Consolidated financial statements of

Public Joint Stock Company "Europlan" and its subsidiaries

for the year ended 31 December 2016

with independent auditor's report

April 2017

Contents — Page

Совершенствуя бизнес,
улучшаем мир

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Independent auditor's report

To the Shareholders and the Board of Directors of
Public Joint Stock Company "Europlan"

We have audited the accompanying consolidated financial statements of Public Joint Stock Company "Europlan" and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Audited entity's responsibility for the consolidated financial statements

Management of Public Joint Stock Company "Europlan" is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the fairness of these consolidated financial statements based on our audit.

We conducted our audit in accordance with the Federal Standards on Auditing effective in the Russian Federation. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The audit procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the 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 entity'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 consolidated financial statements.

Совершенствуя бизнес,
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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 consolidated financial statements present fairly, in all material respects, the financial position of Public Joint Stock Company "Europlan" and its subsidiaries as at 31 December 2016, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Important facts

Without qualifying our opinion, we draw attention to Note 43 "Subsequent events" in the appendices to the financial statements, which discloses that 20 February 2017 shareholders approved plan to reorganise Public Joint Stock Company "Europlan" through carve-out of Joint stock company Europlan Leasing company, which, after reorganisation completion, receives the rights and obligations regarding the contracts signed by Public Joint Stock Company "Europlan" before the reorganisation completion date aimed at performing leasing activities.

S.M. Taskaev
Partner
Ernst & Young LLC

26 April 2017

Details of the audited entity

Name: Public Joint Stock Company "Europlan"
Record made in the State Register of Legal Entities on 1 August 2002, State Registration Number 1027700085380.
Address: Russia 115035, Moscow, 1st Shchipkovsky per., 20.

Details of the auditor

Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Ernst & Young LLC is a member of Self-regulated organisation of auditors "Russian Union of auditors" (Association) ("SRO RUA"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organisations, main registration number 11603050648.

Consolidated statement of financial position

as at 31 December 2016

(in thousands of Russian roubles, unless otherwise stated)

	Note	31 December 2016	31 December 2015
Assets			
Cash and cash equivalents	8	54,801,373	1,482,012
Financial instruments at fair value through profit or loss	9	150,110,242	96,422
Deposits in banks	10	14,351,201	7,534,751
Net investment in leases after impairment allowance	11	27,470,596	25,831,757
Loans to customers after impairment allowance	12	–	55,768
Equipment purchased and advances to suppliers for lease operations	13	564,785	299,213
Deferred acquisition costs	14	4,212,451	–
Current income tax prepayment		105,747	–
Deferred tax assets	34	70,808	–
VAT recoverable		108,837	45,973
Property and equipment	15	342,818	306,379
Investments in associates	16	16,270,417	–
Goodwill	17	24,200,607	–
Other assets	18	1,293,215	1,904,928
Total assets		**293,903,097**	**37,557,203**
Liabilities			
Liabilities under compulsory pension insurance agreements	19	181,893,057	–
Liabilities under non-state pension agreements	19	7,881,605	–
Borrowings	20	10,204,713	9,921,321
Liabilities under insurance agreements	21	857,125	887,951
Advances received from lessees		610,169	414,150
Bonds issued	22	11,208,185	13,495,975
Current income tax payable		336	297,106
Deferred tax liabilities	34	760,202	594,810
VAT payable		36,939	582,302
Other liabilities	23	2,103,240	707,290
Total liabilities		**215,555,571**	**26,900,905**
Equity			
Share capital	24	74,797	15,395
Treasury shares		(80,622)	–
Additional paid-in capital	24	67,201,144	2,799,133
Other reserves		424	–
Reserves for compulsory pension insurance and insurance reserve	24	2,315,955	–
Retained earnings		8,835,828	7,841,770
Total equity		**78,347,526**	**10,656,298**
Total liabilities and equity		**293,903,097**	**37,557,203**

Approved for issue and signed on behalf of PJSC "Europlan" on 26 April 2017.

Avet Mirakyan
CEO of SAFMAR GROUP – the management company of PJSC "Europlan"

Oleg Andriyankin
CFO of SAFMAR GROUP – the management company of PJSC "Europlan"

The notes form an integral part of these consolidated financial statements.

Consolidated statement of profit or loss and other comprehensive income

for the year ended 31 December 2016

(in thousands of Russian roubles, unless otherwise stated)

	Note	*2016*	*2015*
Continuing operations			
Interest income	25	6,892,556	7,560,133
Interest expense	25	(2,575,545)	(3,541,438)
Net interest income		4,317,011	4,018,695
Impairment charges on interest earning assets	26	(10,826)	(94,916)
Net interest income after impairment charges on interest earning assets		4,306,185	3,923,779
Contributions under pension activities	27	122,542	–
Payments under pension activities	28	(106,709)	–
Income of the pension fund from the placement of own funds, pension savings and pension reserves	29	3,071,776	–
Change in liabilities under pension activities	30	(2,346,517)	–
Other income, net	31	1,955,103	1,366,493
Income from operations		7,002,380	5,290,272
Net income from financial instruments at fair value through profit or loss	9	4,155	109,827
Net foreign exchange losses		(1,622)	(9,815)
Total income from operations and finance income		7,004,913	5,390,284
Staff expenses	32	(2,100,375)	(2,179,532)
Other operating expenses	33	(940,378)	(653,082)
Acquisition costs		(12,647)	–
Impairment charges on other assets	26	(10,603)	(77,113)
Other non-operating expenses		(35,337)	(407)
Share in net profit of associates	16	198,644	–
Profit before income tax from continuing operations		4,104,217	2,480,150
Income tax expense	34	(794,204)	(538,031)
Net profit from continuing operations		3,310,013	1,942,119
Discontinued operations			
Profit before income tax from discontinued operations	7	–	381,121
Financial result from disposal of discontinued operations	7	–	(1,050,452)
Income tax benefit	34	–	142,113
Net loss from discontinued operations		–	(527,218)
Net profit		3,310,013	1,414,901
Other comprehensive income			
Share in other comprehensive income of associates	16	424	–
Other comprehensive income for the period		424	–
Total comprehensive income for the period		3,310,437	1,414,901
Earnings per share (expressed in Russian roubles per share)	24	29.65	12.67
Earnings per share for continuing operations (expressed in Russian roubles per share)	24	29.65	17.40

The notes form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2016

(in thousands of Russian roubles, unless otherwise stated)

	Note	Share capital	Treasury shares	Additional paid-in capital	Other reserves: Share-based payment reserve	Other reserves: Revaluation reserve	Other reserves: Total other reserves	Reserves for compulsory pension insurance and insurance reserve	Retained earnings	Total equity
Balance as at 1 January 2015 (unaudited)		15,395	–	2,799,133	171,650	–	171,650	–	6,939,794	9,925,972
Net profit from continuing operations		–	–	–	–	–	–	–	1,942,119	1,942,119
Net profit from discontinued operations		–	–	–	–	–	–	–	(527,218)	(527,218)
Other comprehensive income		–	–	–	–	–	–	–	–	–
Total comprehensive income for the period		–	–	–	–	–	–	–	1,414,901	1,414,901
Share-based payments	35	–	–	–	52,425	–	52,425	–	–	52,425
Completion of share-based payments	35	–	–	–	(224,075)	–	(224,075)	–	224,075	–
Dividends paid	24	–	–	–	–	–	–	–	(737,000)	(737,000)
Balance as at 31 December 2015		15,395	–	2,799,133	–	–	–	–	7,841,770	10,656,298
Net profit		–	–	–	–	–	–	–	3,310,013	3,310,013
Other comprehensive income for the period		–	–	–	–	424	424	–	–	424
Total comprehensive income for the period		–	–	–	–	424	424	–	3,310,013	3,310,437
Issue of shares	24	59,402	–	64,386,814	–	–	–	–	–	64,446,216
Acquisition and sale of treasury shares		–	(80,622)	15,197	–	–	–	–	–	(65,425)
Acquisition of subsidiaries		–	–	–	–	–	–	1,715,273	(1,715,273)	–
Changes in reserves for pension liabilities		–	–	–	–	–	–	600,682	(600,682)	–
Balance as at 31 December 2016		74,797	(80,622)	67,201,144	–	424	424	2,315,955	8,835,828	78,347,526

The notes form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

for the year ended 31 December 2016

(in thousands of Russian roubles, unless otherwise stated)

	2016	*2015*
Cash flows from operating activities		
Interest received	6,944,490	8,463,278
Income of the pension fund from the placement of own funds, pension savings and pension reserves	1,930,207	–
Income from insurance activities	1,059,180	905,543
Interest paid	(2,446,171)	(3,622,532)
Proceeds from disposal of repossessed assets	1,133,598	1,818,906
Cash paid to employees and payroll related taxes paid	(2,091,522)	(2,091,913)
Other payments	(34,745)	–
Other operating expenses	(954,710)	(630,178)
Cash flows from operating activities before changes in working capital	5,540,327	4,843,104
Changes in operating assets/liabilities		
Financial instruments at fair value through profit or loss	2,104,634	–
Deposits in banks	6,843,524	(6,042,202)
Net investment in leases	(2,743,043)	8,609,028
Loans to customers	39,654	1,700,642
Advances on leasing activities	(61,407)	37,621
Other assets	1,106,402	(1,031,896)
Current accounts and deposits from customers	–	463,802
Liabilities under pension activities	15,833	–
Other liabilities	(361,366)	1,700,193
Net cash flows from operating activities before income tax	12,484,558	10,280,292
Income tax paid	(985,249)	(504,187)
Net cash flows from operating activities	11,499,309	9,776,105
Cash flows from investing activities		
Proceeds from sale of property and equipment	13,600	9,447
Purchase of property and equipment	(121,986)	(44,232)
Acquisition of subsidiaries, net of cash disposed (Note 7)	26,258,051	–
Proceed from disposal of subsidiaries, net of cash disposed (Note 7)	630,000	(475,969)
Net cash flows from (used in) investing activities	26,779,665	(510,754)
Cash flows from financing activities		
Borrowings received	8,800,000	–
Borrowings repaid	(8,527,672)	(15,949,995)
Bonds issued	7,407,683	7,149,091
Bonds repaid	(7,639,344)	(220,020)
Proceeds from issue of shares (Note 24)	14,999,995	–
Dividends paid (Note 24)	–	(737,000)
Net cash flows from (used in) financing activities	15,040,662	(9,757,924)
Effect of exchange rate changes on cash and cash equivalents	(275)	34,232
Net increase (decrease) in cash and cash equivalents	53,319,361	(458,341)
Cash and cash equivalents at the beginning of the period (Note 8)	1,482,012	1,940,353
Cash and cash equivalents at the end of the period (Note 8)	54,801,373	1,482,012

The notes form an integral part of these consolidated financial statements.

(in thousands of Russian roubles, unless otherwise stated)

1 Introduction

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) for the year ended 31 December 2016 for PJSC “Europlan” (the “Company”), previously known as JSC “Europlan”, and its subsidiaries (together referred to as the “Group”).

The Company was previously incorporated as a closed joint stock company “Europlan” in the year 2004. On 3 July 2015 in order to bring the organisational documents to compliance with standards of Chapter 4 of the Civil Code of the Russian Federation according to the requirements of the Federal Act of 5 May 2014 No. 99-FZ *On Including Changes in Chapter 4 Part One of the Civil Code of the Russian Federation and on Acknowledgement of Separate Terminated Provisions of the Legal Acts of the Russian Federation* the Company changed the name closed joint stock company “Europlan” to joint stock company “Europlan”. On 25 November 2015 the Company changed its form of incorporation from a joint stock company to a public joint stock company upon acquiring the public status and bringing the Certificate of Incorporation of the Company to compliance with the requirements of the legislation of the Russian Federation for public joint stock companies.

PJSC “Europlan’s” registered address is 20, 1st Shchipkovsky pereulok, Moscow, 115093, Russian Federation. The Group’s head office is located at 12, Malaya Sukharevskaya Square, Moscow, 127051, Russian Federation.

Following the initial public offering of PJSC “Europlan” shares held by EUROPLAN HOLDINGS LIMITED in December 2015, as at 31 December 2016 and 31 December 2015 the shares of PJSC “Europlan” were held by the following shareholders:

	31 December 2016, %	*31 December 2015, %*
LLC “Alpinvest Holding”	22.46	–
RIPONT INVESTMENTS LIMITED	7.53	–
JSC “Daglis”	5.48	–
B&N Bank	5.46	–
EUROPLAN HOLDINGS LIMITED	5.37	75.00
SAFMAR GROUP	5.15	–
Other (shareholders with stakes less than 5%)	48.55	25.00
Total	100.00	100.00

As at 31 December 2016 the main ultimate beneficiaries of the Group are Shishkhanov Mikail Osmanovich, Gutseriev Said Mikhaylovich and Gutseriev Sait-Salam Safarbekovich with 33.82%, 23.05% and 11.45% shares, respectively; there is no single ultimate controlling party of the Group. As at 31 December 2015 the ultimate controlling party of the Group was Shishkhanov Mikail Osmanovich with 75.00% share.

In October 2015 management of the Group’s shareholder changed the Group’s structure and transferred the ownership of shares in the amount of 99.9% of LLC “Europlan Auto”, LLC “Europlan Service” (up to December 2016 – LLC “Europlan Insurance”), LLC “Europlan Lease Payments” and LLC “POMESTIE” (since January 2017 – JSC “POMESTIE”) from the direct ownership of EUROPLAN HOLDINGS LIMITED into the ownership of the PJSC “Europlan” registered in the Russian Federation (refer to Note 7). In October 2015 EUROPLAN HOLDINGS LIMITED withdrew from the ownership of LLC “Europlan Auto”, LLC “Europlan Service” and LLC “POMESTIE”, and in November 2016 – of LLC “Europlan Lease Payments”, and share in the amount of 0.01% in the capitals of these companies moved to their balance sheets. In June 2016 the shares of 0.01% in the equities of LLC “Europlan Auto” and LLC “Europlan Service”, which were on the balance of the companies, by decision of the sole stakeholder of these companies – PJSC “Europlan” – were redistributed in favour of PJSC “Europlan”, and PJSC “Europlan” became the sole stakeholder of these companies. In July 2016, similar redistribution of shares in the amount of 0.01% in the equities of LLC “POMESTIE” and LLC “Europlan Lease Payments” was carried out, and PJSC “Europlan” became the sole stakeholder of these companies.

(in thousands of Russian roubles, unless otherwise stated)

1 Introduction (continued)

In December 2015 the Group stopped control over JSC "Europlan Bank" (as at 31 December 2016 the Bank was renamed to B&N Bank Stolitsa) as a result of sale of its shares (refer to Note 7). In December 2016 the Group obtained control over Joint Stock Company Non-State Pension Fund SAFMAR (JSC NPF SAFMAR or the "Fund") and obtained the significant non-controlling interest in Insurance Joint-Stock Company VSK (the "VSK") as a result of receiving 100% shares of the Fund (refer to Note 7) and 49% shares of VSK (refer to Note 16), respectively, as a payment for part of additionally issued shares of the Company (refer to Note 24).

Details of the subsidiaries are as follows:

			Ownership %	
Name	*Country of incorporation*	*Principal activities*	*31 December 2016*	*31 December 2015*
LLC "Europlan Auto"	Russian Federation	Finance leases	100.00	99.99
LLC "Europlan Lease Payments"	Russian Federation	Insurance agent	100.00	99.99
LLC "POMESTIE"	Russian Federation	Holding company	100.00	99.99
LLC "KRAUN KD"	Russian Federation	Holding company	100.00	99.99
LLC "IC Europlan"	Russian Federation	Insurance	100.00	99.99
LLC "Europlan Service"	Russian Federation	Other	100.00	99.99
JSC NPF SAFMAR	Russian Federation	Pension fund	100.00	–

The principal activities of the Group are the following:

- leasing of various types of automobiles and equipment to individual entrepreneurs and legal entities within the Russian Federation. The Group purchases leasing assets from suppliers operating in the territory of the Russian Federation;
- compulsory pension insurance in accordance with existing legislation and compulsory pension agreements. Pension activities include the accumulation of pension savings, investments of savings, pension savings accounting, assignment and payment of funded pension to insured persons, urgent pension payments and nonrecurring disbursements and payments to assignees under non-state pension arrangement;
- non-state pension arrangement in accordance with non-state pension agreements. Pension activities include the accumulation of pension contributions, investments of pension reserves, pension liabilities accounting, assignment and payment of non-state pension to the participants, payments of redemption sums and payments to assignees under non-state pension arrangement.

The Group's principal place of business is the Russian Federation. In 2016 the Group provided its services via 75 offices (2015: 73) located in the Russian Federation. As at 31 December 2016 the number of employees was 1,713 (2015: 1,545).

2 Operating environment of the Group

The Group's operations are located in the Russian Federation. Consequently, the Group is exposed to the risks on economic and financial markets of the Russian Federation, which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue to develop, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. In addition, the recent contraction in the capital and credit markets has further increased the level of economic uncertainty in the environment. The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group.

(in thousands of Russian roubles, unless otherwise stated)

2 Operating environment of the group (continued)

In 2016, the Russian economy continued to be negatively impacted by a significant drop in crude oil prices and a significant devaluation of the Russian rouble, as well as sanctions imposed on Russia by several countries in 2014. The combination of the above resulted in reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding economic growth, which could negatively affect the Group’s future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group’s business in the current circumstances.

Management determines investment in lease impairment provisions by considering the economic situation and outlook at the end of the reporting period and applies the ‘incurred loss’ model required by the applicable accounting standards. These standards require recognition of impairment losses that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those future events are.

Although the future business environment may differ from management’s assessment, management believes it is taking all the necessary measures to support the sustainability and development of the Group’s business.

3 Summary of significant accounting policies

Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in this section.

These consolidated financial statements are presented in thousands of Russian roubles (“RUB”), except per share amounts and unless otherwise indicated.

Changes in accounting policies

The Group has adopted the following amended IFRS, which are effective for annual periods beginning on or after 1 January 2016:

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

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

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016. These amendments do not have any impact on the Group.

(in thousands of Russian roubles, unless otherwise stated)

3 Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10 *Consolidated Financial Statements*. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 *Investments in Associates and Joint Ventures* allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016. These amendments do not have any impact on the Group as the Group does not apply the consolidation exception.

Annual improvements 2012-2014 cycle

These improvements are effective for annual periods beginning on or after 1 January 2016. They include, in particular:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

IFRS 7 Financial Instruments: Disclosures

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendment.

Basis of consolidation

Subsidiaries, which are those entities which are controlled by the Group, are consolidated. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee;
- the ability to use its power over the investee to affect its returns.

(in thousands of Russian roubles, unless otherwise stated)

3 Summary of significant accounting policies (continued)

Basis of consolidation (continued)

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement(s) with the other vote holders of the investee;
- rights arising from other contractual arrangements;
- the Group’s voting rights and potential voting rights.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in full; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to the non-controlling interests even if that results in a deficit balance.

If the Group loses control over a subsidiary, it derecognises the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests, the cumulative translation differences, recorded in equity; recognises the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss and reclassifies the parent’s share of components previously recognised in other comprehensive income to profit or loss.

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the acquirer measures the non-controlling interests in the acquiree that are present ownership interests either at fair value or at the proportionate share of the acquiree’s identifiable net assets and other components of non-controlling interests at their acquisition date fair value. Acquisition costs incurred are expensed.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer’s previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the consideration transferred over the Group’s net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

(in thousands of Russian roubles, unless otherwise stated)

3 Summary of significant accounting policies (continued)

Business combinations (continued)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group’s cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Acquisition of subsidiaries from parties under common control

Acquisitions of subsidiaries from parties under common control are accounted for using the pooling of interests method.

The assets and liabilities of the subsidiary transferred under common control are recorded in these consolidated financial statements at the carrying amounts of the transferring entity (the predecessor) at the date of the transfer. Related goodwill inherent in the predecessor’s original acquisition is also recorded in these consolidated financial statements. Any difference between the total book value of net assets, including the predecessor’s goodwill, and the consideration paid is accounted for in these consolidated financial statements as an adjustment to the shareholders’ equity.

These consolidated financial statements, including comparative data, are presented as if the subsidiaries had been acquired by the Group on the date they were originally acquired by the predecessor.

Investments in associates

Associates are entities in which the Group generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognised at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group’s share of net assets of the associate. The Group’s share of its associates’ profits or losses is recognised in profit or loss, and its share of movements in reserves is recognised in other comprehensive income. However, when the Group’s share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Fair value measurement

The Group measures financial instruments, such as trading and available-for-sale securities, derivatives and non-financial assets such as investment property, at fair value at each balance sheet date. Fair values of financial instruments measured at amortised cost are disclosed in Note 38.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

(in thousands of Russian roubles, unless otherwise stated)

3 Summary of significant accounting policies (continued)

Fair value measurement (continued)

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 − quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 − valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 − valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

Date of recognition

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets held for trading are recognised in profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

(in thousands of Russian roubles, unless otherwise stated)

3 Summary of significant accounting policies (continued)

Financial assets (continued)

Available-for-sale financial assets

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

Reclassification of financial assets

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- a financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Group has the intention and ability to hold it for the foreseeable future or until maturity;
- other financial assets may be reclassified to available-for-sale or held to maturity categories only in rare circumstances.

A financial asset classified as available for sale that would have met the definition of loans and receivables may be reclassified to loans and receivables category of the Group has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognised in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable.

Cash and cash equivalents

Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include cash in hand and highly liquid placements with banks with original maturities of up to 90 days. Funds placed for a period of more than 90 days are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost using the effective interest rate method.

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including futures, forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated statement of profit or loss as net gains/(losses) from trading securities or net gains/(losses) from foreign currencies, depending on the nature of the instrument.

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair value in the trading portfolio with changes in fair value recognised in profit or loss.

(in thousands of Russian roubles, unless otherwise stated)

3 Summary of significant accounting policies (continued)

Hedge accounting

To qualify for hedge accounting in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*, hedges must be highly effective. Derivatives used for hedging purposes are measured at fair value in the consolidated statement of financial position.

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

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

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

Borrowings

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

Leases

Inception of the lease

The inception of the lease is considered to be the date of the lease agreement, or the date of commitment, if earlier. For purposes of this definition, a commitment shall be in writing, signed by the parties involved in the transaction, and shall specifically set forth the principal terms of the transaction.

Commencement of the lease term

The commencement of the lease term is the date from which the lessee is entitled to exercise its right to use the leased asset. It is the date of initial recognition of the lease.

Lease classification

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred. All other leases are operating leases.

The Group recognises lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

(in thousands of Russian roubles, unless otherwise stated)

3 Summary of significant accounting policies (continued)

Leases (continued)

Net investment in leases / Finance income from leases

Net investment in leases is calculated as the aggregate of minimum lease payments net of reimbursable expenses, representing the amounts guaranteed by the lessee and any unguaranteed residual value (together gross investment in leases), discounted at the interest rate implicit in lease. The interest rate implicit in lease is the discount rate that, at the inception of lease, causes the present value of the gross investment in lease to be equal to the fair value of the leased asset.

The difference between the gross investment in leases and the net investment in leases represents unearned finance income. This income is recognised over the term of the lease using net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term.

Initial direct transaction costs incurred by the lessor include amounts such as commissions, legal fees and internal costs that are incremental and directly attributable to negotiating and arranging a lease. For finance leases, initial direct costs are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term.

Net investment in leases also includes equipment under installation if all the significant risks and rewards of ownership of leased assets are transferred to the lessee. The Group starts to accrue interest income from the commencement date.

Payments received by the Group from lessees are treated as advances received from lessees (a separate line within liabilities section) up to the commencement date of the lease when net investment in leases adjusted by payments received from lessees are recognised.

Any advances made to the supplier are recorded as advances to suppliers for lease operations.

Equipment purchased for leasing purposes

Items purchased for leasing purposes represent assets purchased for subsequent transfer to lessees but not transferred at the reporting date. The assets are carried at the lower of cost and net realisable value.

Leased objects repossessed

Leased objects repossessed generally represent the assets repossessed by the Group from delinquent lessees under terminated finance lease contracts. The major types of assets held are cars, trucks and other equipment. When the Group takes possession of the collateral under terminated lease contracts, it measures the assets obtained at the lower of cost or net realisable value. When estimating the net realisable value the Group makes assumptions to assess the market values depending on the type of asset being assessed and then applies market realisation cost adjustments to certain types of assets for obsolescence, illiquidity and trade discounts expected.

Operating leases

Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss for the year on a straight-line basis over the lease term.

(in thousands of Russian roubles, unless otherwise stated)

3 Summary of significant accounting policies (continued)

Measurement of financial instruments at initial recognition

When financial instruments are recognised initially, they are measured at fair value, adjusted, in the case of instruments not at fair value through profit or loss, for directly attributable fees and costs.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price. If the Group determines that the fair value at initial recognition differs from the transaction price, then:

- if the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., a Level 1 input) or based on a valuation technique that uses only data from observable markets, the Group recognises the difference between the fair value at initial recognition and the transaction price as a gain or loss;
- in all other cases, the initial measurement of the financial instrument is adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the Group recognises that deferred difference as a gain or loss only when the inputs become observable, or when the instrument is derecognised.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The right of set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

- the normal course of business;
- the event of default; and
- the event of insolvency or bankruptcy of the entity and all of the counterparties.

These conditions are not generally met in master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

Impairment of financial assets

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

Impairment of net investment in leases, debtors on leasing activities, loans to customers and other receivables

The Group reviews its net investment in lease ("NIL"), debtors on leasing activities, loans to customers and other receivables ("NIL and other receivables") to assess impairment on a regular basis. NIL and other receivables are impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the NIL and other receivables and that event (or events) has had an impact on the estimated future cash flows of the assets that can be reliably estimated.

(in thousands of Russian roubles, unless otherwise stated)

3 Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

Objective evidence that financial assets are impaired can include default or delinquency by a leasee or other borrower, breach of contract conditions, restructuring of a contract or advance on terms that the Group would not otherwise consider, indications that a lessee or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

The Group first assesses whether objective evidence of impairment exists individually for NIL and other receivables that are individually significant, and individually or collectively for NIL and other receivables that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed NIL and other receivables, whether significant or not, it includes the NIL and other receivables in a group of NIL and other receivables with similar credit risk characteristics and collectively assesses them for impairment. NIL and other receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not collectively assessed for impairment.

If there is objective evidence that an impairment loss on NIL and other receivables has been incurred, the amount of the loss is measured as the difference between the carrying amount of NIL and other receivables and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at NIL or other receivable’s original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

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

All impairment losses in respect of NIL and other receivables are recognised in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

Uncollectible assets are written off against the related impairment loss allowance after all the necessary procedures to recover the receivable have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the other income account.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(in thousands of Russian roubles, unless otherwise stated)

3 Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

Impairment of available-for-sale financial investments

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

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is reclassified from other comprehensive income to the consolidated statement of profit or loss. Impairment losses on equity investments are not reversed through the consolidated statement of profit or loss; increases in their fair value after impairment are recognised in other comprehensive income.

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

Renegotiated lease agreements

Where possible, the Group seeks to restructure leases rather than to take possession of leased object. This may involve extending the payment arrangements and the agreement of new lease conditions.

The accounting treatment of such restructuring is as follows:

- If the currency of the leases has been changed the old leases are derecognised and the new leases are recognised.
- If the leases restructuring is not caused by the financial difficulties of the leasee the Group uses the same approach as for financial liabilities described below.
- If the leases restructuring is due to the financial difficulties of the leasee and the leases are impaired after restructuring, the Group recognises the difference between the present value of the new cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the allowance charges for the period. In case leases are not impaired after restructuring the Group recalculates the effective interest rate.

Once the terms have been renegotiated, the leases are no longer considered past due. Management continuously reviews renegotiated leases to ensure that all criteria are met and that future payments are likely to occur. The leases continue to be subject to an individual or collective impairment assessment, calculated using the leases’ original or current effective interest rate.

Derecognition of financial assets and liabilities

Financial assets

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

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

(in thousands of Russian roubles, unless otherwise stated)

3 Summary of significant accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

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

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group’s continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group’s continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

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

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

Taxation

The current income tax expense is calculated in accordance with the regulations of the Russian Federation.

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

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Russia also has various operating taxes, that are assessed on the Group’s activities. These taxes are included as a component of other operating expenses.

Value added tax (“VAT”)

Output value added tax is payable to tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. Where a provision has been made for the impairment of receivables, the impairment loss is recorded for the gross amount due from the debtor, including VAT.

(in thousands of Russian roubles, unless otherwise stated)

3 Summary of significant accounting policies (continued)

Taxation (continued)

VAT recoverable represents the amount of VAT paid on assets acquired for leasing purposes. This VAT is recoverable from lease payments of the lessees (sales VAT).

For the purpose of these consolidated financial statements, VAT payable to the state is netted against VAT receivables from lessees and VAT recoverable on assets acquired for leasing purposes within each component of the Group.

Property and equipment

Property and equipment are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of equipment items are capitalised and the replaced part is amortised. Gains and losses on disposals determined by comparing proceeds with the carrying amount are recognised in profit or loss. Costs related to repairs and renewals are charged as incurred and included in general and administrative expenses, unless they qualify for capitalisation.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

Building	30 years
Computer equipment	5 years
Office equipment	5 years
Car	5 years
Other equipment	5 years

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the consideration transferred over the Group's net identifiable assets acquired and liabilities assumed. Goodwill on an acquisition of a subsidiary is included in goodwill and other intangible assets. Goodwill on an acquisition of an associate is included in the investments in associates. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than the operating segment as defined in IFRS 8 *Operating Segments* before aggregation.

(in thousands of Russian roubles, unless otherwise stated)

3 Summary of significant accounting policies (continued)

Goodwill (continued)

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets other than goodwill

Intangible assets other than goodwill include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of 5 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with indefinite useful lives are reviewed at least at each financial year-end.

Provisions

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

Retirement and other employee benefit obligations

The Group 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 significant post-employment benefits.

Share based payments

The Group operates a share-based programme, under which the Group receives services from eligible employees as consideration for share-based awards granted to the employees. The award is measured at the fair value of the equity instruments granted at the grant date, taking into consideration the estimated number of the instruments expected to vest. The resulting amount is recognised as an expense in the consolidated statement of profit or loss and other comprehensive income and a share-based payment reserve in the consolidated statement of changes in equity, over the vesting period. Changes in the estimated number of the instruments expected to vest are reflected in the consolidated statement of profit or loss and other comprehensive income until the award vests.

Share capital

Share capital

Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Dividends

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

(in thousands of Russian roubles, unless otherwise stated)

3 Summary of significant accounting policies (continued)

Segment reporting

The Group’s segment reporting is based on the following operating segments: leasing activity, pension activity, insurance activity, corporate centre and cession/Banking activity.

Contingencies

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

Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest and similar income and expense

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

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

Fee and commission income

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

- *Fee income earned from services that are provided over a certain period of time*

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

- *Fee income from providing transaction services*

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

(in thousands of Russian roubles, unless otherwise stated)

3 Summary of significant accounting policies (continued)

Recognition of income and expenses (continued)

Dividend income

Revenue is recognised when the Group’s right to receive the payment is established.

Foreign currency translation

The consolidated financial statements are presented in Russian roubles, which is the Group’s functional and presentation currency.

Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated statement of profit or loss as gains less losses from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the Central Bank exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official CBR exchange rates at 31 December 2016 and 31 December 2015, were 60.6569 roubles and 72.8827 roubles to 1 USD, respectively.

Insurance and pension agreements

Insurance agreements are those agreements where the Group (the insurer) has accepted significant insurance risk from another party (the policyholder) by agreeing to compensate to the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

If the agreement has been classified as an insurance agreement it remains an insurance agreement for the remaining period of its validity, even if during this period of time a significant reduction of the insurance risk takes place, except for the cases when all the rights and obligations are redeemed or expired.

Description of insurance and pension products

The Group has the following types of insurance contracts:

- Automobile insurance: voluntary vehicle owners property insurance (the “CASCO”);
- Voluntary third party liability insurance (the “VTPL”);
- Compulsory pension insurance (the “CPI”) is a Group’s activity, carried out in accordance with the Federal law of 15 December 2001 No. 167-FZ *About Compulsory Pension Insurance in the Russian Federation*, designed to provide funded pension;
- Non-state pension arrangements (the “NPA”) are the voluntary pension insurance agreements with the opportunity of obtaining additional investment income.

All the insurance agreements are accounted for within the scope of IFRS 4 *Insurance Contracts*. Agreements are classified according to the presence/absence of significant insurance risk. CPI contracts are always classified as insurance agreements while the classification of NPA, CASCO and VTPL contracts may vary.

(in thousands of Russian roubles, unless otherwise stated)

3 Summary of significant accounting policies (continued)

Insurance and pension agreements (continued)

Liabilities under insurance agreements under insurance activity

Liabilities under insurance agreements comprise unearned premium reserves, reported but not settled claims and incurred but not reported claims. The unearned premium reserve comprises the proportion of gross premiums written which is estimated to be earned in later accounting periods. The unearned premium reserve is computed separately for each insurance contract using the daily pro-rata method. The unearned premium reserve is recognised net of estimated cancellations of policies in force as at the reporting date. Changes in the unearned premium reserve are recognised in profit or loss and other comprehensive income in the period of the coverage.

Claims provisions comprise provisions for the Group's estimate of the ultimate cost of settling all claims incurred but not settled at the reporting date, whether reported or not, and provisions for related external claims handling expenses.

Claims outstanding are assessed by reviewing individual claims and making allowance for claims incurred but not yet reported, considering the effect of both internal and external foreseeable events, such as changes in external claims handling expenses, legislative changes and past experience and trends. Provisions for claims outstanding are not discounted.

At each reporting date an assessment is made by the Group of whether its insurance liabilities (insurance reserves less related deferred acquisition costs) are adequate. This calculation uses the best current estimates of future contractual cash flows after taking account of the cost of the settling the claims and investment return expected to arise on assets relating to the relevant insurance reserves. If these estimates show the deficiency, the Group writes off the corresponding acquisition costs and sets up extra provision, if necessary. The deficiency is recognised in profit or loss and other comprehensive income.

Pension activity

The Fund provides services of compulsory pension insurance for insured persons and non-state pension arrangements for the Fund participants.

The Fund's activity as the insurer on compulsory pension insurance includes accumulation of pension savings, arrangement of investment of pension accumulations, insured persons pension savings accounting, pension assignments and payments to insured persons, urgent and nonrecurring disbursements and payments to assignees.

The Fund acts as an insurer on compulsory pension insurance in accordance with Federal law 167-FZ *About Compulsory Pension Insurance in the Russian Federation* dated 15 December 2001, other laws of the Russian Federation and compulsory pension insurance contracts. Compulsory pension insurance agreement is an agreement between the Fund and an Insured person for the benefit of the insured person or his assignee, under which upon the occurrence of pension entitlement the Fund shall carry out the assignment and payment of the funded part of labour pension and (or) urgent pension payment or nonrecurring disbursements and payments to assignee. Pension entitlement is the ground for acquiring the right to receive pension by the insured person. Funded pension is the monthly monetary payment assigned and paid by the Fund to the insured person in accordance with the legislation of the Russian Federation on labour pensions and the agreement on compulsory pension insurance. The set of conditions for execution of liabilities under the contracts on compulsory pension insurance by the Fund is defined in the Fund's insurance regulation.

The activity of the Fund as a non-state pension arranger for the Fund's participants is carried out on a voluntary basis and involves the accumulation of pension contributions, placement and organisation of placement of pension reserves, the Fund's pension liabilities accounting, assignment and payment of non-state pensions to the Fund's participants.

(in thousands of Russian roubles, unless otherwise stated)

3 Summary of significant accounting policies (continued)

Insurance and pension agreements (continued)

The Fund operates in the non-state pension arrangement for the Fund’s participants in accordance with the contract of non-state pension arrangement. The non-state pension arrangement agreement (the “pension contract”) is an agreement between the Fund and the investor of Fund (“the investor”), in accordance with which the investor is obliged to pay pension contributions to the Fund, and the Fund agrees to pay non-state pension to the Fund participant (the “participant”). Non-state pension is cash, regularly paid to the participant in accordance with the terms of the pension contract. The set of conditions that determine the order of payment of pension contributions and payment of non-state pensions is defined in the pension schemes of the Fund.

The Fund has the right to place pension reserves as independently, so by means of a management company. Investment of pension savings is carried out through a management company. In accordance with the Russian Federation legislation, pension reserves and pension savings should be invested only in assets permitted for investment of pension reserves and pension savings.

Classification of non-state pension arrangements and compulsory pension insurance agreements

The non-state pension arrangements, compulsory pension insurance agreements, where one party (the insurer – the Fund) has accepted significant insurance risk from another party (the policyholder – the party, the investor, the insured person, assignee) by agreeing to compensate to the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder, are recognised as pension activity insurance contracts.

For the Fund insurance risks are the risk of participant’s death or the risk of disability within a specified period of time, or risk of survival to a certain date, while the future event is represented by death, disability or survivorship, respectively.

Insurance risk is considered to be significant only if the Fund is obliged to pay a large extra compensation as the result of the participant’s death or disability, or his survival to a certain date. As well, insurance risk is considered to be significant in cases participant’s death, disability or his survival to a certain date are in the highest degree unlikely or the expected (i.e., probability weighted) present value of contingent cash receipts and payments is insignificant as compared with the expected present value of receipts and payments after the reporting date in accordance with the contract.

The Contracts that do not expose the Fund to significant insurance risk are considered to be investment contracts. If the contract is classified as an insurance contract after initial recognition, it should not be reclassified as an investment contract up to the date when all rights and obligations are redeemed or expired.

After initial recognition, the contract can only be transferred from the category of investment contracts to the category of insurance contracts.

Discretionary participation features (DPF) is the right of investor, participant or insured person to receive additional benefits in accordance with the non-state pension agreement or compulsory pension insurance agreement, which:

- are likely to be a significant part of the total benefits under the contract;
- have the amount or terms, set by the Fund in accordance with the agreement;
- depend on the profit or loss from the pension reserves placement and investment of pension savings.

(in thousands of Russian roubles, unless otherwise stated)

3 Summary of significant accounting policies (continued)

Insurance and pension agreements (continued)

Not less than 85 percent of the income received by the Fund from pension reserves placement, after deduction of management company (management companies) and specialised Depositary remuneration, should be spent on the replenishment of pension reserves, in accordance with Federal law 75-FZ *On Private Pension Funds* dated 7 may 1998. Similarly, the Fund should spend on the replenishment of pension savings not less than 85 percent of the income received from pension savings investment, after deduction of management company (management companies) and specialised Depositary remuneration. However, the right of the Fund to ensure income recognition from the pension reserves placement or pension savings investment in excess of the minimum required amount in accordance with the requirements of the legislation represents discretionary participation features.

The Fund's NPA contracts are classified as either insurance contracts with DPF or as investment contracts with DPF. CPI contracts are classified as insurance contracts with DPF.

Guaranteed element of the insurance or investment contract with DPF is recognised as a liability. DPF is possible to be considered as a component of net assets (capital) or as a liability, as well it can be divided between the two categories in accordance with IFRS 4 *Insurance Contracts*.

According to the Fund's accounting policy, an additional benefit on retained income under the contracts with DPF is recorded as a liability. The reasonable estimation of the expected distribution of investment income between pension accounts of participants (investors) and insured persons during the reporting period are included by the Fund in liabilities structure of the contract with DPF. As final decision on the amount of investment income to be distributed is taken, the part of income that have previously been recognised as DPF becomes guaranteed.

Liabilities under pension activity

Non-state pension arrangements

The Fund classifies NPA contracts as insurance contracts at initial recognition in case of significant insurance risk has been accepted from a participant (investor).

During the accumulation phase till the moment of the non-state pension is assigned for the appropriate participant (the investor) the Fund classifies NPA contracts as investment contracts with DPF due to the terms of the contracts that state, the participant's (the investor) pension should be assigned using current annuity rates, used by the Fund for other new participants (investors).

Under the terms of the NPA contract, the participant (investor) has the right to have a lifelong non-state pension, non-state pension, payable for a certain period, or a non-state pension until the exhaustion of funds on a pension account, to be assigned, as the pension entitlement is reached.

As a lifelong non-state pension has been assigned, the Fund reclassifies the NPA contract as insurance agreement with DPF. As a non-state pension, to be paid within a specified period, or has been assigned, in the appointment of non-state pensions paid within a specified period or a non-state pension until the exhaustion of funds on a pension account, or non-state pension until the exhaustion of funds on a pension account classification of the NPA contract is not changed, and the contract continues to be considered as an investment with DPF.

As DPF under the NPA contracts is considered the right of the Fund, if it has a financial capacity to ensure the recognition of income on pension accounts of participants (investors) in excess of the guaranteed level, set by the retiring rules, and (or) to index previously assigned pensions.

The Fund guarantees the recognition of income on the NPA contracts at the rates specified in the pension agreements with the investors sized from 0% to 6% annually. Thus, the NPA contracts contain an embedded derivative. Since the economic characteristics and risks of the specified embedded derivative are closely related to the economic characteristics and risks of the main contract, according to clause 8 of IFRS 4 *Insurance Contracts*, the separate recording and fair value assessment at of such a tool is not required.

(in thousands of Russian roubles, unless otherwise stated)

3 Summary of significant accounting policies (continued)

Insurance and pension agreements (continued)

In accordance with the terms of NPA contracts the investors (participants) have the right to terminate the NPA contract and to demand the repayment of the redemption amount, that is calculated based on the amount of contributions and the income accumulated on the pension account, with the coefficients that reflect the costs at the termination of the NPA contract and established at the time of issue of the NPA contract taken into account. Thus, the NPA contracts contain an embedded derivative. According to the paragraph 8 of IFRS 4 *Insurance Contracts*, the separate recording and fair value assessment at of such a tool is not required.

The detailed description of the pension schemes concerning description of the procedure for payment of pension contributions, procedures for assignment and payment of non-state pensions, etc. are contained in the Pension rules of the Fund.

Compulsory pension insurance agreements (CPI)

The CPI contracts are classified as insurance contracts with DPF at the initial recognition. The rate of conversion of the accumulated contributions, including investment income in a lifelong pension is regulated by the Russian legislation. Thus, as the Fund may be required to pay significant additional benefits in the future, the mortality risk is transferred to the Fund under the contract.

The NPA and CPI contracts liabilities assessment

The liabilities under NPA and CPI contracts are calculated as the sum of contributions, recognised income from the placement of pension reserves (investment of pension savings) net of pension payments made.

In accordance with the paragraphs 15-19 of IFRS 4 *Insurance Contracts* at the end of each reporting period, the Fund evaluates the adequacy of the recognised pension and insurance liabilities under the NPA and CPI contracts, by means of appropriate test of adequacy of liabilities (separately for NPA and CPI contracts).

Within the verification procedure for the adequacy of liabilities, the Fund considers all future cash receipts and payments under the contract including future receipts as contributions, future pension payments (retirement, redemption amounts, etc.). In the process of evaluation of the insurance liabilities the Fund considers the estimates of all cash flows specified at the reporting date. The costs of contract maintenance arising after the reporting date during the terms of these contracts and cash inflows and outflows arising from embedded options, guarantees and DPF are also taken into account.

The cost of liabilities can be increased in case of failure to cover future payments and expenses.

Compulsory pension insurance reserve (CPIR) and insurance reserve

CPIR and insurance reserve are charged to ensure the sustainability of fulfillment of liabilities to the participants and insured persons on the Fund's pension activity, and are used in case of insufficiency of funds to cover the liabilities under the pension contracts. CPIR and insurance reserve are charged at each reporting date in accordance with the legislative requirements and are classified for IFRS purposes as a capital item. CPIR and insurance reserve, charged in accordance with IFRS, are equal to the CPIR and insurance reserve charged in accordance with RAS.

In accordance with the requirements of the Russian legislation, insurance reserve for non-state pension arrangements should be 5 percent or more of the lower of the following values: the size of the pension liabilities coverage reserves for NPA charged in accordance with RAS as at the beginning of the reporting year, or the size of the pension liabilities coverage reserves charged in accordance with RAS as at the end of the reporting year.

(in thousands of Russian roubles, unless otherwise stated)

3 Summary of significant accounting policies (continued)

Insurance and pension agreements (continued)

Regulatory requirements for the CPI reserve arise in the Russian legislation in 2014. The size of the Fund’s compulsory pension insurance reserve after 1 January 2018 shall not be less than 1 percent and not more than 10 percent of the calculation base, meanwhile the Fund is obliged to charge as a reserve not less than 0.025 and not more than 0.5 percent of the calculation base from the investment income from the investment of pension savings till the moment of reaching the normative size from 2014 through 2017.

Contributions under pension activities

The contributions received under all the insurance and investment agreements with DPF are recognised as income in full at the moment the agreement comes into force and the Fund’s respective liabilities arises. There is no any separation or separate recognition of DPF as a liability under the insurance agreements for non-state pension arrangements and compulsory pension insurance. Change in the liabilities under insurance agreements with DPF is recognised in profit and loss.

Payments under pension activities

Payments under the non-state pension arrangements and compulsory pension insurance agreements are recognised under the application of the participant for non-state pension assignment or the application of the insured person for the assignment of funded pension, with the directive of pension savings transfer to the insurer specified in the Notices provided by the Pension Fund of the Russian Federation and prepared in accordance with the client’s (insured person’s) will for change of the insurer (the Fund) on the actual date of payment and admitted if the condition of pension entitlement is met (retirement age or disability).

As the redemption and the inherited amounts of non-state pension arrangements so the payment under compulsory pension insurance to the assignee are expensed on the accrual basis, that means, on the date the agreements cease to arise any liabilities.

The cost of insured persons involvement (acquisition cost)

The costs of the Fund arising from acquiring new contracts of compulsory pension insurance or non-state pension arrangements (acquisition cost) represent costs related to the conclusion of contracts of compulsory pension insurance or non-state pension arrangements, classified as insurance contracts or investment contracts with DPF.

The costs of the Fund associated with new contracts acquisition (acquisition cost) are distinguished between direct cost, that is directly related to the contract conclusion, and indirect cost, related to the Fund’s activity on compulsory pension insurance or non-state pension arrangements. The criterion of the Fund’s costs allocation to direct or indirect costs is the ability to correlate them with the individual agreement or a group of agreements.

Direct acquisition costs of the Fund include the remuneration to intermediaries (agents) for the services related to the conclusion of non-state pension arrangements or compulsory pension insurance contracts (Agency fee or Commission). All other costs are indirect.

The costs associated with attracting customers, new insurance and investment contracts acquisition and (or) renewal of existing insurance contracts, which relate to subsequent financial periods are deferred to future periods to the extent these costs are recoverable out of future income. Deferred acquisition costs are amortised over the expected period of generating income under such agreements.

An impairment review is performed at each reporting date and the carrying value is written down to the recoverable amount.

(in thousands of Russian roubles, unless otherwise stated)

4 Significant accounting judgments and estimates

In the process of applying the Group’s accounting policies, management has used its judgments and made estimates in determining the amounts recognised in the consolidated financial statements. The most significant use of judgments and estimates are as follows:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Additional details are provided in Note 38.

Allowance for net investment in leases and other receivables

The Group regularly reviews its net investment in leases and other receivables to assess impairment. The Group uses its experienced judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of net investment in leases and other receivables. The Group uses its experienced judgment to adjust observable data for a group of net investment in leases or other receivables to reflect current circumstances. The amount of allowance for impairment recognised in consolidated statement of financial position at 31 December 2016 was RUB 242,692 thousand (2015: RUB 557,326 thousand). More details are provided in Note 26.

Assumptions on liabilities under insurance agreements

Assumptions having the greatest effect on the assessment of insurance reserves are ratios of expected loss, computed from data of occurrence of losses during the previous years. Ratio of expected loss is the ratio of amount of expected loss to insurance premium earned. To determine the total amount of liabilities future cash flows are forecast based on deemed estimates of parameters, which may affect the amount of individual insurance payment (for example, frequency of losses, risks related to insurance agreements – effects of prolonged exposure, period of recovery, period from the date of insured event and the date of settlement of losses).

Methods and assumptions on liabilities assessment under non-state pension arrangements (NPA) and compulsory pension insurance contracts (CPI)

At the end of every reporting period the Fund reviews the adequacy of recognised pension liabilities, using current estimations of future cash flows under NPA and CPI contracts. A range of estimates and correspondent assumptions is used when adequacy test is performed.

The Fund makes separate assumptions for adequacy test purposes for non-state pension arrangements and for adequacy test purposes for compulsory pension insurance.

The assumptions used by the Fund are based on market indicators (including official statistics of general population, stock indices, etc.) and the internal data of the Fund.

In the process of designing (choosing) the assumptions significant attention is paid to their consistency and coherence, reflection of the Fund’s future experience and consideration of commitments (contractual obligations) of the Fund.

The main assumptions used relate to mortality, expenses, ratios of early termination of contracts and discount rates.

(in thousands of Russian roubles, unless otherwise stated)

4 Significant accounting judgments and estimates (continued)

Methods and assumptions on liabilities assessment under non-state pension arrangements (NPA) and compulsory pension insurance contracts (CPI) (continued)

The table of mortality that is designed by the Fund based on historical data on the mortality of the insured persons is used to assess the mortality for compulsory pension insurance. As the statistical data of the Fund is insufficient for mortality assessment for non-state pension arrangements, nationwide tables of mortality for the correspondent periods are used. Based on the Federal state statistics service’s forecast data the mortality (for non-state pension arrangements and compulsory pension insurance) is adjusted to reflect the expected future mortality improvement that reduces the number of fatal cases.

The early termination of NPA and CPI contracts ratios are designed on the basis of the Fund’s own statistics, taking into account the Fund’s future experience.

Discount rate is based on current market rates and reflects the particular liability specific risks.

Assumptions on future expenses related to NPA and CPI contracts are based on the Fund’s historical experience of the corresponding expenses levels, adjusted for expected expense inflation.

Liabilities under the pension agreements

The Fund provides non-state pension arrangements services for individuals and legal entities. The Fund also provides compulsory pension insurance services for individuals. The nature of services provided by the Fund is similar to that of insurance companies’.

Deferred acquisition costs

Acquisition costs are recognised to the extent that these costs are recoverable out of future income from compulsory pension insurance activity. The Fund annually performs the test for recoverability of deferred acquisition costs. According to the Fund’s estimates future income is to cover deferred acquisition costs.

5 New standards and interpretations not yet adopted

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group’s financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments,* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity’s business model for managing the assets and the instruments’ contractual cash flow characteristics. The IAS 39 measurement categories will be replaced by: fair value through profit or loss (FVPL), fair value through other comprehensive income (FVOCI), and amortised cost categories. IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortised cost or FVOCI instruments as FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement. The accounting for financial liabilities will largely be the same as the requirements of IAS 39.

(in thousands of Russian roubles, unless otherwise stated)

5 New standards and interpretations not yet adopted (continued)

IFRS 9 will also fundamentally change the approach to loan impairment. The standard will replace IAS 39’s incurred loss approach with a forward-looking expected credit loss (ECL) approach. The Bank will be required to record an allowance for expected losses for all loans and other debt financial assets not carried at FVPL, as well as for loan commitments and financial guarantee contracts. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case the allowance would be based on the probability of default over the life of the asset.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but restatement of comparative information is not required; the effect on the transition date – 1 January 2018 – would be recorded in retained earnings. The adoption of IFRS 9 is expected to have an effect on the classification and measurement of the Group’s financial assets, but no impact on the classification and measurement of the Group’s financial liabilities. The Group expects a significant impact on its equity due to adoption of IFRS 9 impairment requirements, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers*, effective for periods beginning on 1 January 2018 with early adoption permitted. IFRS 15 defines principles for recognising revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (e.g., IFRS 9, and IFRS 16 *Leases*).

Revenue under IFRS 15 will need to be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers.

The Group does not anticipate early adopting IFRS 15 and is currently evaluating its impact.

IFRS 16 Leases

The IASB issued the new standard for accounting for leases – IFRS 16 *Leases* in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their balance sheets as lease liabilities, with the corresponding right of-use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise ‘short-term’ leases and leases of ‘low-value’ assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to today’s finance lease accounting, with interest and depreciation expense recognised separately in the statement of profit or loss.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date.

The Group does not anticipate early adopting IFRS 16 and is currently evaluating its impact.

Amendments to IAS 12 Income Taxes

In January 2016, through issuing amendments to IAS 12, the IASB clarified the accounting treatment of deferred tax assets of debt instruments measured at fair value for accounting, but measured at cost for tax purposes. The Group does not anticipate that adopting the amendments would have a material impact on its financial statements.

(in thousands of Russian roubles, unless otherwise stated)

5 New standards and interpretations not yet adopted (continued)

Amendments to IAS 7 Statement of Cash Flows

In January 2016, the IASB issued amendments to IAS 7 *Statement of Cash Flows* with the intention to improve disclosures of financing activities and help users to better understand the reporting entities' liquidity positions. Under the new requirements, entities will need to disclose changes in their financial liabilities as a result of financing activities such as changes from cash flows and non-cash items (e.g., gains and losses due to foreign currency movements). The amendment is effective from 1 January 2017. The Group is currently evaluating the impact.

Amendments to IFRS 2 Share-based Payment

The IASB issued amendments to IFRS 2 *Share-based Payment* in relation to the classification and measurement of share-based payment transactions. The amendments are intended to eliminate diversity in practice, but are narrow in scope and address specific areas of classification and measurement. The amendments address three main areas:

- The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction.
- The classification of a share-based payment transaction with net settlement features for withholding tax obligations.
- The accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.

The amendment is effective for annual periods beginning on or after 1 January 2018. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. Early application is permitted. The amendments are not expected to have any impact on the Group.

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – Amendments to IFRS 4

The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the new insurance contracts standard that the Board is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. The optional temporary exemption from IFRS 9 is available to entities whose activities are predominantly connected with insurance. The temporary exemption permits such entities to continue to apply IAS 39 *Financial Instruments: Recognition and Measurement* while they defer the application of IFRS 9 until 1 January 2021 at the latest. The overlay approach requires an entity to remove from profit or loss additional volatility that may arise if IFRS 9 is applied with IFRS 4.

The temporary exemption is first applied for reporting periods beginning on or after 1 January 2018. An entity may elect the overlay approach when it first applies IFRS 9 and apply that approach retrospectively to financial assets designated on transition to IFRS 9. The amendments are not expected to have any impact on the Group.

(in thousands of Russian roubles, unless otherwise stated)

6 Change of classification

As at 31 December 2015 and for the year then ended in the consolidated financial statements changes in classification were made to align it with the reporting format as at 31 December 2016 and for the year then ended due to the fact that the presentation of the current reporting period gives a better view of the financial position and results of the Group.

Reclassifications in the consolidated statement of financial position

	31 December 2015 before reclassification	*Reclassifications*	*31 December 2015 after reclassification*
Debtors on leasing activities	72,802	(72,802)	–
Other assets	1,832,126	72,802	1,904,928

Reclassifications to the consolidated statement of profit or loss and other comprehensive income

	2015 before reclassification	*Reclassifications*	*2015 after reclassification*
Impairment allowance	(172,029)	172,029	–
Impairment charges on interest earning assets	–	(94,916)	(94,916)
Impairment charges on other assets	–	(77,113)	(77,113)

Reclassifications to the consolidated statement of cash flows

	2015 before reclassification	*Reclassifications*	*2015 after reclassification*
Taxes paid other than income tax	(2,745,203)	2,745,203	–
Debtors on leasing activities	115,653	(115,653)	–
Other assets	(1,147,549)	115,653	(1,031,896)
Other liabilities	4,445,396	(2,745,203)	1,700,193

As at 31 December 2015 and for the year then ended in the consolidated financial statements the items of the consolidated financial statements were redesignated to align them with the reporting format as at 31 December 2016 and for the year then ended due to the fact that the presentation of the current reporting period gives a better view of the financial position and results of the Group.

Redesignation of items in the consolidated statement of financial position

	31 December 2015 before redesignation of items	*Rename of items*	*31 December 2015 after redesignation of items*
Bank deposits	7,534,751	(7,534,751)	–
Deposits in banks	–	7,534,751	7,534,751
Insurance reserves	887,951	(887,951)	–
Liabilities under insurance agreements	–	887,951	887,951
Deferred income tax liability	594,810	(594,810)	–
Deferred tax liabilities	–	594,810	594,810

Redesignation of items in the consolidated statement of profit or loss and other comprehensive income

	31 December 2015 before rename of items	*Rename of items*	*31 December 2015 after rename of items*
General and administrative expenses	(653,082)	653,082	–
Other operating expenses	–	(653,082)	(653,082)

(in thousands of Russian roubles, unless otherwise stated)

6 Change of classification (continued)

Redesignation of items to the consolidated statement of cash flows

	31 December 2015 before redesignation of items	*Rename of items*	*31 December 2015 after redesignation of items*
Cash paid to employees	(2,091,913)	2,091,913	–
Cash paid to employees and payroll related taxes paid	–	(2,091,913)	(2,091,913)
General and administrative expenses	(630,178)	630,178	–
Other operating expenses	–	(630,178)	(630,178)
Bank deposits	(6,042,202)	6,042,202	–
Deposits in banks	–	(6,042,202)	(6,042,202)

7 Acquisition and disposal of subsidiaries, and discontinued operations

Acquisition of JSC NPF SAFMAR

In December 2016 the Group obtained control over the Fund as a result of receiving 100% shares of the Fund as a payment for part of additionally issued shares of the Company (refer to Note 24).

The fair value of obtained identifiable assets and liabilities, as well as goodwill at acquisition, are as follows:

	Fair value recognised at acquisition
Cash and cash equivalents	26,258,051
Financial instruments at fair value through profit or loss	153,253,954
Deposits in banks	13,560,434
Deferred acquisition costs	4,130,782
Deferred tax assets	116,888
Property and equipment	14,879
Other assets	408,703
Total assets	197,743,691
Liabilities under compulsory pension insurance agreements	179,665,404
Liabilities under non-state pension agreements	7,762,741
Other liabilities	1,141,281
Total liabilities	188,569,426
Total identifiable net assets	9,174,265
Fair value of the acquired Fund	33,374,872
Goodwill at acquisition	24,200,607

Goodwill recognised at acquisition in the amount of RUB 24,200,607 thousand reflects increase in activities efficiency as a result of business combination.

If the Group obtained 100% shares of the Funs on 1 January 2016, the Group’s net profit for the year 2016 would amount to RUB 4,466,144 thousand, and the Group’s income from operations for the year 2016 – RUB 8,602,687 thousand.

Cash inflow on acquisition of the Fund was as follows:

Net cash acquired with the Fund	26,258,051
Net cash inflow	26,258,051

(in thousands of Russian roubles, unless otherwise stated)

7 Acquisition and disposal of subsidiaries, and discontinued operations (continued)

Acquisition of subsidiaries

In October 2015 management of the Group's shareholder changed the Group's structure and moved the ownership of LLC "Europlan Auto", LLC "Europlan Insurance", LLC "Europlan Lease Payments" and LLC "POMESTIE" from the direct ownership of EUROPLAN HOLDINGS LIMITED into the ownership of the PJSC "Europlan" registered in the Russian Federation. There was no purchase consideration paid, as the investments in the companies were transferred from the Group's shareholder as contribution to equity of PJSC "Europlan".

Acquisitions of subsidiaries from parties under common control are accounted for using the pooling of interests method. These consolidated financial statements, including the comparative data, are presented as if the subsidiaries had been acquired by the Group as at the date they were originally acquired by the preceding owner.

The assets and liabilities of the companies acquired into the ownership of the PJSC "Europlan" were as follows:

	Carrying amount at acquisition date
Cash and cash equivalents	445,781
Financial instruments at fair value through profit or loss	93,780
Deposits in banks	648,337
Net investment in leases after impairment allowance	356,691
Loans to customers after impairment allowance	587,991
Equipment purchased and advances to suppliers for lease operations	3,596
VAT recoverable	47,531
Property and equipment	43,120
Other assets	365,537
Total assets	2,592,364
Borrowings	402,350
Liabilities under insurance agreements	853,865
Advances received from lessees	2,042
Deferred tax liabilities	133
VAT payable	13,345
Other liabilities	148,160
Total liabilities	1,419,895
Total net assets	1,172,469

Cash inflow on acquisition of the subsidiaries was as follows:

Net cash acquired with the subsidiaries	445,781
Net cash inflow	445,781

Disposal of JSC "Europlan Bank"

In December 2015, the Group stopped control over JSC "Europlan Bank" (the "Bank") as a result of sale of its shares to related parties. As at 31 December 2016, the Bank changed its name to B&N Bank Stolitsa. There were no expenses incurred by the Group at disposal of the Bank.

(in thousands of Russian roubles, unless otherwise stated)

7 Acquisition and disposal of subsidiaries, and discontinued operations (continued)

Disposal of JSC "Europlan Bank" (continued)

The assets and liabilities of the Bank as at the date of disposal were as follows:

	Carrying amount at disposal date
Cash and cash equivalents	475,969
Loans to customers after impairment allowance	3,822,980
Property, equipment and intangible assets	105,664
Other assets	43,492
Total assets	4,448,105
Current accounts and deposits from customers	2,631,209
Deferred income tax liabilities	12,491
VAT payable	11,204
Other liabilities	112,234
Total liabilities	2,767,138
Total net assets	1,680,967

Total consideration and financial result from sale were as follows:

Proceeds from sale	630,000
Other assets (amount receivable)	515
Total consideration	630,515
Net assets disposed	(1,680,967)
Financial result from sale	(1,050,452)

The movements in cash flows on disposal of the subsidiary for the years 2016 and 2015 were as follows:

	2016	*2015*
Proceeds from sale	630,000	–
Net cash disposed with the subsidiary	–	(475,969)
Net cash inflow (outflow)	630,000	(475,969)

JSC "Europlan Bank" was classified as discontinued operations in these consolidated financial statements. The results of the Bank for the year 2015 are presented below:

	2015
Interest income	982,117
Interest expense	(163,709)
Net interest income	818,408
Impairment charges on interest earning assets	(342,303)
Net interest income after impairment charges of interest earning assets	476,105
Other income, net	118,591
Income from operations	594,696
Net foreign exchange losses	(7,729)
Total income from operations and finance income	586,967
Staff expenses	(100,892)
Other operating expenses	(104,946)
Impairment charges on other assets	(8)
Profit before income tax from discontinued operations	381,121
Financial result from disposal of discontinued operations	(1,050,452)
Income tax benefit	142,113
Net loss from discontinued operations	(527,218)

(in thousands of Russian roubles, unless otherwise stated)

7 Acquisition and disposal of subsidiaries, and discontinued operations (continued)

Disposal of JSC "Europlan Bank" (continued)

Transactions between discontinued and continuing operations are eliminated according to requirements of IFRS. As a consequence, income and expense ascribed to discontinued operations are only from transactions with counterparties external to the Group. Information on intragroup adjustments of the Bank with other entities of the Group in the consolidated statement of financial position and consolidated statement of profit or loss and other comprehensive income is presented in Note 42 as supplementary information.

The net cash flows incurred by the Bank for the year 2015 are as follows:

	2015
Operating	8,870
Investing	(2,394)
Financing	–
Effect of exchange rate changes on cash and cash equivalents	1,119
Net cash flows from discontinued operations	7,595

Earnings per share from discontinued operations for the year 2015 are as follows:

	2015
Net loss from discontinued operations	(527,218)
Weighted average number of shares in issue (deemed number of shares)	111,637,791
Earnings per share from discontinued operations (expressed in Russian roubles per share)	(4.73)

8 Cash and cash equivalents

	31 December 2016	*31 December 2015*
Cash on hand	148	204
Current accounts with banks	491,542	612,970
Term deposits with banks with original maturity up to three months	54,164,334	868,838
Accounts of trustee	145,349	–
Total cash and cash equivalents	54,801,373	1,482,012

No bank balances or term deposits with banks are past due or impaired. The credit quality of cash and cash equivalent balances is based on Standard and Poor's ratings, or ratings of Moody's or Fitch, which are converted to the nearest equivalent to the Standard and Poor's ratings. Analysis by credit quality of current accounts with banks and term deposits with banks is as follows:

	31 December 2016			*31 December 2015*	
	Current accounts with banks	*Term deposits with banks*	*Accounts of trustee*	*Current accounts with banks*	*Term deposits with banks*
Neither past due nor impaired					
BBB rated	–	–	–	297,609	241,086
BB- to BB+ rated	465,059	51,027,998	90,674	315,224	467,398
Rated lower than BB-	21,526	3,136,336	54,017	43	160,354
Unrated	4,957	–	658	94	–
Total cash and cash equivalents	491,542	54,164,334	145,349	612,970	868,838

As at 31 December 2016 the Group has two counterparties with credit rating from BB- to BB (2015: none), whose aggregate balances on current accounts with banks and term deposits exceed 10% of equity as at the end of reporting period. The gross value of these balances of these counterparties as at 31 December 2016 is RUB 33,667,062 thousand (2015: nil).

(in thousands of Russian roubles, unless otherwise stated)

9 Financial instruments at fair value through profit or loss

	31 December 2016	*31 December 2015*
Debt financial instruments		
Russian corporate bonds	81,962,756	9,106
Mortgage participation certificates	14,608,098	–
Russian Government Federal bonds	9,955,135	87,316
Bonds of constituent entities of the Russian Federation	2,419,742	–
Russian municipal bonds	29,224	–
Bonds of international financial organisations	7,024	–
Total debt financial instruments	108,981,979	96,422
Equity financial instruments		
Shares of Russian companies and banks	40,166,874	–
Investment shares of investment funds	961,389	–
Total equity financial instruments	41,128,263	–
Total financial instruments at fair value through profit and loss	150,110,242	96,422

The table below shows the nominal interest rates and maturities of the debt securities, acquired from pension savings:

	31 December 2016		*31 December 2015*	
	Profitability, %	*Maturity*	*Profitability, %*	*Maturity*
Corporate bonds	0.10%-15.00%	2017-2046	–	–
Government bonds	2.50%-11.90%	2017-2025	–	–
Municipal bonds	6.94%-9.37%	2017	–	–
Bonds of constituent entities of the Russian Federation	6.50%-12.65%	2017-2024		
Mortgage participation certificates	11.71%	2017-2032	–	–

The table below shows the nominal interest rates and maturities of the debt securities, acquired from pension reserves:

	31 December 2016		*31 December 2015*	
	Profitability, %	*Maturity*	*Profitability, %*	*Maturity*
Corporate bonds	7.95%-14.75%	2017-2028	–	–
Government bonds	6.20%-10.95%	2017-2021	–	–
Municipal bonds	8.50%	2020	–	–
Bonds of the constituent entities of the Russian Federation	6.50%-9.45%	2017		
Bonds of international financial organisations	9.50%	2020	–	–

For the year 2016 net income from financial instruments at fair value through profit or loss comprises net income from debt and other fixed-income instruments of RUB 4,155 thousand (2015: net income from debt and other fixed-income instruments of RUB 14,940 thousand and net income from derivative financial instruments of RUB 94,887 thousand).

(in thousands of Russian roubles, unless otherwise stated)

10 Deposits in banks

Deposits in banks as at 31 December 2016 were mainly deposits in RUB and had an average interest rate of 9.52% (2015: 11.55%). The original maturities of these deposits are January 2017 – November 2017 (2015: January 2016 – March 2018).

All deposits in banks are neither past due nor impaired. The credit quality of the deposits in banks is based on Standard and Poor’s ratings, or ratings of Moody’s or Fitch, which are converted to the nearest equivalent to the Standard and Poor’s ratings.

Analysis by credit quality of deposits in banks is as follows:

	31 December 2016	*31 December 2015*
BBB rated	–	–
BB- to BB+ rated	2,108,046	7,465,750
Rated lower than BB-	12,243,155	69,001
Total deposits in banks	14,351,201	7,534,751

As at 31 December 2016 the Group has one counterparty with credit rating B+ (2015: one counterparty with credit rating BB), whose aggregate balances exceed 10% of equity. The gross value of these balances as at 31 December 2016 is RUB 12,011,314 thousand (2015: RUB 6,815,390 thousand).

11 Net investment in leases after impairment allowance

As at 31 December 2016 and 31 December 2015 net investment in leases comprises:

	31 December 2016	*31 December 2015*
Gross investment in leases	33,975,355	31,695,192
Unearned finance income	(6,388,004)	(5,741,392)
Net investment in leases before impairment allowance	27,587,351	25,953,800
Impairment allowance	(116,755)	(122,043)
Total net investment in leases after impairment allowance	27,470,596	25,831,757

Finance lease payments receivable (gross investment in leases) and their present values are as follows:

	Due in 1 year	*Due between 1 and 5 years*	*Total*
Gross investment in leases as at 31 December 2016	20,660,907	13,314,448	33,975,355
Unearned finance income	(2,023,345)	(4,364,659)	(6,388,004)
Impairment allowance	(64,916)	(51,839)	(116,755)
Net investment in leases after impairment allowance as at 31 December 2016	18,572,646	8,897,950	27,470,596

	Due in 1 year	*Due between 1 and 5 years*	*Total*
Gross investment in leases as at 31 December 2015	20,306,923	11,388,269	31,695,192
Unearned finance income	(2,057,498)	(3,683,894)	(5,741,392)
Impairment allowance	(75,432)	(46,611)	(122,043)
Net investment in leases after impairment allowance as at 31 December 2015	18,173,993	7,657,764	25,831,757

(in thousands of Russian roubles, unless otherwise stated)

11 Net investment in leases after impairment allowance (continued)

Movements in the impairment allowance for net investment in leases by types of leased assets for 2016 are as follows:

	Vehicles	*Construction equipment – mobile machinery and other*	*Total*
Impairment allowance as at 1 January 2016	(86,218)	(35,825)	(122,043)
Impairment (charges) recovery	(20,595)	25,883	5,288
Impairment allowance as at 31 December 2016	(106,813)	(9,942)	(116,755)

Movements in the impairment allowance for net investment in leases by types of leased assets for 2015 are as follows:

	Vehicles	*Construction equipment – mobile machinery and other*	*Total*
Impairment allowance as at 1 January 2015	(139,413)	(83,071)	(222,484)
Impairment recovery	53,195	47,246	100,441
Impairment allowance as at 31 December 2015	(86,218)	(35,825)	(122,043)

The lessees of the Group are divided into 4 rating groups for credit quality analysis. The Group's rating scale reflects the credit quality of net investment in leases.

Prime credit rating: the lowest level of credit risk is attributable to the lessee and the leasing transaction.

Strong credit rating: high creditworthiness lessee and low risk for the Group.

Acceptable credit rating: average risk assigned to lessee and the leasing transaction.

Sufficient credit rating: the credit risk is higher than average.

The assigned ratings are under constant review and are regularly updated.

(in thousands of Russian roubles, unless otherwise stated)

11 Net investment in leases after impairment allowance (continued)

Analysis by credit quality of net investment in leases as at 31 December 2016 is as follows:

	Vehicles	*Construction equipment – mobile machinery and other*	*Total*
Not past due and less than 60 days overdue (gross)			
- Prime	5,274,806	395,493	5,670,299
- Strong	11,585,016	1,022,860	12,607,876
- Acceptable	7,928,937	561,225	8,490,162
- Sufficient	729,563	66,228	795,791
Total not past due and less than 60 days overdue (gross)	25,518,322	2,045,806	27,564,128
Past due (gross)			
- 61 days to 90 days overdue	6,768	175	6,943
- 91 days to 180 days overdue	949	5,096	6,045
- 181 days to 365 days overdue	2,720	2,364	5,084
- over 365 days overdue	4,084	1,067	5,151
Total past due (gross)	14,521	8,702	23,223
Less impairment allowance	(106,813)	(9,942)	(116,755)
Total net investment in leases after impairment allowance	25,426,030	2,044,566	27,470,596

Analysis by credit quality of net investment in leases as at 31 December 2015 is as follows:

	Vehicles	*Construction equipment – mobile machinery and other*	*Total*
Not past due and less than 60 days overdue (gross)			
- Prime	4,011,361	414,537	4,425,898
- Strong	11,555,525	1,450,614	13,006,139
- Acceptable	5,650,840	825,361	6,476,201
- Sufficient	1,488,585	365,253	1,853,838
Total not past due and less than 60 days overdue (gross)	22,706,311	3,055,765	25,762,076
Past due (gross)			
- 61 days to 90 days overdue	66,982	28,022	95,004
- 91 days to 180 days overdue	15,341	44,303	59,644
- 181 days to 365 days overdue	1,362	22,513	23,875
- over 365 days overdue	11,632	1,569	13,201
Total past due (gross)	95,317	96,407	191,724
Less impairment allowance	(86,218)	(35,825)	(122,043)
Total net investment in leases after impairment allowance	22,715,410	3,116,347	25,831,757

The Group estimates net investment in leases impairment based on the internal model that takes into account its historical loss experience. The management analyses historical losses and computes a probability of default and loss given default, which then are used to calculate impairment allowance for each type of leasing.

The Group normally structures its finance lease contracts so that the lessee makes an average prepayment of 25% of the asset purchase price at the beginning of the lease term. The Group holds the title to the asset during the lease term.

(in thousands of Russian roubles, unless otherwise stated)

11 Net investment in leases after impairment allowance (continued)

Risks related to the leased asset such as damage caused by various reasons and theft are insured. The beneficiary under the insurance policy in case of total loss or theft is the Group.

In assessing impairment allowance, the Group uses the assumption that overdue net investment in leases will be recovered primarily through sale of leased assets. As such, the financial effect of collateral on impairment assessment is significant.

Based on historic experience management estimates that the fair value of collateral securing net investments in lease is at least equal to their carrying amounts. Estimates of collateral value are based on the value of collateral assessed at the time of lease origination, and generally are not updated except when a lease is individually assessed as impaired.

Changes in these estimates could affect the impairment allowance. For example, if net present value of the estimated cash flows changes by one percent, the impairment allowance on net investment in leases as at 31 December 2016 would be RUB 274,706 thousand lower/higher (2015: RUB 258,318 thousand lower/higher).

Economic sector risk concentrations of net investment in leases are as follows:

	31 December 2016		*31 December 2015*	
	Amount	*Amount*	*Amount*	*%*
Goods transportation & logistics	4,453,577	16.14	4,054,361	15.62
Construction	3,085,113	11.18	3,429,503	13.21
Wholesale operations – raw materials	2,503,154	9.07	2,215,494	8.54
Wholesale operations – foods	2,247,313	8.15	2,225,993	8.58
Other services	1,528,698	5.54	670,734	2.58
Automobile manufacturing and service	1,300,084	4.71	1,411,063	5.44
Agriculture	992,454	3.60	821,727	3.17
Food and drinks	927,905	3.36	768,819	2.96
Wholesale operations – FMCG	915,998	3.32	789,015	3.04
Consulting	897,413	3.25	1,386,511	5.34
Pharmaceutical industry	865,598	3.14	908,680	3.50
Retail operations	821,865	2.98	800,865	3.09
Other industries	7,048,179	25.56	6,471,035	24.93
Net investment in leases before impairment allowance	27,587,351	100.00	25,953,800	100.00

As at 31 December 2016 and 31 December 2015 the Group does not have lessees, whose aggregate balances exceed 10% of equity.

12 Loans to customers after impairment allowance

	31 December 2016	*31 December 2015*
Loans to retail customers		
Auto loans	–	217,692
Consumer loans	–	75,745
Total loans to retail customers	–	293,437
Impairment allowance	–	(237,669)
Total loans to customers after impairment allowance	–	55,768

(in thousands of Russian roubles, unless otherwise stated)

12 Loans to customers after impairment allowance (continued)

Movements in the impairment allowance for loans to customers for the year ended 31 December 2016 are as follows:

	2016			
	Auto loans	*Consumer loans*	*Credit cards*	*Total*
Impairment allowance as at 1 January	(164,764)	(72,905)	–	(237,669)
Impairment (charges) recovery	(18,034)	1,920	–	(16,114)
Impairment allowance for loans sold	70,416	9,646	–	80,062
Impairment allowance for loans written off	112,382	61,339	–	173,721
Impairment allowance as at 31 December	–	–	–	–

Movements in the impairment allowance for loans to customers for the year ended 31 December 2015 are as follows:

	2015			
	Auto loans	*Consumer loans*	*Credit cards*	*Total*
Impairment allowance as at 1 January	(170,348)	(466,136)	(12,171)	(648,655)
Impairment charges on continuing operations	(148,608)	(46,749)	–	(195,357)
Impairment charges on discontinued operations	(200,620)	(131,372)	(10,580)	(342,572)
Impairment allowance for loans sold	646	–	–	646
Impairment allowance for loans written off	248,388	518,669	11,046	778,103
Disposal of subsidiaries	105,778	52,683	11,705	170,166
Impairment allowance as at 31 December	(164,764)	(72,905)	–	(237,669)

In December 2015 the Company stopped control over JSC "Europlan Bank" as a result of sale of its shares.

Credit quality of loans to customers

The following table provides information on the credit quality of loans to customers as at 31 December 2015:

	Auto loans	*Consumer loans*	*Total loans*
Not overdue and overdue less than 6 days	38,805	1,436	40,241
Overdue 6-30 days	2,876	26	2,902
Overdue 31-90 days	9,906	634	10,540
Overdue 91-180 days	13,537	2,533	16,070
Overdue 181-365 days	152,568	71,116	223,684
Gross loans to customers	217,692	75,745	293,437
Impairment allowance	(164,760)	(72,909)	(237,669)
Loans to customers after impairment allowance	52,932	2,836	55,768

(in thousands of Russian roubles, unless otherwise stated)

12 Loans to customers after impairment allowance (continued)

Key assumptions and judgments for estimating the loan impairment

The impairment allowance is established using statistical methods such as roll rate methodology. The roll rate methodology uses statistical analysis of historical data on delinquency to estimate the amount of loss. Management applies judgment to ensure that the estimate of loss arrived at on the basis of historical information is appropriately adjusted to reflect the economic conditions at the reporting date. All rates are regularly benchmarked against actual loss experience.

As at 31 December 2015 the Group estimates loan impairment for auto loans based on its internal model, which takes into account historical experience on probability of default and loss given default. The significant assumptions as at 31 December 2015 used in determining the impairment losses for auto loans include:

- Management assumed that the Group can partially recover overdue auto loans portfolio through the sale of loans or cars held as collateral.
- Management assumed that overdue loans migration rates are constant and can be estimated based on historic loss migration pattern.

As at 31 December 2015 the Group estimates loan impairment for consumer loans and credit cards based on its internal model, which takes into account historical experience. The significant assumptions as at 31 December 2015 used in determining the impairment losses for consumer loans and credit cards include:

- Management assumed that the Group can partially recover overdue consumer loans and credit cards portfolio through the sale of loans or collection procedures.
- Management assumed that overdue loans migration rates are constant and can be estimated based on historic loss migration pattern.

Changes in these estimates could affect the loan impairment allowance. For example, if net present value of the estimated cash flows changes by three percent, the impairment allowance on loans to customers as at 31 December 2015 would be RUB 1,673 thousand higher/lower.

Analysis of collateral

Auto loans are secured by the underlying cars, mortgage loans are secured by pledge of real estate, credit cards loans and consumer loans are not secured. The table below summarises net loans to customers secured by type of collateral:

	31 December 2016	*31 December 2015*
Loans collateralised by pledge of property – cars	–	52,929
Unsecured loans	–	2,839
Net loans to customers after impairment allowance	–	55,768

The amounts shown in the table above represent the net carrying value of the loans to customers, and do not necessarily represent the fair value of the collateral.

The Group may obtain a specific individual valuation of collateral for auto loans at each reporting date where there are indications of impairment. For the remaining auto loans the fair value of collateral was estimated at inception of the loans and was not adjusted for subsequent changes at the reporting date.

The recoverability of loans, which are neither past due nor impaired, primarily depends on the creditworthiness of borrowers rather than the value of collateral, and the Group does not necessarily update the valuation of collateral at each reporting date.

During the year ended 31 December 2015 the Group took possession of collateral amounted to RUB 14,073 thousand for loans to customers.

(in thousands of Russian roubles, unless otherwise stated)

12 Loans to customers after impairment allowance (continued)

Significant credit exposures

As at 31 December 2016 and 31 December 2015 the Group does not have borrowers or groups of related borrowers, whose loan balances individually exceed 10% of equity.

13 Equipment purchased and advances to suppliers for lease operations

Equipment purchased for lease operations represents assets which will be subsequently transferred to lessees. Advances to suppliers for lease operations represent payments to suppliers for assets which will be subsequently transferred to lessees. In accordance with the Russian Civil Code, the lessor is not liable to the lessee if the supplier fails to fulfil its obligations under the asset sales contract when the lessee chooses the supplier.

The Group is exposed to financial risks in relation to equipment purchased for leasing purposes and advances to suppliers for lease operations as these assets represent the first stage of settlements under the leasing contracts which are performed after inception of the lease.

	31 December 2016	*31 December 2015*
Equipment purchased for leasing purposes	73,089	98,251
Advances to suppliers for lease operations	498,234	244,085
Impairment allowance	(6,538)	(43,123)
Total equipment purchased and advances to suppliers for lease operations	564,785	299,213

Analysis by credit quality of advances to suppliers for lease operations is as follows:

	31 December 2016	*31 December 2015*
Equipment purchased for leasing purposes	73,089	98,251
Advances to suppliers for lease operations		
Neither past due nor impaired	274,532	108,851
Past due		
- less than 90 days overdue	212,911	91,831
- 91 days to 180 days overdue	6,255	409
- 181 days to 365 days overdue	4,312	224
- over 365 days overdue	224	42,770
Total past due	223,702	135,234
Impairment allowance	(6,538)	(43,123)
Total equipment purchased and advances to suppliers for lease operations	564,785	299,213

Movements in the impairment allowance for the years ended 31 December 2016 and 2015 are as follows:

	2016	*2015*
Impairment allowance as at 1 January	(43,123)	(45,695)
Impairment recovery (charges)	6,250	(10,667)
Written off	30,335	13,239
Impairment allowance as at 31 December	(6,538)	(43,123)

(in thousands of Russian roubles, unless otherwise stated)

14 Deferred acquisition costs

Changes in deferred acquisition costs for the year 2016 are as follows:

	2016
Deferred acquisition costs as at 1 January 2016	–
Acquisition of subsidiaries	4,130,782
Change in deferred acquisition costs	94,316
Depreciation	(12,647)
Deferred acquisition costs as at 31 December 2016	4,212,451

15 Property and equipment

The movements in property and equipment for the year ended 31 December 2016 and 2015 were as follows:

	Cars	*Computer equipment*	*Office equipment*	*Buildings and lands*	*Other*	*Capital expenditure*	*Total property and equipment*
Cost							
1 January 2015 (unaudited)	125,255	227,523	124,166	149,462	51,303	118	677,827
Additions	10,791	12,769	7,905	–	758	12,385	44,608
Disposals	(20,594)	(12,221)	(16,969)	(1,419)	(674)	(2,927)	(54,804)
Disposal of subsidiaries	–	(38,506)	(1,809)	–	(1,624)	–	(41,939)
Balance at 31 December 2015	115,452	189,565	113,293	148,043	49,763	9,576	625,692
Additions	21,868	66,416	24,085	–	9,577	40	121,986
Disposals	(36,704)	(7,367)	(4,948)	–	(519)	(9,575)	(59,113)
Acquisition of subsidiaries	–	13,060	1,607	–	212	–	14,879
Balance at 31 December 2016	100,616	261,674	134,037	148,043	59,033	41	703,444
Accumulated depreciation							
1 January 2015 (unaudited)	(75,127)	(119,115)	(72,671)	(15,790)	(23,144)	–	(305,847)
Depreciation charge from continuing operations	(14,729)	(26,910)	(15,626)	(5,416)	(7,806)	–	(70,487)
Depreciation charge from discontinued operations	(297)	(8,114)	(242)	–	–	–	(8,653)
Disposals	10,618	12,095	14,214	504	579	–	38,010
Disposal of subsidiaries	297	25,897	601	–	869	–	27,664
31 December 2015	(79,238)	(116,147)	(73,724)	(20,702)	(29,502)	–	(319,313)
Depreciation charge	(17,156)	(31,746)	(17,337)	(5,255)	(7,439)	–	(78,933)
Disposal	27,281	6,727	3,119	–	493	–	37,620
31 December 2016	(69,113)	(141,166)	(87,942)	(25,957)	(36,448)	–	(360,626)
Carrying amount							
1 January 2015 (unaudited)	50,128	108,408	51,495	133,672	28,159	118	371,980
31 December 2015	36,214	73,418	39,569	127,341	20,261	9,576	306,379
31 December 2016	31,503	120,508	46,095	122,086	22,585	41	342,818

(in thousands of Russian roubles, unless otherwise stated)

16 Investments in associates

In December 2016 the Group obtained the significant non-controlling interest in VSK as a result of receiving 49% shares of VSK as a payment for part of additionally issued shares of the Company in the amount of RUB 16,071,349 thousand (Note 24). The main activity of VSK is insurance. Investments in VSK are accounted for under the equity method.

As at 31 December 2016 and for the period from the acquisition date ending on that date, the summarised financial information on the investment in VSK is presented below:

	31 December 2016
Total assets	67,690,186
Including:	
Loans and other receivables, including deposits in banks	23,253,267
Available-for-sale financial assets	15,331,151
Receivables on insurance operations	4,708,253
Deferred acquisition costs	9,023,996
Total liabilities	52,785,666
Including:	
Liabilities under insurance agreements	47,279,722
Payables for insurance operations	3,682,851
Net assets	14,904,520
Adjustment for non-identifiable assets at the acquisition date	(700,830)
Total net assets	14,203,690
The Group's share in net assets	6,959,808
Goodwill included in the carrying amount	9,310,609
The carrying value of investments in associates	16,270,417

	2016
Earned insurance premium – net reinsurance	4,880,301
Insured losses – net	(2,251,508)
Other expenses	(1,426,633)
Result from insurance activity	1,202,160
Result from investment activity	394,454
Result from other activities	(1,028,282)
Profit before taxation	568,332
Income tax expense	(162,936)
Net profit	405,396
Other comprehensive income	865
Total comprehensive Income	406,261

The items of consolidated statement of profit or loss and other comprehensive income of VSK are disclosed for the period from the acquisition date to 31 December 2016.

The share of the Group in profit or loss and other comprehensive income of VSK for the period from the acquisition date to 31 December 2016 was as follows:

	2016
Net profit	198,644
Other comprehensive income	424
Total comprehensive Income	199,068

If the shares of VSK were acquired on 1 January 2016, net profit of the Group for the year 2016 would increase by RUB 1,656,914 thousand.

(in thousands of Russian roubles, unless otherwise stated)

17 Goodwill

The changes in goodwill for the year 2016 are as follows:

	Total
Goodwill as at 1 January 2016	–
Business combination (Note 7)	24,200,607
Goodwill as at 31 December 2016	24,200,607

As at 31 December 2016 the carrying amount of goodwill is related to the following cash generating unit – JSC NPF SAFMAR.

18 Other assets

	31 December 2016	*31 December 2015*
Other financial assets		
Loans under reverse sale and repurchase agreements	154,744	–
Debtors on leasing activities	103,510	227,292
Settlements on disposal of credit portfolio	24,365	–
Insurance agency fee receivable	21,686	23,543
Settlements for the sale of securities	10,513	–
Settlements on disposal of JSC "Europlan Bank"	515	630,515
Other	46,286	52,764
Impairment allowance for debtors on leasing activities	(95,034)	(154,490)
Total other financial assets	266,585	779,624
Other non-financial assets		
Prepaid insurance cost	276,269	259,997
Insurance premium receivable	166,490	177,039
Intangible assets	139,938	41,143
Leased objects repossessed/returned	133,251	440,248
Subrogation reserve and receivables	111,341	107,551
Settlements with counterparties	61,027	39,011
Deferred expenses	47,673	26,203
Deferred acquisition cost on insurance operations	34,583	1,298
Prepaid taxes other than income tax	20,054	9,897
Other	36,004	22,917
Total other non-financial assets	1,026,630	1,125,304
Total other assets	1,293,215	1,904,928

Leased objects repossessed are assets repossessed by the Group from delinquent lessees under cancelled finance lease contracts. These leased objects repossessed are recognised at lower of their cost or net realisable value.

Debtors on leasing activities consist of accounts receivable on terminated lease agreements.

	31 December 2016	*31 December 2015*
Debtors on leasing activities	103,510	227,292
Less impairment allowance	(95,034)	(154,490)
Total debtors on leasing activities	8,476	72,802

Movements in the impairment allowance for debtors on leasing activities for the years 2016 and 2015 are as follows:

	2016	*2015*
Impairment allowance as at 1 January	(154,490)	(254,866)
Impairment charges	(16,853)	(66,446)
Written off	76,309	166,822
Impairment allowance as at 31 December	(95,034)	(154,490)

(in thousands of Russian roubles, unless otherwise stated)

18 Other assets (continued)

Analysis by credit quality of debtors on leasing activities is as follows:

	31 December 2016	*31 December 2015*
Not past due and less than 60 days overdue	4,826	18,586
Past due		
- 61 days to 90 days overdue	4,006	9,329
- 91 days to 180 days overdue	10,763	33,744
- 181 days to 365 days overdue	10,850	79,473
- over 365 days overdue	73,065	86,160
Total debtors on leasing activities	103,510	227,292
Impairment allowance	(95,034)	(154,490)
Debtors on leasing activities less impairment allowance	8,476	72,802

The following table provides information on collateral securing debtors on leasing activities (less impairment allowance), by types of collateral (excluding the effect of overcollateralisation):

	31 December 2016	*31 December 2015*
Vehicles	8,476	61,608
Construction equipment – mobile machinery and other	–	11,194
Net debtors on leasing activities	8,476	72,802

The amounts shown in the table above represent the net carrying value of the debtors on leasing activities less impairment allowance, and do not necessarily represent the fair value of the collateral.

Movements in the impairment allowance for other assets for the years ended 31 December 2016 and 2015 are as follows:

	2016	*2015*
Impairment allowance as at 1 January	–	(546)
Impairment recovery for discontinued operations	–	268
Disposal of subsidiaries	–	278
Impairment allowance as at 31 December	–	–

19 Liabilities under compulsory pension insurance and non-state pension agreements

Liabilities under pension agreements are as follows:

	31 December 2016	*31 December 2015*
Liabilities under compulsory pension insurance agreements with DPF	181,893,057	–
Liabilities under non-state pension investment agreements with DPF	6,182,389	–
Liabilities under non-state pension insurance agreements with DPF	1,699,216	–
Total liabilities under pension activities	189,774,662	–

(in thousands of Russian roubles, unless otherwise stated)

19 Liabilities under compulsory pension insurance and non-state pension agreements (continued)

Change in liabilities under pension activities during the year 2016 is presented below:

	Liabilities under compulsory pension insurance agreements with DPF	*Liabilities under non-state pension investment agreements with DPF*	*Liabilities under non-state pension insurance agreements with DPF*
Liabilities as at 1 January	–	–	–
Acquisition of subsidiaries	179,665,404	6,040,868	1,721,873
Increase in liabilities due to receipt of pension contributions	37,977	84,565	–
Increase (decrease) in liabilities due to pension payments	1,669,281	(2,143)	(29,925)
Liabilities paid due to death and terminations	(1,707,508)	(36,413)	–
Release of liabilities subject to transfer to compulsory pension insurance reserve and insurance reserve	(81,426)	672	–
Investment income	2,308,719	94,887	7,280
Other	610	(47)	(12)
Liabilities as at 31 December	181,893,057	6,182,389	1,699,216

Release of liabilities subject to transfer to compulsory pension insurance reserve and insurance reserve is carried out in accordance with Federal Law 75-FZ *On Private Pension Funds* of 7 May 1998, statutory acts of the Bank of Russia and the Federal Service for Financial Markets and represents part of liabilities remaining after termination of pension agreement as well as investment income for the previous reporting periods, not fixed on individual pension accounts of insured persons, when they change pension fund for the period of less than five years since the year the compulsory pension insurance agreement entered into force.

20 Borrowings

As at 31 December 2016 borrowings in the amount of RUB 10,204,713 thousand (2015: RUB 9,921,321 thousand) are loans attracted from banks registered in the territory of the Russian Federation.

As at 31 December 2016 the Group does not have counterparties (2015: 4 counterparties), the aggregate amount of borrowings from which individually exceed 10% of equity. The gross value of these borrowings as at 31 December 2015 is RUB 9,101,321 thousand.

As at 31 December 2016 net investment in leases before impairment allowance in the amount of RUB 7,243,817 thousand (2015: RUB 9,145,243 thousand) were pledged as collateral for borrowings amounting to RUB 7,713,941 thousand (2015: RUB 9,101,321 thousand).

21 Liabilities under insurance agreements

Liabilities under insurance agreements comprise the following:

	31 December 2016	*31 December 2015*
Unearned premium reserve	603,921	562,510
Reported but not settled claims	233,132	303,704
Incurred but not reported claims	48,830	21,737
Salvages reserves	(28,758)	–
Total liabilities under insurance agreements	857,125	887,951

(in thousands of Russian roubles, unless otherwise stated)

22 Bonds issued

Bonds issued comprise the following:

	Date of placement	*Maturity*	*Interest rate as at 31 December 2016*	*Interest rate as at 31 December 2015*	*31 December 2016*	*31 December 2015*
Series 03	November 2012	October 2017	11.50%	12.50%	903,223	3,341,177
Series 04	February 2013	February 2019	12.00%	10.42%	1,079,924	1,542,384
Series 05	April 2013	March 2019	12.50%	10.22%	1,442,282	1,526,654
Series BO-01	October 2013	September 2019	12.50%	9.78%	2,050,463	2,030,322
Series BO-02	August 2015	August 2021	11.50%	13.60%	602,451	5,055,438
Series BO-07	October 2016	September 2026	11.75%	–	5,129,842	–
Total bonds issued					11,208,185	13,495,975

In February 2016 the Group redeemed the bonds of the series 04 with nominal value of RUB 1,500,000 thousand prior to its maturity, and, in August 2016 the bonds of the series 04 with nominal value of RUB 1,040,000 thousand were realised again.

In April 2016 the Group redeemed the bonds of the series 05 with nominal value of RUB 1,500,000 thousand prior to its maturity, and, in May-June 2016 the bonds of the series 05 with nominal value of RUB 1,400,000 thousand were realised again.

As at 31 December 2016 bonds of series BO-02 in the amount of RUB 2,123,709 thousand and bonds of series 03 in the amount of RUB 29,834 thousand, taken over by the Group after the acquisition of the Fund in December 2016, and offset against each other, as assets and liabilities for the same securities, are not reflected in the Group’s consolidated statement of financial position.

Bonds issued can be repaid earlier at discretion of bondholders during the years 2017-2018.

23 Other liabilities

Other liabilities comprise the following:

	31 December 2016	*31 December 2015*
Other financial liabilities		
Settlements with management companies	1,275,893	–
Settlements with insurance companies	297,887	268,990
Settlements with counterparties	191,582	70,137
Accrued expenses	31,114	21,966
Payables to employees	1,069	–
Total other financial liabilities	1,797,545	361,093
Other non-financial liabilities		
Deferred remuneration to employees	231,586	270,163
Taxes payable other than income tax	45,376	37,757
Deferred income	17,439	29,048
Other liabilities	11,294	9,229
Total other non-financial liabilities	305,695	346,197
Total other liabilities	2,103,240	707,290

(in thousands of Russian roubles, unless otherwise stated)

24 Share capital and additional paid-in capital, compulsory pension insurance reserve and insurance reserve

In December 2016 the Company issued 88,660,791 ordinary shares with nominal value of RUB 0.67 each, as a result the issued share capital increased by RUB 59,402 thousand. The total amount of cash and other assets received as a payment for issued shares amounted to RUB 66,446,216 thousand. The number of issued shares paid for in cash was 20,833,333 shares – amount of cash paid for issued shares was RUB 14,999,995 thousand. The Company received 149,763 ordinary shares of JSC NPF SAFMAR and 17,885,000 ordinary shares of VSK in the total amount of RUB 49,446,221 thousand as a payment for part of additionally issued shares of the Company. The number of issued shares paid for by the shares of JSC NPF SAFMAR and VSK amounted to 67,827,458 shares assessed at fair value in the amount of RUB 49,446,221 thousand. Changes in the Company's Charter as regards the increase of the Charter capital and the number of issued shares were registered in the Unified State Register of Legal Entities in February 2017.

Following the issue of additional shares in December 2016, as at 31 December 2016 the issued share capital in the amount of RUB 74,797 thousand comprises 111,637,791 ordinary shares with nominal value of RUB 0.67 each. Following the stock split undertaken during the year 2015, as at 31 December 2015 the issued share capital in the amount of RUB 15,395 thousand comprises 22,977,000 ordinary shares with nominal value of RUB 0.67 each.

As at 31 December 2016 additional paid-in capital of RUB 67,201,144 thousand (2015: RUB 2,799,133 thousand) consists of excess consideration received by the Company over the par value of the shares issued, contributions from the shareholder, contributions resulting from share based arrangements and financial results from sale of treasury shares.

Acquisitions of subsidiaries from parties under common control are accounted for using the pooling of interests method. These consolidated financial statements, including comparative data, are presented as if the subsidiaries had been acquired by the Group on the date it was originally acquired by the predecessor. Application of pooling-of-interests method assumes the comparatives are presented as if the entities acquired had been always consolidated. Accordingly, information in respect to the comparative period were restated as if the acquisitions had occurred from the beginning of the earliest period presented. The net assets value of the companies acquired as at 31 December 2015 amounted to RUB 1,352,399 thousand.

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Group by the weighted average number of ordinary shares in issue during the year. For calculation of earnings per ordinary share for the year ended 31 December 2015 weighted average number of ordinary shares in issue is based on number of shares as at 31 December 2016 considering the stock split during the year 2016 for consistency of comparative data.

	2016	*2015*
Profit for the year attributable to shareholders of the Group		
Continuing operations	3,310,013	1,942,119
Discontinued operations	–	(527,218)
Total profit for the year attributable to shareholders of the Group	3,310,013	1,414,901
Weighted average number of shares in issue (deemed number of shares for 2015)	111,637,791	111,637,791
Earnings per share (expressed in Russian roubles per share)		
Continuing operations	29.65	17.40
Discontinued operations	–	(4.73)
Total earnings per share (expressed in Russian roubles per share)	29.65	12.67

During the year ended 31 December 2016 no dividends were paid. During the year ended 31 December 2015 the Group paid dividends to shareholders in amount of RUB 737,000 thousand.

(in thousands of Russian roubles, unless otherwise stated)

24 Share capital and additional paid-in capital (continued)

Compulsory pension insurance reserve and insurance reserve are reserves for sustainable fulfillment of obligations to participants and insured persons formed in accordance with legislation.

	31 December 2016	*31 December 2015*
Compulsory pension insurance reserve	1,764,256	–
Insurance reserve	551,699	–
Total reserves for pension liabilities	2,315,955	–

25 Interest income and expense

Interest income and expense are as follows:

	2016	*2015*
Interest income and expense from continuing operations		
Interest income		
Net investment in leases	6,009,388	6,792,727
Deposits in banks	875,104	759,037
Financial instruments at fair value through profit or loss	8,064	8,369
Total interest income	6,892,556	7,560,133
Interest expense		
Bonds issued	(1,615,776)	(996,615)
Borrowings	(959,769)	(2,544,823)
Total interest expense	(2,575,545)	(3,541,438)
Net interest income from continuing operations	4,317,011	4,018,695
Net interest income from discontinued operations	–	818,408
Total net interest income	4,317,011	4,837,103

As at 31 December 2016 interest income accrued on impaired net investment in leases comprised RUB 1,669 thousand (2015: RUB 10,295 thousand).

As at 31 December 2015 interest income accrued on impaired loans to customers comprised RUB 6,995 thousand.

26 Impairment charges

Impairment charges are as follows:

	2016	*2015*
Impairment charges from continuing operations		
Impairment charges on interest earning assets		
Net investment in leases impairment recovery, net	5,288	100,441
Loans to customers impairment charges, net	(16,114)	(195,357)
Total impairment charges on interest earning assets	(10,826)	(94,916)
Impairment charges on other assets		
Equipment purchased and advances to suppliers for lease operations impairment recovery (charges), net	6,250	(10,667)
Debtors on leasing activities impairment charges, net	(16,853)	(66,446)
Total impairment charges on other assets	(10,603)	(77,113)
Total impairment charges from continuing operations	(21,429)	(172,029)
Impairment charges from discontinuing operations	–	(342,311)
Total impairment charges	(21,429)	(514,340)

(in thousands of Russian roubles, unless otherwise stated)

27 Contributions under pension activities

Contributions under pension activities are as follows:

	2016	*2015*
Contributions under compulsory pension insurance		
Contributions, received from the Pension Fund of the Russian Federation	35,254	–
Contributions, received from other private pension funds	2,723	–
Total contributions under compulsory pension insurance	37,977	–
Contributions under non-state pension arrangement		
Contributions received from legal entities	76,872	–
Contributions received from individuals	7,693	–
Total contributions under non-state pension arrangement	84,565	–
Total contributions under pension activities	122,542	–

28 Payments under pension activities

Payments under pension activities are as follows:

	2016	*2015*
Payments under compulsory pension insurance		
Non-recurring disbursement	(21,762)	–
Payments to assignees of an insured person	(11,907)	–
Transfer to the Pension Fund of the Russian Federation and other private pension funds	(3,277)	–
Payments of the funded pension	(1,148)	–
Urgent pension payments	(134)	–
Total payments on compulsory pension insurance	(38,228)	–
Payments on non-state pension arrangement		
Payments of redemption sums	(36,412)	–
Pension payments	(32,069)	–
Total payments on non-state pension arrangement	(68,481)	–
Total payments under pension activities	(106,709)	–

(in thousands of Russian roubles, unless otherwise stated)

29 Income of the pension fund from the placement of own funds, pension savings and pension reserves

Income of the pension fund from the placement of own funds, pension savings and pension reserves is as follows:

	2016	*2015*
Interest income		
Mortgage participation certificates	1,316,921	–
Russian corporate bonds	769,510	–
Deposits and settlement accounts	200,455	–
Income on repo transaction	139,584	–
Government and municipal bonds	72,644	–
Bonds of constituent entities of the Russian Federation	18,401	–
Bonds of international financial organisations	214	–
Total interest income	2,517,729	–
Gains less losses from financial instruments at fair value through profit or loss		
From revaluation of securities	925,093	–
From disposal of securities	11,216	–
Gains less losses from financial instruments at fair value through profit or loss	936,309	–
Commission expenses		
Trustee fee	(347,795)	–
Special depository fee	(59,772)	–
Total commission expenses	(407,567)	–
Other investment income	25,305	–
Total income of the pension fund from the placement of own funds, pension savings and pension reserves	3,071,776	–

30 Change in liabilities under pension activities

Change in liabilities under pension activities is as follows:

	2016	*2015*
Compulsory pension insurance	(2,227,653)	–
Non-state pension arrangement	(118,864)	–
Total change in liabilities under pension activities	(2,346,517)	–

(in thousands of Russian roubles, unless otherwise stated)

31 Other income, net

Other income, net is as follows:

	2016	*2015*
Other income from continuing operations		
Revenues from sale of lease objects repossessed	1,133,598	1,818,906
Cost of leased objects repossessed	(855,125)	(1,512,015)
Net result from sale of leased objects repossessed	278,473	306,891
Gross revenue	1,070,100	1,002,779
Claims net of reinsurance	(550,653)	(514,772)
Change in insurance reserves	98,383	(11,362)
Income from insurance operations	617,830	476,645
Revenues from services provided to lessees	484,515	306,408
Insurance agency fee income	480,296	308,078
Other (losses) gains from lease activities	36,910	(24,008)
Impairment of leased objects repossessed	(35,309)	(63,541)
Income on ceded loan portfolio	92,404	55,816
Other income (expenses)	(16)	204
Other income less losses	1,058,800	582,957
Total other income from continuing operations	1,955,103	1,366,493
Total other income from discontinued operations	–	118,591
Total other income, net	1,955,103	1,485,084

32 Staff expenses

Staff expenses are as follows:

	2016	*2015*
Staff expenses from continuing operations		
Employee compensation	(1,623,726)	(1,649,017)
Payroll related taxes	(415,031)	(430,001)
Other staff expenses	(61,618)	(100,514)
Total staff expenses from continuing operations	(2,100,375)	(2,179,532)
Staff expenses from discontinued operations	–	(100,892)
Total staff expenses	(2,100,375)	(2,280,424)

33 Other operating expenses

Other operating expenses are as follows:

	2016	*2015*
Other operating expenses from continuing operations		
General business expenses and other administrative expenses	(361,594)	(175,716)
Office maintenance	(220,771)	(231,307)
Professional services	(98,154)	(39,999)
Advertisement and marketing	(90,387)	(57,178)
Depreciation of property and equipment	(78,933)	(70,487)
Communication	(30,030)	(34,169)
Depreciation of intangible assets	(20,110)	(13,163)
Other	(40,399)	(31,063)
Total other operating expenses from continuing operations	(940,378)	(653,082)
Other operating expenses from discontinued operations	–	(104,946)
Total other operating expenses	(940,378)	(758,028)

(in thousands of Russian roubles, unless otherwise stated)

34 Income tax

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

	2016	*2015*
Current tax charge from continuing operations	(582,732)	(859,354)
Deferred tax (charge) benefit from continuing operations	(211,472)	321,323
Total income tax expense from continuing operations	(794,204)	(538,031)
Deferred tax benefit from discontinued operations	–	142,113
Total income tax benefit from discontinued operations	–	142,113
Total income tax expense	(794,204)	(395,918)

Current income tax rate applicable to the majority of the Group's income is 20%. A reconciliation between the expected and the actual taxation charge is provided below.

	2016	*2015*
Profit before income tax		
Continuing operations	4,104,217	2,480,150
Discontinued operations	–	(669,331)
Total profit before income tax	4,104,217	1,810,819
Theoretical tax charge – the Russian Federation statutory rate: 20%	(820,843)	(362,164)
Non-deductible expenses and other permanent differences	(33,869)	(33,754)
Non-deductible revenues from pension activities	60,508	–
Income tax expense	(794,204)	(395,918)

The effective income tax rate for the year 2016 is 19% (2015: 22%).

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

	1 January 2016	*Recognised in profit or loss*	*Disposal of subsidiaries (Note 7)*	*31 December 2016*
Financial instruments at fair value through profit or loss	–	9,131	–	9,131
Loans to customers after impairment allowance	105,855	(105,855)	–	–
Other assets	194,148	(145,019)	132,850	181,979
Other liabilities	89,743	(615)	–	89,128
Tax loss carry forwards	188,214	(297,966)	1,200,281	1,090,529
Deferred income tax asset	577,960	(540,324)	1,333,131	1,370,767
Net investment in leases after impairment allowance	(1,116,842)	(3,202)	–	(1,120,044)
Deferred acquisition costs	–	(16,334)	(826,156)	(842,490)
Property and equipment	(34,934)	(3,999)	7	(38,926)
Investments in associates	–	(39,729)	–	(39,729)
Liabilities under compulsory pension insurance agreements	–	370,107	(370,107)	–
Liabilities under non-state pension agreements	–	19,987	(19,987)	–
Borrowings	(20,994)	2,022	–	(18,972)
Deferred income tax liabilities	(1,172,770)	328,852	(1,216,243)	(2,060,161)
Net deferred income tax liabilities	(594,810)	(211,472)	116,888	(689,394)
Including:				
Deferred tax assets	–	(46,080)	116,888	70,808
Deferred tax liabilities	(594,810)	(165,392)	–	(760,202)

(in thousands of Russian roubles, unless otherwise stated)

34 Income tax (continued)

	1 January 2015	Recognised in profit or loss from continuing operations	Recognised in profit or loss from discontinued operations	Disposal of subsidiaries (Note 7)	31 December 2015
Loans to customers after impairment allowance	74,907	64,840	(50,841)	16,949	105,855
Other assets	198,783	(6,056)	1,223	198	194,148
Other liabilities	96,580	(8,577)	–	1,740	89,743
Tax loss carry forwards	–	–	188,214	–	188,214
Deferred income tax asset	370,270	50,207	138,596	18,887	577,960
Financial instruments at fair value through profit or loss	(222,787)	222,787	–	–	–
Net investment in leases after impairment allowance	(1,138,256)	21,414	–	–	(1,116,842)
Property and equipment	(44,162)	12,107	3,517	(6,396)	(34,934)
Borrowings	(35,802)	14,808	–	–	(20,994)
Deferred income tax liabilities	(1,441,007)	271,116	3,517	(6,396)	(1,172,770)
Net deferred income tax liabilities	(1,070,737)	321,323	142,113	12,491	(594,810)
Including:					
Deferred tax liabilities	(1,070,737)	321,323	142,113	12,491	(594,810)

35 Employee share plan

As at 31 December 2014 the Company had an equity settled share based plan (the "Plan") under which the Company received services from eligible employees as consideration for share based awards granted to the employees. According to the Plan, eligible employees were entitled to acquire shares of EUROPLAN HOLDINGS LIMITED for their nominal value (0.02 Euro per share) subject to certain vesting conditions. In addition, performance shares were subject to specific performance conditions. The participant employees should have been employed by the Company at all times prior to the exercise of the options (i.e., upon sale of EUROPLAN HOLDINGS LIMITED), unless otherwise were specifically agreed.

In the 3rd quarter of 2015 the Company negotiated with its employees to cancel equity settled share based plan for consideration payable by EUROPLAN HOLDINGS LIMITED, the parent company of the Group. In September 2015 EUROPLAN HOLDINGS LIMITED made the payment to employees. This transaction has been recorded in equity in these consolidated financial statements

The Company applies the Black-Scholes model to determine the fair value of options granted. At each grant date management assesses the probable sale date of EUROPLAN HOLDINGS LIMITED which is used in the model as the option exercise date.

Movements in the number of share options are presented below.

	Number of granted options	Number of options, for which performance conditions are met	Number of employees
Balance as at 31 December 2014 (unaudited)	259,718	259,718	20
Cancellation of the equity settled share based plan	(259,718)	(259,718)	(20)
Balance as at 31 December 2015	–	–	–

The expense recognised in respect of share options in 2015 is RUB 52,425 thousand.

(in thousands of Russian roubles, unless otherwise stated)

36 Financial risk management

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

Risk management structure

Risk management functions are implemented at all corporate governance levels and are allocated as follows.

Management Board of the Group ensures the implementation of strategy, approves the risk management policy, allocates the risk management functions between the governance bodies and business units of the Group and controls their performance. The responsibilities of the Management Board include the approval of total risk limits by type of risk and type of business. The Management Board reviews risk level reports on a regular basis and reallocates the risk limits where necessary.

Risk Management Department is responsible for:

- consideration and structuring of applications for new leasing limits, supporting of applications approval by the Management Board;
- preparing internal documents on the risk management procedures, including the identification, evaluation and control of risks;
- independent analyses and evaluation of all types of risk to which the Group is exposed, including risks associated with its lease portfolio;
- determining categories of credit risks;
- independent monitoring of the financial and business position of clients (corporate customers, middle market customers and small-business customers);
- evaluating and monitoring of assets leased out (collateral).

The Credit Committee is responsible for:

- review and approval of limits for finance lease contracts;
- determination and approval of the terms of leasing products;
- determination of categories of credit risks;
- establishing requirements to assets and equipment leased out (collateral).

The Financial Institutions Department is responsible for management of foreign currency risk and liquidity risk.

Non-Performing Leases Recovery Department is responsible for notification of the customers about overdue lease payments (early collection) and monitoring the repayment of overdue net investment in leases.

Used Vehicles Sales Department is responsible for sale of problem assets.

In JSC "Europlan Bank", credit, market and liquidity risks both at the portfolio and transactions levels were managed and controlled through the Credit Committee and the Asset and Liability Management Committee. Apart from the standard credit and market risk analysis, the Risk Department monitors financial and non-financial risks by holding regular meetings with business units in order to obtain expert judgments in their areas of expertise.

(in thousands of Russian roubles, unless otherwise stated)

36 Financial risk management (continued)

Credit policies

Corporate credit policies are approved annually. The objective of these credit policies is to define standards for the composition of the leasing portfolio with regard to the exposure to certain industries and to define specific underwriting criteria, in particular with regard to the structure of risk limits and assets leased out (collateral). The credit policies utilise pre-defined customer profiles and scorecards which allow the risk originating units to efficiently evaluate risks associated with potential customers.

The decision whether or not to conclude a leasing contract with small and medium businesses depends primarily on the lessee's credit quality as reflected by the credit rating assigned under the internal rating system and leasing object provided in the transaction. In assigning such a rating, the Group considers factors such as the customer's financial position, the market in which the customer operates, the marketability of the customer's products and the customer's management system.

The decision-making process is centralised in the Head office.

All business processes starting from the initiation of the project and ending with a proposed agreement approval (or rejection in funding) are fully automated in the Front Office Automation System (the "FOAS").

The Group applied the following approach to collateralised assets:

- the Group is the owner of the leased property;
- liquid and highly liquid property is funded by the Group (illiquid assets are not funded);
- the lessee is required to make a down payment on the lease agreement.

Additional collateral may be presented by:

- corporate guarantee/surety;
- personal guarantee of an owner/director.

There are procedures in place that help to determine acceptability and the amount of collateral depending on the type of transaction, and the procedures of monitoring of the fair value of the collateral, which include the request of additional collateral in case of impairment of the current collateral. In order to mitigate the risks, the Group requires insurance of the leased asset.

Lease approval policies and procedures

A basic feature of the lease application process is a clear separation between business origination and risk management activities. Risk assessments are performed on the basis of a dual assessment by both the business origination units and the risk management units.

The credit quality group depends on the client's financial performance, the liquidity of the leased property, the client's share in the project and the availability of additional collateral. The subsequent support and monitoring of the lease transactions are carried out by client managers (debt servicing monitoring), credit managers (financial performance monitoring) and collateral assessment managers (leased assets monitoring).

Credit risk

The Group is exposed to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's lending and other transactions with counterparties giving rise to financial assets.

(in thousands of Russian roubles, unless otherwise stated)

36 Financial risk management (continued)

Credit risk (continued)

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one lessee, or groups of related lessees. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by product and debtor are approved regularly by the Management Board.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the consolidated statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The Group holds collateral against net investment in leases and loans to customers. Estimates of value are based on the value of collateral assessed at the time of concluding the finance lease and loan agreement, and generally are not updated.

Credit quality per class of the following assets is disclosed in respective notes: Net investment in leases after impairment allowance – in the Note 11, Loans to customers after impairment allowance – in the Note 12.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities. The liquidity is managed on a continuous basis and is designed to establish and maintain a diversified funding base. Liquidity risk is managed by the Financial Institutions Department.

The Financial Institutions Department performs day-to-day management of liquidity risk designed to maintain current and medium-term liquidity. Key management tools include the daily and long-term cash-flows planning, liquidity gap analysis and establishing portfolios (reserves) of liquid assets at different levels.

The table below shows financial liabilities as at 31 December 2016 and 2015 by their remaining contractual maturities. The amounts disclosed in the maturity table are the contractual undiscounted cash flows. Such undiscounted cash flows differ from the amount included in the consolidated statement of financial position because the amount in the consolidated statement of financial position is based on discounted cash flows.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

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

	Demand and less than 1 month	*From 1 to 6 months*	*From 6 to 12 months*	*From 12 months to 5 years*	*Over 5 years*	*Total*
Liabilities under compulsory pension insurance agreements	15,908	19,833,352	95,449	49,736,594	112,211,754	181,893,057
Liabilities under non-state pension agreements	45,772	228,860	274,632	2,081,430	5,250,911	7,881,605
Borrowings	144,617	1,838,471	1,393,775	9,491,733	–	12,868,596
Liabilities under insurance agreements	129,158	497,167	227,888	2,912	–	857,125
Advances received from lessees	441,152	169,017	–	–	–	610,169
Bonds issued		751,248	1,848,216	11,137,681	3,964,750	17,701,895
Other financial liabilities	1,549,038	199,542	48,965	–	–	1,797,545
Total potential future payments for financial liabilities	2,325,645	23,517,657	3,888,925	72,450,350	121,427,415	223,609,992

(in thousands of Russian roubles, unless otherwise stated)

36 Financial risk management (continued)

Liquidity risk (continued)

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

	Demand and less than 1 month	*From 1 to 6 months*	*From 6 to 12 months*	*From 12 months to 5 years*	*Total*
Borrowings	192,520	5,220,313	3,231,917	2,220,439	10,865,189
Liabilities under insurance agreements	130,937	491,525	262,398	3,091	887,951
Advances received from lessees	366,519	47,631	–	–	414,150
Bonds issued	–	2,843,589	5,639,153	8,153,820	16,636,562
Other financial liabilities	283,049	63,986	14,058	–	361,093
Total potential future payments for financial liabilities	973,025	8,667,044	9,147,526	10,377,350	29,164,945

The maturity analysis of borrowings is based on contractual tranches of repayment.

The maturity of the borrowings is longer than maturity of the current lease portfolio and the Group is in compliance with covenant requirements set by loan agreements.

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

	Demand and less than 1 month	*From 1 to 6 months*	*From 6 to 12 months*	*From 12 months to 5 years*	*Over 5 years / not stated maturity*	*Total*
Assets						
Cash and cash equivalents	54,801,373	–	–	–	–	54,801,373
Financial instruments at fair value through profit or loss	149,980,540	–	129,702	–	–	150,110,242
Deposits in banks	1,055,560	12,671,949	623,692	–	–	14,351,201
Net investment in leases after impairment allowance	1,777,806	7,834,026	6,806,263	11,052,501	–	27,470,596
Equipment purchased and advances to suppliers for lease operations	400,756	164,029	–	–	–	564,785
Deferred acquisition costs	16,981	84,906	101,887	848,776	3,159,901	4,212,451
Current income tax prepayment	–	105,747	–	–	–	105,747
Deferred tax assets	–	–	–	–	70,808	70,808
VAT recoverable	108,837	–	–	–	–	108,837
Property and equipment	–	–	–	–	342,818	342,818
Investments in associates	–	–	–	–	16,270,417	16,270,417
Goodwill	–	–	–	–	24,200,607	24,200,607
Other assets	304,615	612,765	235,347	564	139,924	1,293,215
Total assets	208,446,468	21 473 422	7,896,891	11,901,841	44,184,475	293,903,097
Liabilities						
Liabilities under compulsory pension insurance agreements	15,908	19,833,352	95,449	49,736,594	112,211,754	181,893,057
Liabilities under non-state pension agreements	45,772	228,860	274,632	2,081,430	5,250,911	7,881,605
Borrowings	101,716	1,344,842	880,557	7,877,598	–	10,204,713
Liabilities under insurance agreements	129,158	497,167	227,888	2,912	–	857,125
Advances received from lessees	441,152	169,017	–	–	–	610,169
Bonds issued	–	306,652	885,520	7,516,274	2,499,739	11,208,185
Current income tax payable	–	336	–	–	–	336
Deferred income tax liabilities	–	–	–	–	760,202	760,202
VAT payable	–	36,939	–	–	–	36,939
Other liabilities	1,565,214	295,104	210,343	32,579	–	2,103,240
Total liabilities	2,298,920	22,712,269	2,574,389	67,247,387	120,722,606	215,555,571
Net position	206,147,548	(1,238,847)	5,322,502	(55,345,546)	(76,538,131)	78,347,526
Cumulative liquidity position	206,147,548	204,908,701	210,231,203	154,885,657	78,347,526	

(in thousands of Russian roubles, unless otherwise stated)

36 Financial risk management (continued)

Liquidity risk (continued)

As at 31 December 2016 bonds issued totalling RUB 2,499,739 thousand with maturity over 5 years can be repaid earlier at the buyback option date in the period from 12 months to 5 years.

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

	Demand and less than 1 month	*From 1 to 6 months*	*From 6 to 12 months*	*From 12 years to 5 years / not stated maturity*	*Total*
Assets					
Cash and cash equivalents	1,482,012	–	–	–	1,482,012
Financial instruments at fair value through profit or loss	–	–	96,422	–	96,422
Deposits in banks	69,001	–	6,815,390	650,360	7,534,751
Net investment in leases after impairment allowance	1,875,148	7,598,001	6,781,667	9,576,941	25,831,757
Loans to customers	–	–	–	55,768	55,768
Equipment purchased and advances to suppliers for lease operations	267,059	32,154	–	–	299,213
VAT recoverable	45,973	–	–	–	45,973
Property and equipment	–	–	–	306,379	306,379
Other assets	142,620	752,311	968,011	41,986	1,904,928
Total assets	3,881,813	8,382,466	14,661,490	10,631,434	37,557,203
Liabilities					
Borrowings	159,436	4,714,794	2,961,880	2,085,211	9,921,321
Liabilities under insurance agreements	130,937	491,525	262 398	3,091	887,951
Advances received from lessees	366,519	47,631	–	–	414,150
Bonds issued	–	2,439,007	5 185 373	5,871,595	13,495,975
Current income tax payable	–	297,106	–	–	297,106
Deferred income tax liabilities	–	–	–	594,810	594,810
VAT payable	–	582,302	–	–	582,302
Other liabilities	551,744	67,823	73,571	14,152	707,290
Total liabilities	1,208,636	8,640,188	8,483,222	8,568,859	26,900,905
Net position	2,673,177	(257,722)	6,178,268	2,062,575	10,656,298
Cumulative liquidity position	2,673,177	2,415,455	8,593,723	10,656,298	

As at 31 December 2015 bonds issued totalling RUB 7,624,380 thousand with maturity from 12 years to 5 years can be repaid earlier at the buyback option date in the period from 1 to 6 months in the amount of RUB 2,439,007 thousand, and in the period from 6 to 12 months in the amount of RUB 5,185,373 thousand.

When the amount payable is not fixed the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. Foreign currency payments are translated using the official CBR exchange rate at the end of reporting period.

Geographical risk

All assets relate to Russian entities. All liabilities are due to Russian entities except for borrowings received from foreign banks.

Insurance risk

Insurance risk is in difference between actual and expected claims. Amount of payments is affected by frequency of insurance events, their severity, timing of their settlement, etc. The main objective of insurance risk management is availability of sufficient reserves covering current and future liabilities from losses from accepted risks. Management supposes that due to short-term nature of period of losses detection inherent to the Group’s activities indicators of the Group’s insurance products portfolio are sensitive mainly to changes in expected loss ratios, which change depending on the following factors: change in portfolio structure, inflation, seasonality and other factors affecting losses frequency and amount of average loss. The Group regularly changes its insurance tariffs, based on previous values of specified variables, thus responding to emerging trends.

(in thousands of Russian roubles, unless otherwise stated)

36 Financial risk management (continued)

Insurance risk under pension activities

For the Fund insurance risks are mortality risk or endowment risk.

The Fund's main risk under non-state pension agreements is in excess of actual payments over carrying value of liabilities. Thus, the main objective of the Fund is sufficient reserve available for covering such liabilities.

Liabilities under non-state pension agreements by types of payments as at 31 December 2016 are presented below:

Type of payment	*Accumulation phase*	*Payment phase*	*Other*
Lifelong with insurance risk transfer	632,425	1,699,216	–
Lifelong without insurance risk transfer	–	99,741	–
Terminable	30,462	418,863	1,054
To exhaustion	108,461	860,544	10,310
Undefined	4,007,094	–	13,435
Total liabilities under non-state pension agreements	4,778,442	3,078,364	24,799

Liabilities under non-state pension agreements by age and gender as at 31 December 2016 are presented below:

	31 December 2016
Men aged 55-59	8,796
Men aged 60-69	187,699
Men aged 70-79	458,003
Men aged over 80	40,557
Total liabilities to men	695,055
Women aged 50-54	38,348
Women aged 55-64	174,663
Women aged 65-74	678,233
Women aged over 75	112,917
Total liabilities to women	1,004,161
Total liabilities	1,699,216

Liabilities under compulsory pension insurance agreements by age and gender as at 31 December 2016 are presented below:

	31 December 2016
Men aged till 44	65,141,626
Men aged 45-49	15,525,413
Men aged 50-54	239,617
Men aged 55-59	170,930
Men aged 60-69	42,680
Men aged 70-79	945
Total liabilities to men	81,121,211
Women aged till 39	49,297,786
Women aged 40-44	26,369,822
Women aged 45-49	24,562,316
Women aged 50-54	391,298
Women aged 55-64	145,135
Women aged 65-74	4,771
Women aged over 75	718
Total liabilities to women	100,771,846
Total liabilities	181,893,057

(in thousands of Russian roubles, unless otherwise stated)

36 Financial risk management (continued)

Insurance risk under pension activities (continued)

In accordance with Russian legislation the insured person has the opportunity to receive a nonrecurring disbursement under compulsory pension insurance agreement if calculated funded pension is less than 5% of the sum of designated insurance pension and calculated funded pension. This opportunity reduces the insurance risk but increases the liquidity risk.

Significant assumptions

To evaluate the pension liabilities adequacy assumptions are applied. Assumptions used present the best estimation of variables defining future cash flows under NPA and CPI. Such estimation takes into account the most probable course of events in future rather than only facts and circumstances before reporting date, using all information available at the evaluation date.

The Fund makes assumptions to estimate the liabilities adequacy separately under NPA and CPI.

Basic assumptions to which the estimation is especially sensitive are presented below.

Mortality tables

Mortality table based on historical data about mortality among insured persons is used for estimation of mortality rates.

Mortality rates are adjusted based on assumptions about mortality decline in future, decline in number of deaths based on the Federal State Statistic Service data about life expectancy in future.

Mortality rates vary depending on age and gender of the participant (insured person).

Decline in mortality rates will result in increase of life expectancy and, accordingly, in reduction of profit.

Discount rate

Discount rate reflects the current market representation about the time value of money and risks inherent in this particular liability. Discount rate does not take into account risks already used in estimated future cash inflows and outflows.

The reduction of discount rate will lead to increase in pension liabilities and reduction of profit.

Early termination ratios

Early termination ratios on NPA and CPI are based on the Fund’s own statistics. The professional judgment about possible rates of early cross-overs of insured persons between insurers during the forecast period of time is used in early termination ratios estimate on CPI.

Early termination ratios vary depending on such factors as gender, age and contribution period.

Reduction of early termination ratios is followed by reduction of profit.

Expenses

Operating expenses assumptions reflect the projected cost of maintaining and servicing NPA and CPI contracts in force. The current level of expenses is taken as an appropriate expense base adjusted for expected expense inflation.

Increase in expenses level is followed by reduction of profit.

(in thousands of Russian roubles, unless otherwise stated)

36 Financial risk management (continued)

Insurance risk under pension activities (continued)

Assumptions used for estimating the formed pension liabilities adequacy on non-state pension arrangement are presented below.

	31 December 2016
Discount rate	7.0%
Expected distribution of income	5.9%
Expected indexation of pensions	Under the agreement
Termination (accumulative phase)	Depending on the insurance experience: from 7% to 1%
Termination (payment phase):	
- Men	1.2%
- Women	1.7%
Average age of retirement:	
- Men	60 years
- Women	55 years
Mortality table (probability of death depends on gender and age and includes expected future improvements)	
Expected life expectancy at the retirement age:	
- Men	17.2 years
- Women	26.6 years
Expenses growth rate	3.7%

Assumptions used for estimating the formed pension liabilities adequacy on compulsory pension insurance are presented below.

	31 December 2016
Discount rate	8.4%
Expected distribution of income	7.2%
Termination (when making an application on early cross-over)	From 13% to 3% depending on the insurance experience
Cancellation (when making an application on cross-over in 5 years)	0%
Average age of retirement:	
- Men	60 years
- Women	55 years
Mortality table (probability of death depends on gender and age and includes expected future improvements)	
Expected life expectancy at the retirement age:	
- Men	17.2 years
- Women	26.6 years
Expenses growth rate	3.7%

Verification of liabilities adequacy using the assumptions above does not result in deficiency (scarcity) of liabilities on either NPA or CPI.

(in thousands of Russian roubles, unless otherwise stated)

36 Financial risk management (continued)

Insurance risk under pension activities (continued)

The Fund conducted a sensitivity analysis of estimated future cash flows to changes in actuarial assumptions. Sensitivity analysis was carried out using the following assumptions:

	Changes in assumptions
Discount rate	+1 pp
Discount rate	-1 pp
Expenses growth rate	+1 pp
Expenses growth rate	-1 pp
Probability of death	+10%
Probability of death	-10%

Changes in factors above did not influence the results of liabilities adequacy verification and did not identify the need for charging of liabilities on compulsory pension insurance and non-state pension agreements.

Market risk

The Group is exposed to market risks. Market risks arise from open positions in interest rate and currency, all of which are exposed to general and specific market movements. The Group sets limits on the value of risk that may be accepted which is monitored on a daily basis. However, the use of this approach does not prevent from incurring losses outside of these limits in the event of more significant market movements.

Currency risk

The Group is exposed to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Group sets limits on the level of exposure by currency (primarily US dollars and euro).

The Group minimises foreign exchange risk by matching its fundraising to the ongoing demand for its lease products. In case of discrepancy between its borrowings and the lease portfolio, the Group may face significant foreign exchange risk. This could occur in the event of a drastic shift in currency demanded by its customers for lease contracts rapidly changing the currency composition of the lease portfolio. On the other hand, the loan portfolio will only change in a material way at a slower pace through new borrowings. The Group can choose either to restrain the risk origination or more likely enter into derivative transactions to cover this currency risk as has been the case historically. Historically, the Group has used options and SWAPs to cover open currency positions.

The Group applies a foreign-currency risk-management strategy that uses derivative instruments to protect its interests from unanticipated fluctuations in earnings and cash flows that may arise from volatility in currency exchange rates. Movements in foreign-currency exchange rates pose a risk to the Group's operations and competitive position, since changes in exchange rates may affect the profitability and cash flows.

As at 31 December 2016 the Group is constrained by covenants under loan agreements to have a maximum open currency position of 15% of its equity (2015: 25%).

(in thousands of Russian roubles, unless otherwise stated)

36 Financial risk management (continued)

Currency risk (continued)

The table below summarises exposure to foreign currency exchange rate risk as at 31 December 2016:

	RUB	*USD*	*EUR*	*Total*
Financial assets				
Cash and cash equivalents	54,800,287	390	696	54,801,373
Financial instruments at fair value through profit or loss	149,218,613	891,629	–	150,110,242
Deposits in banks	14,351,201	–	–	14,351,201
Net investment in leases after impairment allowance	27,449,993	4,997	15,606	27,470,596
Equipment purchased and advances to suppliers for lease operations	551,309	1,070	12,406	564,785
Investments in associates	16,270,417	–	–	16,270,417
Other financial assets	111,090	155,495	–	266,585
Total financial assets	262,752,910	1,053,581	28,708	263,835,199
Financial liabilities				
Liabilities under compulsory pension insurance agreements	181,893,057	–	–	181,893,057
Liabilities under non-state pension agreements	7,881,605	–	–	7,881,605
Borrowings	10,204,713	–	–	10,204,713
Liabilities under insurance agreements	857,125	–	–	857,125
Advances received from lessees	608,566	1,603	–	610,169
Bonds issued	11,208,185	–	–	11,208,185
Other financial liabilities	1,797,510	35	–	1,797,545
Total financial liabilities	214,450,761	1,638	–	214,452,399
Net position	48,302,149	1,051,943	28,708	

The table below summarises exposure to foreign currency exchange rate risk as at 31 December 2015:

	RUB	*USD*	*EUR*	*Total*
Financial assets				
Cash and cash equivalents	1,480,417	479	1,116	1,482,012
Financial instruments at fair value through profit or loss	96,422	–	–	96,422
Deposits in banks	7,534,751	–	–	7,534,751
Net investment in leases after impairment allowance	25,774,202	20,416	37,139	25,831,757
Loans to customers after impairment allowance	55,768	–	–	55,768
Equipment purchased and advances to suppliers for lease operations	284,561	–	14,652	299,213
Other financial assets	774,558	4,908	158	779,624
Total financial assets	36,000,679	25,803	53,065	36,079,547
Financial liabilities				
Borrowings	9,921,321	–	–	9,921,321
Liabilities under insurance agreements	887,951	–	–	887,951
Advances received from lessees	412,349	1,265	536	414,150
Bonds issued	13,495,975	–	–	13,495,975
Other financial liabilities	360,637	235	221	361,093
Total financial liabilities	25,078,233	1,500	757	25,080,490
Net position	10,922,446	24,303	52,308	

(in thousands of Russian roubles, unless otherwise stated)

36 Financial risk management (continued)

Currency risk (continued)

The following table presents sensitivities of profit and loss to reasonably possible changes in exchange rates calculated based on currency volatility in the reporting year applied to the positions at the end of reporting period with all other variables held constant:

	At 31 December 2016			*At 31 December 2015*		
	Change in currency rate in %	*Impact on profit before tax, gain/(loss)*	*Impact on net profit and equity, gain/(loss)*	*Change in currency rate in %*	*Impact on profit before tax, gain/(loss)*	*Impact on net profit and equity, gain/(loss)*
USD	10.00	105,194	84,155	40.00	9,721	7,777
USD	(10.00)	(105,194)	(84,155)	(13.00)	(3,159)	(2,527)
EUR	10.00	2,871	2,297	43.00	22,492	17,994
EUR	(10.00)	(2,871)	(2,297)	(15.00)	(7,846)	(6,277)

A strengthening of the rouble against the above currencies at 31 December 2016 and 2015 would have had the opposite effect on the above currencies if all other variables had remained constant.

Interest rate risk

The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Margins between finance income earned and interest expenses paid may increase as a result of such changes but may reduce or create losses in the event unexpected movements arise.

The Financial Institutions Department focuses mainly on the management of interest rate risk arising from net investment in leases and borrowings.

The Group only offers lease product on a fixed term basis and therefore is only exposed to interest rate risk through its borrowings. The treasury policy of the Group is to minimise interest rate risk on its long term funding. The Group uses swap instruments for the full period of the borrowing.

The Group does not have significant interest rate risk on this partially open interest rate risk exposure as it occurs after the average repayment term on its current portfolio (repaying at an average of 26 months) and thus the Group is able to change the pricing on its offered leases or elect to have a lower margin.

The sensitivity of profit and loss to changes in market interest rates (with other factors unchanged) calculated for financial instruments with floating interest rate (borrowings) as at 31 December 2016 is following:

(unaudited)	*Impact on profit before tax, gain/(loss)*	*Impact on net profit and equity, gain/(loss)*
10% parallel rise	(31,880)	(25,504)
10% parallel fall	31,880	25,504

The Group does not have financial instruments bearing floating interest rate as at 31 December 2015. As at 31 December 2015 the sensitivity of the consolidated profit or loss to the assumed changes in interest rates is calculated by revaluing financial instruments with fixed interest rates based on the assumption that shifts in the yield curve are parallel and immaterial.

(in thousands of Russian roubles, unless otherwise stated)

36 Financial risk management (continued)

Interest rate risk (continued)

Pension activity interest rate risk

Interest rate risk is the risk of losses from interest rate sensitive financial assets due to changes in market interest rates.

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair values of financial instruments.

The interest rate sensitivity analysis of cost of deposits is not performed as the Fund places its funds as fixed rate bank deposits to maturity and does not revalue them.

The interest rate sensitivity of the statement of profit or loss is calculated by revaluing financial assets at fair value through profit or loss as a result of parallel shifts in the yield curve.

Having analysed the change of zero-coupon yield curve rate on the GKO-OFZ market maturing in 1 year one-day standard deviations were determined amounting to 0.1% as at 2016, and 0.28% as at 2015. The annual assumed changes in rates were used for sensitivity calculation for a one-year period. Expected assumed changes in rate in 2016 amounted to 1.59% and 4.42% in 2015. These expected assumed changes in rate were also used for the sensitivity calculation for the bonds, denominated in US dollars, Data looking at the possible rate changes was also used to calculate the sensitivity of bonds denominated in US dollars.

The sensitivity to changes in interest rates analysis for the bonds, denominated in Russian roubles is presented in the table below with the profit or loss impact reflected as at 31 December 2016 and 31 December 2015:

	31 December 2016		*31 December 2015*	
	1.59%	*(1.59%)*	*4.42%*	*(4.42%)*
Russian corporate bonds	(1,290,684)	1,290,684	(537,052)	537,052
Bonds of constituent entities of the Russian Federation	(90,233)	90,233	(12,535)	12,535
Mortgage participation certificates	(85,838)	85,838		
Russian state bonds	(75,889)	75,889	(102,533)	102,533
Russian municipal bonds	(377)	377	–	–
Total	(1,543,021)	1,543,021	(652,120)	652,120

The sensitivity to changes in interest rates analysis for the bonds, denominated in US dollars is presented in the table below with the profit or loss impact reflected as at 31 December 2016 and 31 December 2015:

	31 December 2016		*31 December 2015*	
	1.59%	*(1.59%)*	*4.42%*	*(4.42%)*
Russian corporate bonds	(54,425)	54,425	–	–
Total	(54,425)	54,425	–	–

Market risk

Market risk is the risk of exposure to loss due to changes in the fair value of equity instruments.

The Fund applies the Value-at-risk (VaR) methodology to assess the market risk positions held and to estimate the potential economic loss based upon a number of parameters and assumptions for various changes in market conditions.

(in thousands of Russian roubles, unless otherwise stated)

36 Financial risk management (continued)

Market risk (continued)

Objectives and limitations of the VaR Methodology

VaR model is an integral part of the Fund's market risk management. The model is a method used in measuring financial risk by estimating the most possible potential change in the market value of a portfolio at a given confidence level and over a specified time horizon. The VaR calculated by the Fund is an estimate with 99% confidence level of the potential loss that is not expected to be exceeded if the current market risk positions remain unchanged for one day. The use of a 99% confidence level means that within a one day horizon losses exceeding the VaR figure should occur on average not more than once every hundred days.

The VaR only represents the risk of the portfolios at the close of each business day, and it does not account for any losses that may occur beyond the 99% confidence level.

To determine the reliability of the VaR models, actual outcomes are monitored regularly to test the validity of the assumptions and the parameters used in the VaR calculation. Market risk positions are also subject to regular stress tests to ensure that the Fund would withstand an extreme market event.

The Fund's VaR calculations are based on Monte-Carlo simulations. The Monte-Carlo methodology is realised in the software of Bloomberg information system.

The Monte-Carlo methodology in Bloomberg system

A large number of factors affecting the portfolio are taken into account when calculating VaR in the Bloomberg system. The Bloomberg system estimates the distribution of future factor and non-factor yields, making the correlation between them, and makes a large number of random simulations of such distribution to create Monte-Carlo calculation scenarios. It allows using market distribution forecast.

The marginal distributions of detached factors are modeled by the Student distribution, and interdependent factors are modeled by copula. The number of degrees of freedom is a distribution factor that determines the thickness of the tails and is calibrated based on historical data for each factor.

The Fund uses the 1-day VaR with 99% confidence interval. As at 31 December 2016 the VaR amounts to RUB 858,346 thousand.

Operational risk

Operational risk is the risk of direct or indirect losses resulting from deficiencies or errors in internal processes, actions of employees, operations of information systems and technologies, and resulting from external events. This definition includes legal risk, but excludes strategic and reputation risks.

The Operational Department is engaged in the control over operational risks. Key tasks of this department include the day-to-day control over compliance with internal regulations governing the sequence of business processes in lease transactions, control over reporting by the employees of regional branches, control over the client's payment discipline and correct reporting on the impaired/potentially impaired debt by the employees of regional branches. In addition, the Department controls compliance with the obligation to insure the leased assets, documentation and filing procedures.

(in thousands of Russian roubles, unless otherwise stated)

37 Management of capital

The objective when managing capital is to maintain healthy capital ratios in order to support its business and to maximise shareholder’s value.

The Group considers total capital under management to be equity attributable to equity holders of the Group as shown in the consolidated statement of financial position. Certain loan agreements establish the minimum level of capital that the Group should maintain.

The amount of capital that the Group managed as at 31 December 2016 is equity attributable to equity holders of the Group of RUB 78,347,526 thousand (2015: RUB 10,656,298 thousand), which is in compliance with covenants under loan agreements.

In order to maintain or adjust the capital structure the Group attracts funding with maturity of not less than the average period of the lease contracts (26 months).

38 Fair value estimation

The estimated fair values of financial instruments at fair value through profit or loss is based on quoted market prices at the reporting date without any reduction for transaction costs. If quoted market prices are not available, the fair value is estimated using valuation techniques, which include discounted cash flow analysis and other valuation techniques commonly used by market participants.

Management believes that the fair value of its financial assets and financial liabilities as at 31 December 2016 is not materially different from their carrying values, except for the following financial assets and liabilities:

	Total carrying amount	*Fair value*
Net investment in leases after impairment allowance	27,470,596	27,912,470
Borrowings	10,204,713	10,378,980
Bonds issued	11,208,185	11,051,543

Management believes that the fair value of its financial assets and financial liabilities as at 31 December 2015 is not materially different from their carrying values, except for the following financial liabilities:

	Total carrying amount	*Fair value*
Net investment in leases after impairment allowance	25,831,757	25,918,882
Borrowings	9,921,321	10,048,343
Bonds issued	13,495,975	12,991,434

The estimates of fair value are intended to approximate 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. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as realisable in an immediate sale of the assets or transfer of liabilities.

(in thousands of Russian roubles, unless otherwise stated)

38 Fair value estimation (continued)

Fair value hierarchy

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: inputs other than quotes prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument’s valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The table below shows the financial instruments measured at fair value at 31 December 2016 and 2015. The amounts are based on the values recognised in the consolidated statement of financial position.

		31 December 2016		*31 December 2015*
	Level 1	*Level 2*	*Level 3*	*Level 1*
Debt financial instruments				
Russian corporate bonds	58,370,127	23,592,629	–	9,106
Mortgage participation certificates	–	14,608,098	–	–
Russian government bonds	9,954,982	153	–	87,316
Bonds of constituent entities of the Russian Federation	2,419,742	–	–	–
Russian municipal bonds	29,224	–	–	–
Bonds of international financial organisations	7,024	–	–	–
Total debt financial instruments	70,781,099	38,200,880	–	96,422
Equity financial instruments				
Shares of Russian companies and banks	40,166,874	–	–	–
Investment shares of investment funds	–	–	961,389	–
Total equity financial instruments	40,166,874	–	961,389	–
Total financial instruments at fair value through profit and loss	110,947,973	38,200,880	961,389	96,422

Financial instruments regularly measured at fair value

The following describes the valuation technique to determine fair value for financial instruments regularly measured at fair value. It includes the estimation of the assumptions that market participants would use when pricing the financial instruments.

Investments shares of investments funds are assessed based on the share of the fair value of the net assets of Closed and Interval Mutual Investment Funds (the “CMIF” and “IMIF”, respectively). The fair value of the net assets of CMIF and IMIF is assessed by independent appraiser attracted by the management company. When calculating the fair value the appraiser applies the cost method using the adjusted net assets method.

Mortgage participation certificates are estimated by discounting future cash flows. The discount rate is based on price earnings ratios of similar securities.

Transfers between levels in the fair value hierarchy are considered to occur at the end of each reporting period.

(in thousands of Russian roubles, unless otherwise stated)

38 Fair value estimation (continued)

Fair value hierarchy (continued)

Movements in level 3 financial instruments at fair value

The following tables show a reconciliation of the opening and closing amount of Level 3 financial assets which are recorded at fair value:

	1 January 2016	*Acquisition of subsidiaries*	*Total gains recorded in profit or loss*	*Sales*	*31 December 2016*
Financial assets					
Investments shares of investments funds	–	1,828,760	6,531	(873,902)	961,389
Total level 3 financial assets	–	1,828,760	6,531	(873,902)	961,389

	2016			*2015*		
	Realised gains	*Unrealised losses*	*Total*	*Realised gains (losses)*	*Unrealised gains (losses)*	*Total*
Gains (losses) included in the profit or loss for the period	6,716	(185)	6,531	–	–	–

The following table analyses the fair value of major financial instruments not measured at fair value, by the level in the fair value hierarchy as at 31 December 2016 and 2015:

	Level 1	*Level 2*	*Level 3*	*Total*
At 31 December 2016				
Assets for which fair values are disclosed				
Cash and cash equivalents	54,801,373	–	–	54,801,373
Deposits in banks	–	14,351,201	–	14,351,201
Net investment in leases after impairment allowance	–	–	27,912,470	27,912,470
Other financial assets	–	–	266,585	266,585
Liabilities for which fair values are disclosed				
Borrowings	–	10,378,980	–	10,378,980
Bonds issued	5,887,671	5,163,872	–	11,051,543
Other financial liabilities	–	–	1,797,545	1,797,545
At 31 December 2015				
Assets for which fair values are disclosed				
Cash and cash equivalents	1,482,012	–	–	1,482,012
Deposits in banks	–	7,534,751	–	7,534,751
Net investment in leases after impairment allowance	–	–	25,918,882	25,918,882
Loans to customers after impairment allowance	–	–	56,544	56,544
Other financial assets	–	–	779,624	779,624
Liabilities for which fair values are disclosed				
Borrowings	–	10,048,343	–	10,048,343
Bonds issued	3,247,180	9,744,254	–	12,991,434
Other financial liabilities	–	–	361,093	361,093

(in thousands of Russian roubles, unless otherwise stated)

38 Fair value estimation (continued)

Fair value of financial assets and liabilities not carried at fair value

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are not carried at fair value in the statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

	2016			*2015*		
	Carrying value	*Fair value*	*Unrecognised gains/(losses)*	*Carrying value*	*Fair value*	*Unrecognised gains/(losses)*
Financial assets						
Cash and cash equivalents	54,801,373	54,801,373	–	1,482,012	1,482,012	–
Deposits in banks	14,351,201	14,351,201	–	7,534,751	7,534,751	–
Net investment in leases after impairment allowance	27,470,596	27,912,470	441,874	25,831,757	25,918,882	87,125
Loans to customers after impairment allowance	–	–	–	55,768	56,544	776
Other financial assets	266,585	266,585	–	779,624	779,624	–
Financial liabilities						
Borrowings	10,204,713	10,378,980	(174,267)	9,921,321	10,048,343	(127,022)
Bonds issued	11,208,185	11,051,543	156,642	13,495,975	12,991,434	504,541
Other financial liabilities	1,797,545	1,797,545	–	361,093	361,093	–
Total unrecognised change in fair value			424,249			465,420

39 Contingencies and commitments

Legal proceedings

From time to time and in the normal course of business, claims against the Group may be received. On the basis of own estimates and internal professional advice management believes that no material losses will be incurred and accordingly no provision was made in these consolidated financial statements.

Taxation contingencies

Russian tax, currency and customs legislation as currently in effect is vaguely drafted and is subject to varying interpretations, selective and inconsistent application and changes, which can occur frequently, at short notice and may apply retrospectively. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. The tax authorities may be taking a more assertive position in their interpretation and application of this legislation and assessments. It is therefore possible that transactions and activities of the Group that have not been challenged in the past may be challenged at any time in the future.

The interpretation of the provisions of Russian tax legislation as well as the last trends in law enforcement practice point to potential possibility of increase of tax end penalties paid including due to the fact that the tax authorities may be taking a more assertive position in their application of tax legislation and tax reviewing. It is not practical to determine the amount of unasserted claims that may arise, if any, or the likelihood of any unfavourable outcome.

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

As at 31 December 2016 management believes that its interpretation of the tax, currency and customs legislation as applied to the Group is appropriate.

(in thousands of Russian roubles, unless otherwise stated)

39 Contingencies and commitments (continued)

Compliance with covenants

The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including a growth in the cost of borrowings and declaration of default. The Group is in compliance with covenants as at 31 December 2016 and 31 December 2015.

40 Related party transactions

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

Amounts of related party transactions as at and for the year ended 31 December are as follows:

	2016			*2015*		
	Share-holders	*Entities under common control*	*Key management*	*Share-holders*	*Entities under common control*	*Key management*
For the year ended 31 December						
Interest income	–	21,274	–	–	106,404	–
Interest expense	–	(76)	–	–	–	–
Impairment recovery on other assets	–	5	–	–	–	–
Income of the pension fund from the placement of own funds, pension savings and pension reserves	–	305,335	–	–	–	–
Other (expense) income, net	–	(43,737)	–	–	2,282	–
Staff expenses	–	(1,273)	(287,861)	–	–	(162,373)
Other operating expenses	–	(53,545)	–	–	(5,369)	–
Other non-operating expenses	–	–	–	(1,050,452)	–	–
As at 31 December						
Cash and cash equivalents	–	1,025,509	–	–	290,193	–
Financial instruments at fair value through profit or loss	–	19,527,283	–	–	–	–
Deposits in banks	–	36,557	–	–	650,360	–
Net investment in leases after impairment allowance	–	78,130	–	–	3,093	–
Other assets	515	82,841	–	630,515	8,794	–
Other liabilities	–	10,960	148,734	–	–	–

In 2016 the remuneration of members of the key management including salaries, discretionary bonuses and other short-term remuneration amounted to RUB 287,861 thousand (2015: RUB 162,373 thousand).

(in thousands of Russian roubles, unless otherwise stated)

41 Segment information

The Group has five reportable segments, as described below, which are the Group’s strategic business components. The strategic business components offer different products and services, and are managed separately because they require different technology and marketing strategies. Each of the strategic business components may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (the “CODM”) and for which discrete financial information is available. The CODM is the person or group of persons who allocates resources and assesses the performance for the Group.

The following summary describes the operations in each of the reportable segments:

- leasing activity – includes conclusion of financial lease contracts with legal entities and its further monitoring;
- pension activity – includes the accumulation of pension contributions and savings, investments of savings and pension reserves, pension liabilities accounting, assignment and payment of funded pension to insured persons and non-state pension to the participants, urgent pension payments and nonrecurring disbursements, payments of redemption sums and payments to assignees under compulsory pension insurance and non-state pension arrangement;
- insurance activity – includes sales and servicing of insurance contracts;
- corporate centre – includes a strategic management of the Group, making key decisions about the Group’s investments and capital structure, general control over the Group activities;
- cession/banking activity – includes loans, deposits and other transactions primarily with individuals.

(in thousands of Russian roubles, unless otherwise stated)

41 Segment information (continued)

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

	Leasing activity	*Pension activity*	*Insurance activity*	*Corporate centre*	*Cession/ banking activity*	*Intersegment adjustments*	*Total*
Interest income	6,686,265	–	125,155	81,136	–	–	6,892,556
Interest expense	(2,545,355)	–	–	–	–	(30,190)	(2,575,545)
Net interest income	4,140,910	–	125,155	81,136	–	(30,190)	4,317,011
Impairment charges on interest earning assets	5,288	–	–	–	(16,114)	–	(10,826)
Net interest income after impairment charges on interest earning assets	4,146,198	–	125,155	81,136	(16,114)	(30,190)	4,306,185
Contributions under pension activities	–	122,542	–	–	–	–	122,542
Payment under pension activities	–	(106,709)	–	–	–	–	(106,709)
Income of the pension fund from the placement of own funds, pension savings and pension reserves	–	3,087,242	–	–	–	(15,466)	3,071,776
Change in liabilities under pension activities	–	(2,346,517)	–	–	–	–	(2,346,517)
Other income, net	1,452,843	–	363,141	–	89,434	49,685	1,955,103
Income from operations	5,599,041	756,558	488,296	81,136	73,320	4,029	7,002,380
Net income from financial instruments at fair value through profit or loss	–	–	4,155	–	–	–	4,155
Net foreign exchange losses	(1,622)	–	–	–	–	–	(1,622)
Income from operations and finance income	5,597,419	756,558	492,451	81,136	73,320	4,029	7,004,913
Staff expenses	(1,960,420)	(60,437)	(61,240)	–	(18,278)	–	(2,100,375)
Other operating expenses	(627,869)	(115,790)	(20,246)	(143,371)	(3,499)	(29,603)	(940,378)
Acquisition costs	–	(12,647)	–	–	–	–	(12,647)
Impairment charges on other assets	(10,603)	–	–	–	–	–	(10,603)
Other non-operating expenses	(334)	(34,746)	(257)	–	–	–	(35,337)
Share in net profit of associates	–	–	198,644	–	–	–	198,644
Profit (loss) before income tax	2,998,193	532,938	609,352	(62,235)	51,543	(25,574)	4,104,217
Income tax (expense) benefit	(633,858)	(46,080)	(121,519)	12,447	(10,309)	5,115	(794,204)
Net profit (loss)	2,364,335	486,858	487,833	(49,788)	41,234	(20,459)	3,310,013

(in thousands of Russian roubles, unless otherwise stated)

41 Segment information (continued)

Segment information for the reportable segments as at 31 December 2016 is set out below:

	Leasing activity	*Pension activity*	*Insurance activity*	*Corporate centre*	*Cession/ banking activity*	*Intersegment adjustments*	*Total*
Assets							
Cash and cash equivalents	8,473,335	31,209,352	120,191	14,998,495	–	–	54,801,373
Financial instruments at fair value through profit or loss	–	152,245,166	129,702	–	–	(2,264,626)	150,110,242
Deposits in banks	252,208	12,893,222	1,205,771	–	–	–	14,351,201
Net investments in leases after impairment allowance	27,470,596	–	–	–	–	–	27,470,596
Equipment purchased and advances to suppliers for lease operations	564,785	–	–	–	–	–	564,785
Deferred acquisition costa	–	4,212,451	–	–	–	–	4,212,451
Current income tax prepayment	101,389	628	3,730	–	–	–	105,747
Deferred tax assets	–	70,808	–	12,450	–	(12,450)	70,808
VAT recoverable	96,129	–	3	12,705	–	–	108,837
Property and equipment	327,866	14,933	19	–	–	–	342,818
Investments in associates	186,942	–	199,068	49,446,221	–	(33,561,814)	16,270,417
Goodwill	–	12,520,359	–	–	–	11,680,248	24,200,607
Other assets	1,988,970	207,374	484,040	–	–	(1,387,169)	1,293,215
Total assets	39,462,220	213,374,293	2,142,524	64,469,871	–	(25,545,811)	293,903,097
Liabilities							
Liabilities under compulsory pension insurance agreements	–	181,893,057	–	–	–	–	181,893,057
Liabilities under non-state pension agreements	–	7,881,605	–	–	–	–	7,881,605
Borrowings	10,204,713	–	–	–	–	–	10,204,713
Liabilities under insurance agreements	–	–	857,125	–	–	–	857,125
Advances received from lessees	610,169	–	–	–	–	–	610,169
Bonds issued	13,361,729	–	–	–	–	(2,153,544)	11,208,185
Current income tax payable	313	–	23	–	–	–	336
Deferred income tax liabilities	740,153	–	51,598	–	–	(31,549)	760,202
VAT payable	34,878	–	2,061	–	–	–	36,939
Other liabilities	665,933	1,418,148	83,786	1,219,461	–	(1,284,088)	2,103,240
Total liabilities	25,617,888	191,192,810	994,593	1,219,461	–	(3,469,181)	215,555,571
Equity							
Share capital	15,395	1,497,630	10	59,402	–	(1,497,640)	74,797
Treasury shares	–	–	–	–	–	(80,622)	(80,622)
Additional paid-in capital	2,986,075	12,550,943	186,916	64,386,814	–	(12,909,604)	67,201,144
Reserve capital	–	51,165	424	–	–	(51,165)	424
Reserve for pension liabilities	–	2,315,955	–	–	–	–	2,315,955
Retained earnings	10,842,862	5,765,790	960,581	(1,195,806)	–	(7,537,599)	8,835,828
Total equity	13,844,332	22,181,483	1,147,931	63,250,410	–	(22,076,630)	78,347,526
Total liabilities and equity	39,462,220	213,374,293	2,142,524	64,469,871	–	(25,545,811)	293,903,097

(in thousands of Russian roubles, unless otherwise stated)

41 Segment information (continued)

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

	Leasing activity	*Insurance activity*	*Cession/ banking activity*	*Intersegment adjustments*	*Total*
Interest income	7,697,502	122,154	982,117	(259,523)	8,542,250
Interest expense	(3,481,014)	–	(483,656)	259,523	(3,705,147)
Net interest income	4,216,488	122,154	498,461	–	4,837,103
Impairment charges on interest earning assets	100,440	–	(537,927)	–	(437,487)
Net interest income after impairment charges on interest earning assets	4,316,928	122,154	(39,466)	–	4,399,616
Other income, net	1,210,127	257,378	13,808	3,771	1,485,084
Income from operations	5,527,055	379,532	(25,658)	3,771	5,884,700
Net income from financial instruments at fair value through profit or loss	94,887	14,940	–	–	109,827
Net foreign exchange (losses) income	(9,848)	32	(7,728)	–	(17,544)
Income from operations and finance income	5,612,094	394,504	(33,386)	3,771	5,976,983
Staff expenses	(1,974,214)	(57,959)	(248,251)	–	(2,280,424)
Other operating expenses	(580,538)	(21,307)	(135,940)	(20,243)	(758,028)
Impairment charges on other assets	(77,114)	–	261	–	(76,853)
Other non-operating income (expenses)	707	770	(1,050,452)	(1,884)	(1,050,859)
Profit (loss) before income tax	2,980,935	316,008	(1,467,768)	(18,356)	1,810,819
Income tax (expense) benefit	(665,461)	(62,910)	–	332,453	(395,918)
Net profit (loss)	2,315,474	253,098	(1,467,768)	314,097	1,414,901

(in thousands of Russian roubles, unless otherwise stated)

41 Segment information (continued)

Segment information for the reportable segments as at 31 December 2015 is set out below:

	Leasing activity	*Insurance activity*	*Cession/ banking activity*	*Intersegment adjustments*	*Total*
Assets					
Cash and cash equivalents	394,531	1,087,481	–	–	1,482,012
Financial instruments at fair value through profit or loss	–	96,422	–	–	96,422
Deposits in banks	7,534,751	–	–	–	7,534,751
Net investments in leases after impairment allowance	25,831,757	–	–	–	25,831,757
Loans to customers after impairment allowance	–	–	55,768	–	55,768
Equipment purchased and advances to suppliers for lease operations	299,213	–	–	–	299,213
VAT recoverable	45,973	–	–	–	45,973
Property and equipment	306,312	67	–	–	306,379
Investments in subsidiaries and associates	186,942	–	–	(186,942)	–
Other assets	2,797,863	442,976	–	(1,335,911)	1,904,928
Total assets	37,397,342	1,626,946	55,768	(1,522,853)	37,557,203
Liabilities					
Borrowings	9,921,321	–	–	–	9,921,321
Liabilities under insurance agreements	–	887,951	–	–	887,951
Advances received from lessees	414,150	–	–	–	414,150
Bonds issued	13,495,975	–	–	–	13,495,975
Current income tax payable	293,974	3,132	–	–	297,106
Deferred income tax liabilities	607,836	958	–	(13,984)	594,810
VAT payable	580,760	1,542	–	–	582,302
Other liabilities	603,329	73,689	1,243,020	(1,212,748)	707,290
Total liabilities	25,917,345	967,272	1,243,020	(1,226,732)	26,900,905
Equity					
Share capital	15,395	10	–	(10)	15,395
Additional paid-in capital	2,986,075	186,916	–	(373,858)	2,799,133
Retained earnings	8,478,527	472,748	(1,187,252)	77,747	7,841,770
Total equity	11,479,997	659,674	(1,187,252)	(296,121)	10,656,298
Total liabilities and equity	37,397,342	1,626,946	55,768	(1,522,853)	37,557,203

Substantially all revenues from external customers are generated from transactions with residents of the Russian Federation.

For the years 2016 and 2015, there were no corporate customers revenues from which individually exceed 10% of total revenue.

(in thousands of Russian roubles, unless otherwise stated)

42 Supplementary information (unaudited)

Income and expense ascribed to discontinued operations presented in the Note 7 are only from transactions with counterparties external to the Group. For convenience of users management of the Company presented the following financial information reflecting reconciliation of intragroup adjustments of JSC "Europlan Bank" with other entities of the Group in the consolidated statement of financial position and the consolidated statement of profit or loss and other comprehensive income.

The information accompanying the consolidated financial statements which has been disclosed as supplementary information is presented for purposes of additional analysis and for the convenience of users. The supplementary information presented is not within the scope of International Financial Reporting Standards.

Consolidated statement of profit or loss and other comprehensive income

	For the year ended					
	31 December 2016		*31 December 2015*			
	Total	*Attributable to entities other than JSC "Europlan Bank"*	*Total*	*Attributable to JSC "Europlan Bank"*	*Attributable to entities other than JSC "Europlan Bank"*	*Intercompany adjustments*
Interest income	6,892,556	6,892,556	8,542,250	1,064,978	7,746,399	(269,127)
Interest expense	(2,575,545)	(2,575,545)	(3,705,147)	(423,232)	(3,541,438)	259,523
Net interest income	4,317,011	4,317,011	4,837,103	641,746	4,204,961	(9,604)
Impairment charges on interest earning assets	(10,826)	(10,826)	(437,495)	(539,293)	101,798	–
Net interest income after impairment charges of interest earning assets	4,306,185	4,306,185	4,399,608	102,453	4,306,759	(9,604)
Contributions under pension activities	122,542	122,542	–	–	–	–
Payments under pension activities	(106,709)	(106,709)	–	–	–	–
Income of the pension fund from the placement of own funds, pension savings and pension reserves	3,071,776	3,071,776	–	–	–	–
Change in liabilities under pension activities	(2,346,517)	(2,346,517)	–	–	–	–
Other income, net	1,955,103	1,955,103	1,485,084	193,403	1,304,390	(12,709)
Income from operations	7,002,380	7,002,380	5,884,692	295,856	5,611,149	(22,313)
Net income from financial instruments at fair value through profit or loss	4,155	4,155	109,827	–	109,827	–
Net foreign exchange losses	(1,622)	(1,622)	(17,544)	(7,729)	(9,815)	–
Total income from operations and finance income	7,004,913	7,004,913	5,976,975	288,127	5,711,161	(22,313)
Staff expenses	(2,100,375)	(2,100,375)	(2,280,424)	(110,515)	(2,179,533)	9,624
Other operating expenses	(940,378)	(940,378)	(758,028)	(103,168)	(643,416)	(11,444)
Acquisition costs	(12,647)	(12,647)	–	–	–	–
Impairment charges on other assets	(10,603)	(10,603)	(76,845)	268	(77,113)	–
Other non-operating expenses	(35,337)	(35,337)	(1,050,859)	–	(1,050,463)	(396)
Share in net profit of associates	198,644	198,644	–	–	–	–
Profit before income tax	4,104,217	4,104,217	1,810,819	74,712	1,760,636	(24,529)
Income tax expense	(794,204)	(794,204)	(395,918)	(14,943)	(385,881)	4,906
Net profit	3,310,013	3,310,013	1,414,901	59,769	1,374,755	(19,623)
Other comprehensive income						
Share in other comprehensive income of associates	424	424	–	–	–	–
Total comprehensive income	3,310,437	3,310,437	1,414,901	59,769	1,374,755	(19,623)

(in thousands of Russian roubles, unless otherwise stated)

43 Subsequent events

In January 2017 the reorganisation of the subsidiary LLC “POMESTIE” by converting to Joint-stock company “POMESTIE” was finished.

In February 2017 the decision on reorganisation of the Company in the form of split-off of Joint-stock company “Leasing company “Europlan” was accepted at the Company’s extraordinary general meeting of the shareholders. After the reorganisation is completed all rights and obligations under the contracts on leasing activity concluded before the completion date of reorganisation will be transferred to the separated company – Joint-stock company “Leasing company “Europlan”.

In March 2017 VSK announced its intention to acquire 100% control over the subsidiary LLC “IC Europlan” from the Group. In April 2017 the appropriate application of VSK was approved by the Federal Antimonopoly Service.

For the three months ended 31 March 2017 the Fund received pension contributions amounted to RUB 5,798,209 thousand from 85,488 insured persons who entered the Fund. 77,963 insured persons left for other insurers, as a result of which pension payments amounted to RUB 2,408,687 thousand.