;
- changes in the balance;
- level of liquidity risk;
- rates of mandatory liquidity ratios.

The next units can implement control: responsible executors, heads of structural divisions of the Bank whose decisions affect the liquidity situation, the management bodies of the parent organization of the Group, the internal control and audit services of the parent organization of the Group.

Supervisors:

- responsible executives;
- heads of structural divisions of the Bank, whose decisions affect the liquidity situation;
- the management bodies of the parent company of the Group;
- the internal control department and internal audit department of the parent company of the Group.

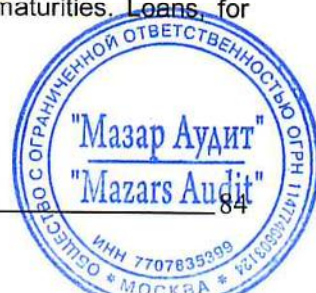
During 2016 and 2015 mandatory liquidity ratios of the Group were in compliance with the ratios required by the CBRF.

The following table represents the mandatory liquidity ratios for the Group calculated at 31 December 2016 and 31 December 2015:

	Requirements	December 31, 2016	December 31, 2016
Instant liquidity ratio (N2)	Min 15%	39.1%	49.1%
Current liquidity ratio (N3)	Min 50%	132.1%	120.4%
Long-term liquidity ratio (N4)	Max 120%	68.5%	58.5%

The Group's liquidity position is calculated daily for the three requirements above by Treasury, and any issues are highlighted and referred to senior management immediately. The Group performs daily operations with its financial assets to ensure limits are complied with. Liquidity management is controlled by the Asset and Liability Committee.

The table below presents the cash flows payable by the Group under non-derivative financial liabilities and assets held for managing liquidity at 31 December 2016. Amounts shown are contractual undiscounted cash flows, including future interest, as required by IFRS 7 revised, although in practice the Group manages liquidity on a different basis, as described above. Some assets may have longer maturities. Loans, for example, can be prolonged, and short-term loans can have a long duration.



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

	On demand or less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Overdue/ no stated maturity	Total
Liabilities						
Due to banks	20 693	72 081	26 662	27 134	118 750	265 320
Customer accounts	6 294 298	2 230 771	2 462 116	3 220 021	1 017 463	15 224 669
Debt securities issued	1 654	5 577	392	2 929	-	10 552
Other liabilities	65 448	31 733	20 571	18 300	2 816	138 868
Total liabilities	6 382 093	2 340 162	2 509 741	3 268 384	1 139 029	15 639 409
Assets held for managing liquidity risk	8 738 829	3 324 025	2 754 211	2 790 940	931 240	18 539 245
Credit Related Commitments	194 737	1 050 681	583 522	689 188	-	2 518 128

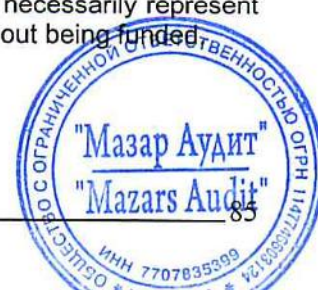
The tables below present the cash flows payable by the Group under non-derivative financial liabilities and assets held for managing liquidity at 31 December 2015.

	On demand or less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Overdue/ no stated maturity	Total
Liabilities						
Due to banks	15 837	23 931	31 295	465 204	-	536 267
Customer accounts	4 914 579	4 480 842	2 254 472	2 210 734	-	13 860 627
Debt securities issued	3 145	9 109	4 256	2 717	-	19 227
Other liabilities	78 624	102 452	15 988	12 067	3 493	212 624
Deferred tax liability	-	-	-	-	-	-
Total liabilities	5 012 185	4 616 334	2 306 011	2 690 722	3 493	14 628 745
Assets held for managing liquidity risk	5 835 672	3 991 160	3 689 240	3 805 820	1 091 506	18 413 398
Credit Related Commitments	114 415	757 099	676 821	1 134 487	-	2 682 822

The data in the tables above differs from the discounted cash flows which form the basis of the Statement of Financial Position at 31 December 2016 and at 31 December 2015, and IFRS 7 revised does not require such reconciliation. The Management considers that loans should be included in assets held for managing liquidity risk, since they can be sold for this purpose.

The analysis by maturity does not reflect the historical stability of current accounts. Their historical liquidity exceeds the time limits specified in this table. Balances on current accounts are included in balances with a maturity of on demand or less than one month.

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



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

Interest Rate Risk

Interest rate risk - the risk of adverse changes in interest rates when the maturities of assets, liabilities and off-balance sheet instruments are imbalanced.

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The majority of the Group's assets and liabilities are priced on a fixed rate basis.

The main sources of interest risk are:

- the discrepancy between the maturity of assets, liabilities and off-balance sheet claims and liabilities on instruments (the risk of revising the interest rate);
- changes in the configuration of the yield curve for long and short positions on financial instruments of one issuer, that create a risk of losses as a result of exceeding potential expenses over revenues when closing these positions (yield curve risk);
- for financial instruments with a fixed interest rate for which the maturity dates are matched - the discrepancy between the degree of change in interest rates for attracted and placed resources;
- for financial instruments with a floating interest rate, under the same frequency of a revision of the floating interest rate - the discrepancy in the degree of change in interest rates (basic risk);
- wide application of option transactions with traditional interest-bearing instruments that are sensitive to changes in interest rates (bonds, loans, mortgages and securities, etc.), generating a risk of losses as a result of refusal to fulfill obligations of one of the parties of the transaction (option risk).

Monitoring and assessment of interest risk in the banking portfolio is carried out by the parent organization of the Group on a regular basis and at least once a month. In addition, monitoring of the monetary policy of the Central Bank of the Russian Federation, current level of the key rate, inflation rate, information on the maximum interest rate on 10 largest credit institution that attract the largest amount of money is implemented on the quarterly basis.

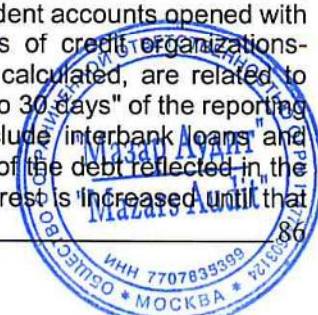
The main methods of assessment and monitoring of interest rate risk are:

- determining the amount of the interest margin (spread), the calculation and assessment of the current and sufficient spread;
- definition of the gap (GAP) between assets and liabilities sensitive to changes in interest rates, and evaluation of sensitivity to changes in interest rates.

Spread is understood as the difference between the average interest rates for assets and liabilities, taking into account their structure in the balance sheet. calculations of the current interest spread and the sufficient interest spread required to ensure a given return on equity. Based on this information sufficient interest rates for placements for different types of instruments are determined.

To determine the gap (in terms of the time) between assets and liabilities, off-balance sheet instruments that are sensitive to changes in the level of interest rates, the reporting data in form 0409127 "Information on interest rate risk" is used. In the context of time intervals and within a year, the value of GAP and the brake coefficients are estimated. For the brake coefficient calculated by the cumulative total within a year, the recommended range is set, exceeding the limits of which signals an increased level of risk. To assess the Group's preparedness for the crisis in relation to interest-bearing GAP, stress testing is conducted, according to which the GAP is subjected to a stress test that involves concentration risk and interest rate changes at a level corresponding to the stress scenario parameter.

The applied risk assessment models do not assume significant assumptions. The data used for valuation under Form 0409127 "Information on interest rate risk" may have a number of assumptions, for example, some of these assumptions may include the following: funds placed on correspondent accounts opened with correspondent credit institutions, as well as funds on correspondent accounts of credit organizations-respondents opened in a credit institution-correspondent, for which interest is calculated, are related to sensitive to changes in the interest rate and are reflected in the time interval "Up to 30 days" of the reporting without accruals of interest; to interest-sensitive loans to credit institutions include interbank loans and discounted bills; Interbank loans are reflected on the time intervals, with the rest of the debt reflected in the interval corresponding to the date of the termination of the contract, and the interest is increased until that



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

date; discounted bills are reflected in the interval corresponding to the date of presentation of the bill at nominal value.

Stress testing takes into account the concentration of interest requirements and liabilities on certain sources, namely: stress testing takes into account the concentration of interest requirements and liabilities on certain sources, namely: the non-return of a part of assets to the maturity date and the early call for a part of the resources - all this will eventually lead to an increase in the gap.

It is possible to distinguish the following key moments of control in relation to interest rate risk in the bank portfolio:

- Monitoring compliance with established procedures for managing interest risk, including requirements of the Bank of Russia, and implementation of recommendations on the results of inspections;
- Control compliance with a single interest rate policy;
- Control of the structure of assets and liabilities exposed to interest rate risk;
- Control compliance with limits for active operations;
- Controlling the size of a sufficient interest spread and GAP;
- Level of interest rate.

Monitoring systems as a risk management tool is based on the principles of coverage by control procedures of all organizational structures and divisions of the Group and the multi-level nature of the internal control.

In order to minimize interest rate risk, the Group follows a single policy of setting interest rates. The Group seeks to reduce the level of interest risk by minimising GAP at all analysed periods and maintaining the gap in the recommended range. The resolution of the Group's authorized body on the admissibility of the gap should be based on a reasonable expectation of a positive change in the market rates for the Group (growth in the case of a positive GAP and a decrease in the case of a negative GAP).

In order to reduce the risk, by the decision of the authorized body of the Group, limits on the gaps in sensitive assets and liabilities may be established. The size of the limit is determined by the influence of the following factors:

- Directly by the size of gaps;
- Market conditions and the prospects for changes in interest rates (mainly by the directions of changes);
- The priority task of maintaining liquidity;
- Results of stress testing of the gap.

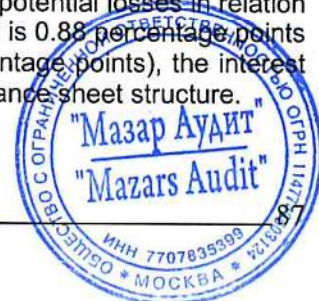
In order to avoid taking on an increased risk, the Group sets an internal limit on the annual GAP, which is the acceptable ratio of the results of stress testing of changes in interest rates to operating profit.

Also, in order to reduce the level of risk, the Group seeks a parity between the current and sufficient interest spread or the superiority of the current over the sufficient.

Combining data on weighted average interest rates on attracted and placed funds with analysis of GAPs and analysis of market conditions, the Group determines the areas of greatest vulnerability for interest rate risks and applies methods for their prevention, and in this case, determines the optimal value of interest rates on its instruments.

Eventually, methods aimed at reducing interest risk in the banking portfolio are aimed at building a balanced structure of interest-bearing assets and liabilities, off-balance instruments, and fulfilling the Group's strategic goal of profit and profitability.

Based on the results of monitoring of interest rate risk in the banking portfolio of the parent organization of the Group as at 31 December 2016, the gap between assets and liabilities, off-balance sheet instruments (including ruble equivalent of balances in foreign currencies), an accruing result in the year-end amounted to 2 414 million rubles (31 December 2015: 342 million rubles). The internal limit of potential losses in relation to the Group's operating profit was not exceeded. The value of the current spread is 0.88 percentage points exceeded the level of sufficient spread (as at 31 December 2015 by 1.21 percentage points), the interest margin is sufficient to meet the planned profitability indicators with the current balance sheet structure.



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

As part of the internal procedures for assessing the capital adequacy of the parent organization of the Group, the amount of losses from the implementation of interest rate risk in the bank portfolio, calculated according to a moderate stress scenario, is added to the capital buffer. Based on the valuation results for 31 December 2016 the change in interest rate risk may affect the financial result and own funds (capital) of the parent organization of the Group in the amount of 63 520 million rubles. (The value is calculated taking into account the ruble equivalent of balances in foreign currencies, which occupy an insignificant share in the aggregate amount of claims and liabilities). As at 31 December 2015, the potential load on capital was 49 060 million rubles. Own funds are enough to cover the potential losses, in addition, this amount is embedded in the buffer of capital to cover risks.

The analysis of the Group's weighted average interest rates of interest bearing assets and liabilities by reference to the next interest rate re-fixing date as at 31 December 2016 is presented below.

	On demand or less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Overdue
Assets					
Due from banks	10.39	-	-	-	-
Financial assets	9.97	-	-	-	-
Financial assets held to maturity	-	-	-	-	-
Financial assets available for sale	9.24	-	-	-	-
Loans and advances to customers	15.36	14.04	14.15	15.69	26.37
Net investment in financial lease	28.04	28.04	31.00	-	-
Liabilities					
Due to banks	8.46	8.98	8.31	9.04	-
Customer accounts	7.28	8.98	8.02	7.42	-
Debt securities issued	3.38	5.52	7.23	10.39	-
Other liabilities	-	-	-	-	-

The analysis of the Group's weighted average interest rates of interest bearing assets and liabilities by reference to the next interest rate re-fixing date as at 31 December 2015 is presented below.

	On demand or less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Overdue
Assets					
Due from banks	10.82	5.56	-	-	-
Financial assets at a fair value through profit or loss	10.93	-	-	-	-
Financial assets held to maturity	-	-	9.48	-	-
Financial assets available for sale	9.86	-	-	-	-
Loans and advances to customers	16.57	15.58	15.59	16.55	26.12
Net investment in financial lease	26.57	26.54	26.78	23.76	-
Liabilities					
Due to banks	8.85	8.00	8.00	8.87	-
Customer accounts	8.83	10.92	9.55	9.73	-
Debt securities issued	6.18	5.91	8.34	9.92	-
Other liabilities	-	14.00	-	-	-

Assuming the financial assets and liabilities as at 31 December 2016 were to remain until maturity or settlement without any action by the Group to alter the resulting interest rate risk exposure, an immediate and sustained for one year reasonably possible positive change of 5% in market interest rates across all maturities and currencies would increase profit for the current year by approximately 111 544 as a result of higher interest expense (2015: decrease by 93 869 as a result of higher interest expense).

In the table below given is the analysis of the interest rate fluctuation risk to which the Group is exposed as at 31 December 2016. In the table shown are the amounts of interest assets and liabilities in their balance cost existing for the reporting date referred to different categories from the earliest of the following dates set in the agreement of interest rate fluctuation or maturity.



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

	On demand or less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Overdue/ no stated maturity	Total
Assets						
Due from banks	1 450 000	-	-	-	-	1 450 000
Financial assets at a fair value through profit or loss	3 711 967	-	-	-	-	3 711 967
Financial assets available for sale	1 241 475	-	-	-	-	1 241 475
Loans and investments to customers	343 704	3 316 819	2 743 714	2 748 799	179 181	9 332 217
Net investment in financial lease	154	722	253	-	-	1 129
Total assets	6 747 300	3 317 541	2 743 967	2 748 799	179 181	15 736 788
Liabilities						
Due to banks	20 653	98 742	27 134	118 751	-	265 280
Customer accounts	2 500 990	4 841 667	3 522 436	1 351 785	-	12 216 878
Debt securities issued	1 179	5 617	414	2 942	-	10 152
Total liabilities	2 522 822	4 946 026	3 549 984	1 473 478	-	12 492 310
Net liquidity	4 224 478	(1 628 485)	(806 017)	1 275 321	179 181	3 244 478
Accumulated gap as at 31 December 2016	4 224 478	2 595 993	1 789 976	3 065 297	3 244 478	
Accumulated gap as at 31 December 2015	1 988 103	1 034 861	1 968 601	2 143 706	2 441 580	

The table given below shows the average interest rates by currencies on major interest monetary financial instruments. The following analysis is prepared on the basis of average weighted interest rates in accordance with agreements in the effect on the end of the reporting year:

	2016			2015		
	RUB	USD	Euro	RUB	USD	Euro
Interest bearing assets						
Due from banks	10.39	-	-	9.43	-	-
Financial assets at a fair value through profit or loss	10.77	6.62	4.00	11.73	6.47	5.50
Financial assets held to maturity	-	-	-	9.48	-	-
Financial assets available for sale	10.34	4.88	-	9.86	-	-
Loans and advances to customers	15.49	-	-	16.71	-	-
Net investment in financial lease	28.55	-	-	25.45	-	-
Interest bearing liabilities						
Due to banks	8.90	-	-	8.83	-	-
Customer accounts	8.44	1.88	1.24	10.39	3.04	2.60
Debt securities issued	6.75	-	-	7.02	-	-
Other liabilities	-	-	-	14.00	-	-



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

Operational risk

Operational risk – defined as the risk of loss resulting from incompliance with the type and scale of the Group's activity and / (or) with requirements of current legislation of internal policies and from violations by the Group's employees and / (or) other individuals (due to incompetence, unintentional or deliberate acts), lack of functional capabilities of the Group's information, technological and other types of systems and / (or) their failures, and also from the influence of external events. When the control system stops functioning, operational risks can damage Group's reputation; have legal consequences or lead to financial loss.

The Group manages operational risk on an ongoing basis. The main method of measuring operational risk is - identification of operational risk events and evaluation of indicators (database of events and indicators of operational risk, as well as losses from the sale of operational risk is generated).

The main methods the Group uses to minimize operational risk are the following:

- development of organizational structure, internal rules and procedures of banking operations and other transactions in such a way as to eliminate or minimise the possibility of operational risk. Observance of the principles of segregation of duties, authorisation procedure (approval) and reporting on Group's transactions;
- modernisation of banking systems automation and information protection. Minimisation of manual document processing;
- effective realisation of the Group's human resources practice in a sphere of personnel rationalisation, training, hiring, motivation and increasing of corporate culture of all Group's employees;
- organisation of work on developing employees' awareness of operational risk, that might arise from their working performance;
- usage of traditional types of property and life insurance by the Group;
- system of measures development to provide going concern of Group's operations, including plans of action in case of unexpected circumstances.

The value of the operational risk of participants of the banking group is calculated annually as at 1 January of the year following the reporting year in the order that is established by Regulation No. 346-P of the Bank of Russia of November 3, 2009 "On the procedure for calculating the amount of operational risk".

The operational risk on the basis of the Group's reports prepared under Russian legislation as at 31 December 2016 is presented in the following table:

:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Net interest income	988 909	917 520	738 586
Net non-interest income	633 194	521 129	429 507
Income	1 622 103	1 438 649	1 168 093

Operational risk as at 31 December 2016 is 226 343.

The operational risk on the basis of the Group's reports prepared under Russian legislation as at 31 December 2015 is presented in the following table:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Net interest income	917 520	738 586	576 683
Net non-interest income	521 129	429 507	356 311
Income	1 438 649	1 168 093	932 994

Operational risk as at 31 December 2015 is 176 987.



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

31. Capital Management

The Group's policy is aimed to maintain the level of capital sufficient to keep trust of investors, creditors and the market in general, as well as for the future development of the Group's operations.

The Central Bank of the Russian Federation sets capital requirements to the Group and monitors compliance with these requirements. Currently, under requirements of the Central Bank of the Russian Federation, the Group has to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a certain minimum level. As at 31 December 2016, this minimum level was 8% (2015: 10%). At the same time the internal procedures of capital adequacy assessment the Group maintains capital adequacy, designed to cover expected and unexpected risks, at a level above the specified aggregate risk appetite. At the same time the internal procedures of capital adequacy assessment the Group maintains capital adequacy, designed to cover expected and unexpected risks, at a level above the specified aggregate risk potential.

Determination of own funds (capital) of a banking group under the RAS carried out in accordance with the requirements established for credit institutions to Bank of Russia Regulation dated 28 December 2012 № 395-P "On the method of determining the own funds (capital) of credit organizations ("Basel III)", with the features established by Bank of Russia dated 3 December 2015 № 509-P "On calculation of own funds (capital), the required ratios and sizes (limits) of open currency positions of banking groups."

In determining the value of own funds (capital), the group complies with the provisions of the transitional period established by the Regulation No. 395-P.

Regulatory capital is based on the report of the Group prepared in accordance with the requirements of the Russian legislation. Regulatory capital is disclosed in the form 0409808, which is given in this note, p.46.

The main reason explaining the difference between the amount of capital calculated under CBRF requirements and equity presented in these consolidated financial statements is an additional provision for loans and other assets, recognised under the RAS.

During 2016 and 2015 the Group's capital adequacy ratio was in line with regulations.

Capital (net assets) deficit of a nonconsolidated structured entity LLC "Khlynov-Invest" on 31 December 2016 amounted to 1 890 (31 December 2015: 13 263).

The minimum values of capital adequacy requirements for banking groups, set by the Bank of Russia are as follows:

- base capital adequacy ratio, set at 4,5%,
- capital adequacy ratio, set at 6%,
- equity capital adequacy ratio, set at 8%.

The values of capital adequacy ratios of the Group and information on the amount of the Group's assets, risk weighted (under RAS) used for purposes of calculating the adequacy ratio of own funds (capital) of a banking group (20.0 N). Details disclosed in the forms 0409808, 0409813, which is given in this note, p. 46, 58.



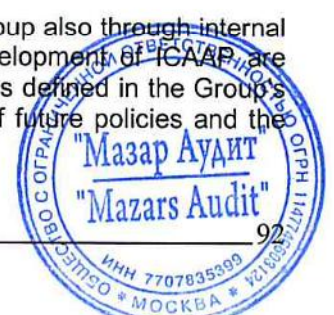
JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

Information on the amount of the Group's assets, risk weighted (under RAS)

Indicator	31 December 2016	31 December 2015
Total assets, risk weighted for purposes of calculating the base capital adequacy ratio (Ap_1)	8 906 615	10 226 254
Ap1 ₁	-	-
Ap2 ₁	286 744	299 192
Ap3 ₁	-	121 061
Ap4 ₁	8 619 871	9 806 001
Ap5 ₁	-	-
Total assets, risk weighted for purposes of calculating the capital adequacy ratio (Ap_2)	8 906 615	10 226 254
Ap1 ₂	-	-
Ap2 ₂	286 744	299 192
Ap3 ₂	-	121 061
Ap4 ₂	8 619 871	9 806 001
Ap5 ₂	-	-
Total assets, risk weighted for purposes of calculating the equity capital adequacy ratio (Ap_0)	8 999 443	10 318 489
Ap1 ₀	-	-
Ap2 ₀	286 744	299 192
Ap3 ₀	-	121 061
Ap4 ₀	8 712 699	9 898 236
Ap5 ₀	-	-
Assets with high risk factor for the purposes of calculating the base capital adequacy ratio	1 604 602	1 462 175
Assets with high risk factor for the purposes of calculating the capital adequacy ratio	1 604 602	1 462 175
Assets with high risk factor for the purposes of calculating the equity capital adequacy ratio	1 604 602	1 462 175
Consumption loans	40 747	25 135
Clearing participants' requirements	238 704	-
Market risk for the purposes of calculating the base capital adequacy ratio, including	4 673 352	2 844 174
Market risk for the purposes of calculating the capital adequacy ratio, including	4 673 352	2 844 174
Market risk for the purposes of calculating the equity capital adequacy ratio, including	4 673 352	2 844 174
Amount of credit risk for credit related commitments:	X	X
- for the purposes of calculating the base capital adequacy ratio	1 454 496	1,598,508
- for the purposes of calculating the capital adequacy ratio	1 454 496	1,598,508
- for the purposes of calculating the equity capital adequacy ratio	1 454 496	1,598,508
Amount of operational risk	226 343	176,987

The Group can apply some measures in case of insufficiency of capital, such as: an additional share issue, asset sales and reduction in lending. Allocation of capital between individual operations and activities is mostly motivated by the desire to increase the level of profitability (profit margin) for the capital allocation. Despite the fact that the decisive factor in allocating capital to individual transactions or activities is to maximize the return on capital given the risk, this is not the only factor when deciding on the allocation of capital. Appropriate activities of the Group's long-term management plans and prospects are taking into calculation. The Group's capital management and its distribution are regularly analysed by the Directors of the Bank during the review and approval of annual budget.

Risk and Capital Management are carried out by the parent organization of the Group also through internal capital adequacy assessment procedures (ICAAP). Acting as basis for the development of ICAAP are guidelines for the development of business and planned (target) levels of capital as defined in the Group's development strategy. Results of ICAAP, in turn, are used in the development of future policies and the establishment of the Group's risk potential.



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

In order to implement the current assessment of the parent organization's of the Group needs of capital the Group sets methods for determining the amount of capital required to cover possible losses from the realization of each of the major types of risks in their internal documents. It also provides the formation of a capital buffer to cover insignificant and the potential risks.

In order to assess the adequacy of internal capital, the parent organization of the Group uses standard (baseline) risk assessment techniques, the use of which is established by the Bank of Russia regulations, procedures and the results of stress testing the stability of the Group in relation to internal and external risk factors.

The parent organization of the Group determines the value of the total potential risks on the basis of the objectives set in the development strategy of the Group, the planned targets of business development.

Based on the risk tolerance the parent organization of the Group determines the estimated (target) level of capital, planned capital structure, sources of its formation, planned (target) level of capital adequacy.

In order to control the accepted amount of significant risks of the parent organization of the Group determines the estimated (target) risk levels, target risk profile.

In order to control the adequacy of own funds (capital) the parent organization of the Group allocates capital through a system of limits on activities, the types of significant risks, divisions performing functions in connection with the adoption of significant risks.

By January 1, 2017 ICAAP Group is given in compliance with the Instructions of Bank of Russia from 15.04.2015 No. 3624-U "On requirements to risk management system and capital of credit organizations and banking groups".

32. Related-Party Transactions

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

During the reporting period the Group entered into a number of banking transactions in the normal course of business with various related parties.

Information about the balances on transactions with major related parties as at 31 December 2016 and the income and expenditure for the year 2016 are presented below:



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

	Share- holders	Subsidiaries	Key manage- ment personnel	Other related parties	Total Related party balance/result	Total per category in the consolidated financial statement
Statement of Financial Position						
Loans and advances to customers						
At beginning of the year	-	-	15 552	453 386	468 938	11 940 307
Granted during the year	-	-	22 120	607 299	629 419	-
Repaid during the year	-	-	(26 406)	(517 088)	(543 494)	-
At the end of the year	-	-	11 266	543 597	554 863	11 378 756
Provision for losses	-	-	(774)	(85 896)	(86 670)	(1 881 719)
Current accounts						
At beginning of the year	644	-	9 239	13 060	22 943	3 059 339
Opened during the year	55 573	-	115 203	5 194 554	5 365 330	-
Repaid during the year	(56 119)	-	(118 052)	(5 195 635)	(5 369 806)	-
At the end of the year	98	-	6 390	11 979	18 467	4 057 300
Term deposits						
At beginning of the year	-	-	17 520	9 456	26 976	10 254 954
Opened during the year	-	-	9 247	56 654	65 901	-
Repaid during the year	-	-	(17 422)	(26 209)	(43 631)	-
At the end of the year	-	-	9 345	39 901	49 246	11 167 369
Guarantees issued	-	-	-	5 000	5 000	1 327 167
Statement of Profit or Loss and other Comprehensive Income						
Interest Income on loans						
	-	-	1 647	45 599	47 246	1 705 141
Income from bank guarantees issuance						
	-	-	-	76	76	46 950
Commission income						
From settlement operations	33	-	36	2 327	2 396	252 529
Interest expense						
Term deposits	-	-	992	1 240	2 232	937 879
On current accounts	-	-	251	225	476	37 195
Salary and bonuses						
Other operational income	-	-	64 855	2 750	67 605	393 216
Administrative and other operational expenses	-	-	7	15	22	5 205
	5	-	279	7 964	8 248	381 124



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

The total outstanding balances as at 31 December 2015 and the related income and expense transactions during 2015 with related parties were as follows:

	Share- holders	Subsidiaries	Key manage- ment personnel	Other related parties	Total Related party balance/result	Total per category in the consolidated financial statement
Statement of Financial Position						
Loans and advances to customers						
At beginning of the year	-	-	21 723	327 545	349 268	11 176 363
Granted during the year	-	-	24 982	409 582	434 564	-
Repaid during the year	-	-	(31 153)	(283 741)	(314 894)	-
At the end of the year	-	-	15 552	453 386	468 938	11 940 307
Provision for losses	-	-	(778)	(81 600)	(82 378)	(1 527 643)
Current accounts						
At beginning of the year	177	-	6 759	3 527	10 463	2 940 386
Opened during the year	91 759	-	139 876	3 244 269	3 475 904	-
Repaid during the year	(91 292)	-	(137 396)	(3 234 736)	(3 463 424)	-
At the end of the year	644	-	9 239	13 060	22 943	3 059 339
Term deposits						
At beginning of the year	-	-	12 479	11 310	23 789	9 223 680
Opened during the year	-	-	29 148	24 102	53 250	-
Repaid during the year	-	-	(24 107)	(25 956)	(50 063)	-
At the end of the year	-	-	17 520	9 456	26 976	10 254 954
Guarantees issued	-	-	-	5 000	5 000	1 426 211
Statement of Profit or Loss and other Comprehensive Income						
Interest Income on loans						
	-	-	2 717	35 812	38 529	1 729 127
Income from bank guarantees issuance						
	-	-	-	-	-	47 002
Commission income						
From settlement operations	31	-	39	3 283	3 353	193 853
Interest expense						
Term deposits	-	-	1 659	540	2 199	980 132
On current accounts	-	-	240	114	354	17 075
Salary and bonuses						
Other operational income	-	-	73 888	2 361	76 249	358 538
Administrative and other operational expenses	-	-	-	4	4	19 480
	2	-	226	6 041	6 269	287 589

In 2016 salaries, other short term and other long term deferred payments to the members of Board of Directors and members of the Executive Board, Chief Accountant, who are employed with the Group, manager of consolidated company amounted to 42 505 (2015: 36 836), including 11 336 (2015: 11 384) salaries, other short term payments 20 974 (2015: 25 454), other long term deferred payments 10 195 (2015: 0). Other short term payments to the members of the Executive Board and members of Executive Board who are not employed with the Group, amounted to 3 896 (2015: 3 451).



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

33. Information on the Procedure and System of Remuneration

Information about the procedure and system of remuneration are presented in accordance with the requirements 1.7.4. 3876-U.

Bodies of the Group supervisory remuneration of the employees of the Group are: the Board of Directors of the Bank (hereinafter - the Board of Directors), the remuneration Committee of the Board of Directors, the Chairman of the Board of the Bank (hereinafter - the Chairman of the Board), the Bank's Board (hereinafter - Board).

There were 5 members in the Board of Directors on December 31, 2016.

There were 7 members in the Board on December 31, 2016.

Tasks of the Board of Directors related to remuneration of employees of the Group are:

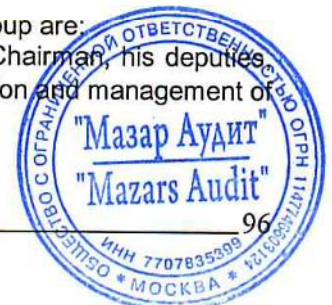
- to approval staff policy;
- to approval policy of remuneration;
- to control over the implementation of staff policy in the part of remuneration;
- to control over the payments of large rewards.

The task of the remuneration Committee of the Board of Directors related to remuneration of employees of the Group is to prepare decisions of the Board of Directors on the organization, monitoring and control of the remuneration system, assessment of its compliance strategy, nature and scope of transactions, performance results, level and combination of risks accepted, including:

- the procedure for determining of salaries (official salaries), compensatory, stimulating and social payments are not related to the results of activity (hereinafter - the fixed part of the remuneration) of the sole Executive body and members of collegial Executive body (hereinafter - the members of Executive bodies), the order of definition of size, forms and charges to members of Executive bodies and other managers (employees) making decisions on the implementation of the operations and other transactions, the results of which can affect observance with mandatory standards or occurrence of other situations that threaten the interests of depositors and creditors, including the grounds for implementing measures to prevent insolvency (bankruptcy) (hereinafter - other employees, taking risks), as well as employees of departments responsible for internal control, and units engaged at the level of individual portfolios, activities, and overall identifying and assessing risks, establishing risk limits, determining the capital requirements for their coverage, as well as control over compliance with specified restrictions (hereinafter - the unit responsible for risk management), compensation and incentive payments related to the results of their activities;
- to maintain or to reconsideration documents on the system of remuneration (subject to approval by the Board of Directors), depending on the change activities, including in connection with changes in strategy, the nature and extent of its operations, results of operations, level and combination of risks assumed (which are considering at least once per calendar year);
- to determine the size of the wage Fund;
- to consider the proposals of the divisions responsible for internal control, and units engaged in risk management, improving the system of remuneration (in the presence of such proposals) and reporting of units (divisions), which has a mandate to monitor the pay system (which are considering at least once per calendar year);
- to consider independent assessments of the system of remuneration;
- to determine the size and structure of large rewards;
- to consider payment of large rewards, recognized as such in accordance with the internal documents specifying the wage system;
- to evaluate the performance of Executive bodies;
- other issues in the area of remuneration and HR policy.

Tasks of the Chairman of the Board related to remuneration of employees of the Group are:

- to approve of the staffing, to establish salaries (with the exception of the Chairman, his deputies, Board members and other managers (employees) responsible for the adoption and management of risks, the chief accountant, employees of the internal audit service).



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

Tasks of the Board related to remuneration of employees of the Group are:

- to determine the amount and form of compensation and stimulating payments to employees associated with the results of their activities (with the exception of the Chairman, his deputies, Board members and other managers (employees) who are responsible for taking and managing risk, and the chief accountant. For these employees, the decision in the field of remuneration is made by Board of Directors);
- to make decisions on payment of bonuses and premiums within the limits approved by the Board of Directors, the size of the wage Fund and the approved procedure of calculation and payment of remunerations of the Group.

The main objectives of the policy on remuneration applicable to employees of the Group are:

- to achieve the financial targets set in the strategy;
- to ensure financial sustainability;
- compliance system of remuneration of the nature and scope of its operations, the results of its operations, the level and combination of risks taken.

Category of employees who make decisions on transactions and other deals whose results may impact on compliance with prudential ratios of the banking group or the emergence of other situations threatening interests of depositors and creditors of the parent credit institution of a banking group and credit organizations - participants of the banking group, responsible for taking risks, are the sole and collective Executive bodies and other employees responsible for risk-taking.

In the composition of the Board in 2016, in this category of employees were the Chairman of the Board and Board members (with the exception of persons carrying out the risk management and internal control).

Other employees in this category were persons included in the composition of the committees responsible for risk-taking.

The category of employees which are responsible of internal control and risk management are internal audit, internal control, risk management and financial analysis.

The total staff number of employees responsible for risk taking made up to 31 December 2016 8 people.

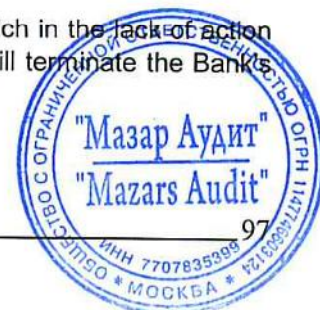
The total staff number of employees responsible for internal control and risk management, made up to 31 December 2016 29 people.

For the Group employees responsible for risk taking, the reward system is organized in accordance with the requirements of the Bank of Russia, included in the circuit system of risk management Group and is built on mechanisms that motivate staff to implement the strategic objectives of the Group.

In 2016, the policy of remuneration of Bank staff was changed in terms of quantities and calculation of large rewards, a list of persons bearing risks.

The total for the parent credit organization of a banking Group the size of the bonus Fund remuneration for the reporting period depended on achieving the Bank the following indicators (quantitative and qualitative), with a negative value of which award the employees of the Bank is not charged:

- the negative value of the operating profit of the Bank;
- violation in the reporting period, the minimum acceptable numeric values of the required ratios of H1.0, N2, N3, the maximum value of N4, established by Bank of Russia instruction No. 139-E of 03.12.2012 "On the mandatory Bank ratios" (this group of indicators takes into account the overall level of accepted credit risk, market risk, operational risk and liquidity risk);
- the assignment of the Bank's evaluation of economic situation of banks in accordance with the instructions of the Bank of Russia of 30 April 2008 No. 2005-U "On assessing the economic position of banks" the following classification groups:
 - group 4, which characterizes the Bank as a credit institution, disorders in activities which pose a real threat to the interests of its depositors and creditors;
 - group 5, which characterizes the Bank as a credit organization, which in the lack of action by governments and (or) shareholders (participants) of the Bank will terminate the Bank's activities in the market of banking services.



JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

In the reporting period these indicators have taken a Bank acceptable value, the adjustment of the total for the parent credit organization of a banking Group the size of the bonus Fund remuneration for the reporting period was carried out.

The system of remuneration of employees of divisions responsible for internal control and risk management, built on the principles of independence of the size of the wage Fund these units from the financial results of the subdivisions (bodies) making a decision about banking and other transactions, and includes indicators to measure the quality performance of its entities and employees of these divisions of tasks. The fixed part of remuneration of employees of divisions responsible for internal control and risk management on 31 December 2016, at least 50%.

For individuals who are members of Executive bodies, as well as related to other employees responsible for risk-taking in 2016 was provided for the deferred payment constituting at least 40% of the non-fixed part.

Deferred payments for 2016 accrued shall be paid after adjustment at the end of the reporting period in accordance with the following indicators.

To adjust the deferred part of long-term employee benefits included in the list of persons responsible for taking risks in the remuneration system of the parent credit institution of the banking Group uses performance indicators that take into account all significant risks. These indicators include:

- the share of loans to low quality category in the portfolio (credit risk);
- level of overdue debts on loan portfolio (credit risk);
- the adequacy of Bank interest margin (interest rate risk in the banking book);
- adequacy of the internal capital of the Bank to cover all significant risks;
- the amount of capital required to cover losses from changes in value of financial instruments (market risk);
- the presence/absence of facts approaching the mandatory liquidity ratios to critical value (liquidity risk).

A measurement used for evaluating the performance of each employee, categorized as those responsible for risk taking, depending on the risk taken by them in implementing their daily activities.

The remuneration system of the Group included impact on the amount of the bonuses paid to the Chairman of the management Board, his deputies, chief accountant of the Bank reached the value of the retained earnings of the Group and the execution of the target values of the balance sheet profit in the reporting period.

All payments relating to the non-fixed portion of remuneration were made to employees in the form of bonuses.

During the reporting year, to control payments to employees of the Group remuneration for the year, there were held 6 meetings of the Board of Directors, 2 meetings of the remuneration Committee, 15 meetings of the Board. Remuneration for the Bank's management bodies for the implementation of this function is not provided.

The number of members of Executive bodies and other employees of the units responsible for the acceptance and management of risks, who received the bonuses in the reporting year amounted to 37 people, the total remuneration for these categories of personnel was 57 671. Transcript for the payments for 2016 are presented in the table.

Types of payments	2016	
	The members of the Executive bodies and other employees of the units responsible for risk-taking, KRUB.	Employees responsible for internal control and risk management, KRUB.
Total payments during the reporting period	34 901	22 770
The fixed part	10 296	15 444
The non-fixed part (bonuses, cash):	24 605	7 326
- deferred payments	8 548	
- payment deferred, expected to be paid	Non existent	




JSC CB Hlynov
Notes to the Consolidated Financial Statements
as at 31 December 2016 (in thousands of Russian Roubles)

Payments in the form of guaranteed bonuses and severance payments in the reporting year, employees of the parent credit institution of a banking Group and other participants of the Bank group was carried out.

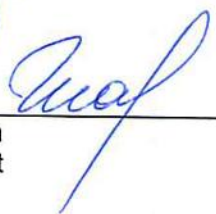
The remuneration system of the Group does not provide for a combination of monetary and non-monetary motivation for employees of the Group in connection with the fact that the current (fair) value of shares (equity financial instruments) the credit institution cannot be determined on the basis of market quotations or indicative prices (quotes) provided by brokers and (or) price services with appropriate qualifications and experience in the determination of the prices (quotes) of financial instruments.

The Board determined the list of persons bearing risks from 01 May 2016, approved motivation for persons bearing risks, taking into account the developed internal procedures for capital adequacy assessment.

Signed and authorized for release on behalf of the Executive Board of the Group on 28 April 2017.



I.P. Prozorov
Chairman of the Executive Board



S.V. Shamseeva
Chief accountant

