SOGAZ GROUP

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

31 December 2016

CONTENTS

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Independent Auditor's Report

To the Shareholders and Board of Directors of
INSURANCE COMPANY OF GAZ INDUSTRY SOGAZ:

Opinion

In our opinion, the consolidated financial statements presented fairly, in all material respects, the consolidated financial position of INSURANCE COMPANY OF GAZ INDUSTRY SOGAZ and its subsidiaries (hereinafter – the "Group") as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for 2016 in accordance with International Financial Reporting Standards.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *"Auditor's responsibilities for the audit of the consolidated financial statements"* section of our report.

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

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") together with the ethical requirements of the Auditor's Professional Ethics Code and Auditor's Independence Rules that are relevant to our audit of the consolidated financial statements in the Russian Federation. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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Responsibilities of management and those charged with governance for the consolidated financial statements

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

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

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

AO PricewaterhouseCoopers Audit

11 April 2017
Moscow, Russian Federation

M.Y. Bogomolova, certified auditor (license number No. 01-000194),
AO PricewaterhouseCoopers Audit

Акционерное общество "ПрайсвотерхаусКуперс Аудит" PricewaterhouseCoopers Audit ОГРН 1027700148431 pwc Москва

Audited entity:
INSURANCE COMPANY OF GAZ INDUSTRY SOGAZ.

State registration certificate No. 027.793, issued by Moscow Registration Bureau on 22 March 1995.

Certificate of inclusion in the Unified State Register of Legal Entities issued on 18 December 2002 under registration № 1027739820921.

10, Akademika Sakharova av., Moscow, Russia, 107078.

Independent auditor:
AO PricewaterhouseCoopers Audit.

State registration certificate No. 008.890, issued by Moscow Registration Bureau on 28 February 1992.

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

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

ORNZ 11603050547 in the register of auditors and audit organizations.

In thousands of Russian Roubles	Notes	31 December 2016	31 December 2015
ASSETS			
Cash and cash equivalents	7	3 710 871	5 155 163
Deposits with banks	8	122 737 201	85 105 106
Loans		-	15 000
Securities at fair value through profit or loss	9	14 762 325	13 858 511
Investment securities available for sale	10	21 131 478	30 009 394
Investments in associates	11	8 749 222	11 313 684
Receivables	12	31 648 046	29 195 279
Prepayments	13	16 257 570	16 505 973
Current income tax prepayment		1 450 763	1 178 991
Reinsurers' share of insurance provisions	16	34 902 480	32 804 994
Investment property	14	1 202 449	702 895
Deferred acquisition costs	24	3 187 053	4 260 391
Investment securities held to maturity	18	3 755 744	-
Deferred income tax asset	27	397 732	163 514
Premises and equipment	15	12 965 287	12 350 247
Intangible assets		191 042	665 167
Goodwill		455 564	455 564
Other assets		138 789	208 915
Assets held for sale and assets of a disposal group held for sale		805 794	426 788
TOTAL ASSETS		**278 449 410**	**244 375 576**
LIABILITIES			
Insurance provisions	16	152 822 374	132 487 554
Deferred commission income	24	1 605 106	1 442 145
Payables	19	20 799 092	24 706 894
Current income tax liability		3 876	105 462
Deferred income tax liability	27	579 042	1 350 053
Other financial liabilities	20	842 109	602 946
Other liabilities	20	13 857 305	12 684 907
Liabilities directly associated with assets of a disposal group held for sale		363 730	-
TOTAL LIABILITIES		**190 872 634**	**173 379 961**
Share capital	22	25 278 125	15 328 487
Share premium		2 610	2 610
Treasury shares	22	(770 001)	(770 001)
Fair value reserve for investment securities available for sale		151 484	61 306
Currency translation reserve		125 346	187 242
Retained earnings		62 668 039	55 884 595
Net assets attributable to the Company's owners		**87 455 603**	**70 694 239**
Non-controlling interest	**21**	**121 173**	**301 376**
TOTAL EQUITY		**87 576 776**	**70 995 615**
TOTAL LIABILITIES AND EQUITY		**278 449 410**	**244 375 576**

Approved for issue and signed on 28 March 2017.

A. A. Ustinov
Chairman of the Board

A. S. Fedorenko
Deputy Chairman of the Board

The notes set out on pages 7 to 90 form an integral part of these consolidated financial statements.

In thousands of Russian Roubles	Notes		2016		2015
INSURANCE ACTIVITY					
Gross premiums written	29	159 586 129		141 009 385	
Premiums ceded		(27 698 373)		(28 809 175)	
			131 887 756		112 200 210
Change in provision for unearned premiums, gross	16	(2 897 494)		(3 382 912)	
Change in reinsurers' share in provision for unearned premiums	16	736 377		437 711	
			(2 161 117)		(2 945 201)
Changes in gross premiums written under prior years' contracts			(2 135 074)		(2 198 289)
Changes in premiums ceded under prior years' contracts			1 118 933		923 848
Net premiums earned			**128 710 498**		**107 980 568**
Gross claims paid	29	(82 688 074)		(73 193 056)	
Reimbursement of claims for risks ceded to reinsurers		9 725 690		12 603 120	
			(72 962 384)		(60 589 936)
Change in loss provision, gross	16	(8 946 861)		11 700 298	
Change in reinsurers' share of loss provision	16	1 111 684		(20 919 954)	
			(7 835 177)		(9 219 656)
Claims handling expenses			(4 821 458)		(3 912 382)
Net claims incurred			**(85 619 019)**		**(73 721 974)**
Acquisition costs net of commission income from premiums ceded to reinsurance	24		(4 055 801)		(6 161 400)
Change in unexpired risk provision	16		194 050		89 790
Subrogation income			830 548		731 298
Change in provision for insurance and reinsurance receivables	12		(742 351)		(456 977)
Total result from insurance activity			**39 317 925**		**28 461 305**
INVESTMENT ACTIVITY					
Unrealised gains less losses from securities at fair value through profit or loss			500 721		957 475
Realised gains less losses from securities at fair value through profit or loss			277 944		430 626
Realised gains / (losses) from securities available for sale	10		271 604		(44 328)
Interest income	23		13 885 524		13 117 544
Interest expenses			(10 012)		(43 470)
Dividend income			162 984		116 574
Foreign exchange translation (losses less gains) / gains less losses			(4 484 142)		3 546 747
Other investment losses less gains			(1 431 395)		(858 808)
Total result from investment activity			**9 173 228**		**17 222 360**
Administrative and other operating expenses	25		(21 655 544)		(22 532 437)
Other operating income	26		4 433 193		4 859 378
Share of results of associates	11		(1 099 354)		(290 975)
Profit before tax			**30 169 448**		**27 719 631**
Income tax expense	27		(6 579 781)		(5 710 941)
Profit for the year			**23 589 667**		**22 008 690**

In thousands of Russian Roubles	**Notes**	**2016**	**2015**
OTHER COMPREHENSIVE (LOSS) / INCOME:			
Items that may be reclassified subsequently to profit or loss:			
Gains arising from securities available for sale	10	471 511	1 638 917
Realised (gains) / losses transferred to profit or loss	10	(271 604)	44 328
Change in currency translation reserve	22	(112 992)	612 050
Share of other comprehensive income of associates	11	(88 095)	23 455
Income tax recognised directly in other comprehensive income	27	(22 362)	(628 599)
Total other comprehensive (loss) / income for the year		**(23 542)**	**1 690 151**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**23 566 125**	**23 698 841**
Profit / (loss) attributable to:			
Owners of the Company		23 562 004	22 329 770
Non-controlling interest	21	27 663	(321 080)
		23 589 667	**22 008 690**
Total comprehensive income / (loss) attributable to:			
Owners of the Company		23 590 286	23 892 682
Non-controlling interest	21	(24 161)	(193 841)
		23 566 125	**23 698 841**

In thousands of Russian Roubles	Notes	Attributable to owners of the Group: Share capital	Share premium	Treasury shares	Fair value reserve for investment securities available for sale	Currency translation reserve	Retained earnings	Accumulated gains less losses recognised in other comprehensive income related to a disposal group held for sale	Total	Non-controlling interest (Note 21)	Total equity
31 December 2014		**15 328 487**	**2 610**	**(770 001)**	**(1 346 268)**	**129 394**	**40 447 979**	**470 863**	**54 263 064**	**1 453 646**	**55 716 710**
Profit / (loss) for the year		-	-	-	-	-	22 329 770	-	22 329 770	(321 080)	22 008 690
Other comprehensive income	22	-	-	-	1 407 574	57 848	-	97 490	1 562 912	127 239	1 690 151
Total comprehensive income / (loss) for the year		-	-	-	1 407 574	57 848	22 329 770	97 490	23 892 682	(193 841)	23 698 841
Increase of subsidiaries' equity against non-controlling interest		-	-	-	-	-	-	-	-	12 384	12 384
Increase of subsidiaries' equity	36	-	-	-	-	-	-	-	-	933 380	933 380
Disposal of subsidiary	36	-	-	-	-	-	(64 233)	(568 353)	(632 586)	(1 902 195)	(2 534 781)
Acquisition of non-controlling interest in subsidiary	21	-	-	-	-	-	-	-	-	(1 998)	(1 998)
Dividends declared	28	-	-	-	-	-	(6 828 921)	-	(6 828 921)	-	(6 828 921)
31 December 2015		**15 328 487**	**2 610**	**(770 001)**	**61 306**	**187 242**	**55 884 595**	**-**	**70 694 239**	**301 376**	**70 995 615**
Profit for the year		-	-	-	-	-	23 562 004	-	23 562 004	27 663	23 589 667
Other comprehensive income / (loss)	22	-	-	-	90 178	(61 896)	-	-	28 282	(51 824)	(23 542)
Total comprehensive income / (loss) for the year		-	-	-	90 178	(61 896)	23 562 004	-	23 590 286	(24 161)	23 566 125
Increase of share capital	22	9 949 638	-	-	-	-	(9 949 638)	-	-	-	-
Acquisition of subsidiary	36	-	-	-	-	-	-	-	-	3 871	3 871
Acquisition of non-controlling interest in subsidiary	36	-	-	-	-	-	-	-	-	(159 913)	(159 913)
Dividends declared	28	-	-	-	-	-	(6 828 922)	-	(6 828 922)	-	(6 828 922)
31 December 2016		**25 278 125**	**2 610**	**(770 001)**	**151 484**	**125 346**	**62 668 039**	**-**	**87 455 603**	**121 173**	**87 576 776**

In thousands of Russian Roubles	**Notes**	**2016**	**2015**
Cash flows from operating activities			
Gross premiums received		155 421 629	135 636 207
Ceded premiums paid		(24 156 029)	(24 938 370)
Gross claims paid		(82 688 074)	(73 472 680)
Reimbursement of claims ceded to reinsurers, received		6 528 727	16 433 780
Acquisition costs paid		(7 428 453)	(7 087 961)
Claims handling expenses paid		(4 260 842)	(3 781 719)
Subrogation income received		881 339	959 474
Commission income from obligatory medical insurance program	26	2 188 772	2 049 067
Other operating income received		2 150 972	1 675 105
Administrative and other operating expenses paid		(18 153 425)	(19 183 033)
Income tax paid		(7 854 174)	(7 601 446)
Cash flows from operating activities before changes in operating assets and liabilities		**22 630 442**	**20 688 424**
Changes in operating assets and liabilities			
Net increase in deposits with banks		(31 690 970)	(12 497 806)
Net increase in receivables		(398 084)	(26 467)
Net increase in prepayments		(926 643)	(3 818 804)
Net decrease / (increase) in other assets		96 128	(201 349)
Net increase in obligatory medical insurance program liabilities		224 824	4 104 156
Net decrease in payables		(406 181)	(2 139 339)
Net increase in other liabilities		948 319	213 819
Net cash (used in) / from operating activities		**(9 522 165)**	**6 322 634**

In thousands of Russian Roubles	**Notes**	**2016**	**2015**
Cash from investing activities			
Proceeds from realisation and redemption of investment securities available for sale		14 672 754	7 062 710
Interest received		13 428 877	11 677 674
Acquisition of investment securities available for sale	10	(7 339 701)	(17 843 091)
Acquisition of investment securities held to maturity		(2 297 309)	-
Cash outflow resulting from acquisition of subsidiaries net of cash paid	36	(1 383 590)	(113 685)
Acquisition of premises and equipment		(1 279 588)	(2 071 847)
Cash inflow resulting from gainig control over subsidiaries	36	747 390	-
Cash used for acquisition less of cash received from realisation of securities at fair value through profit or loss		(413 224)	1 775 617
Proceeds from disposal of premises and equipment		250 880	471 710
Acquisition of intangible assets		(177 653)	(282 650)
Dividend income		162 984	116 574
Cash outflow resulting from acquisition of non-controlling interest in a subsidiary	21	(159 913)	(1 998)
Proceeds from disposal of investment property	14	56 633	83 522
Cash infow resulting from loans issued		15 000	3 221 418
Acquisition of investment property	14	(14 591)	-
Prepayment for shares of associate	11	-	(2 362 815)
Cash outflow resulting from disposal of assets of a disposal group held for sale	36	-	(1 270 056)
Acquisition of associates	11	-	(815 881)
Increase of subsidiaries` equity		-	400 457
Cash inflow resulting from disposal of subsidiary	36	-	130 086
Net cash from investing activities		**16 268 949**	**177 745**
Cash flows from financing activities			
Dividends paid to owners of the Group	28	(6 828 922)	(6 828 921)
Repayment of finance lease liability		(107 817)	(87 428)
Repayment of interest on finance lease	15	(10 010)	(30 399)
Net cash used in financing activities		**(6 946 749)**	**(6 946 748)**
Effect of exchange rate fluctuations on cash and cash equivalents		(1 231 111)	140 983
Net decrease in cash and cash equivalents		**(1 431 076)**	**(305 386)**
Cash and cash equivalents at the beginning of the year	7	5 155 163	5 094 494
Cash and cash equivalents relating to assets of a disposal group held for sale, at the beginning of the year		-	366 055
Cash and cash equivalents relating to assets of a disposal group held for sale, at the end of the year		(13 216)	-
Cash and cash equivalents at the end of the year	7	**3 710 871**	**5 155 163**

1 Introduction

These consolidated financial statements of INSURANCE COMPANY OF GAZ INDUSTRY SOGAZ (hereinafter – the “Company”) and its subsidiaries (together referred to as the “Group”) have been prepared in accordance with International Financial Reporting Standards (hereinafter – “IFRS”) for the year ended 31 December 2016.

The Company was incorporated and is domiciled in the Russian Federation. The Company is a joint-stock company and was set up in accordance with Russian legislation.

Principal activity. The principal activity of the Group is provision of insurance services. The Group also renders non-insurance related services (Note 36). The Company operates under insurance licenses issued by the Central bank of the Russian Federation. Insurance business written by the Group includes property, liability, medical, personal accident, life insurance and reinsurance. The Group has also contracted with the Territorial funds for obligatory medical insurance (hereinafter – “TFOMI”), that carry out obligatory medical insurance (hereinafter – “OMI”) programs to provide citizens of the Russian Federation with free of charge medical services through certain appointed insurers, including the Group. The Group has contracted with TFOMI to administer a portion of this program and receives commission for providing this service.

At 31 December 2016 40.23 % of the Company’s shares (31 December 2015: 40.23 %) are owned by PJSC Gazprom and its subsidiaries and associates, 32.30 % owned by LLC Akvila (31 December 2015: 32.30 % owned by LLC IK ABROS); 12.50 % (31 December 2015: 12.50 %) owned by LLC Kordeks, 12.47 % (31 December 2015: 12.47 %) owned by LLC Akcept. The remaining 2.50 % shares of the Company are owned by the Group (31 December 2015: 2.50 %). At 31 December 2016 and 31 December 2015, none of the parties is an ultimate controlling party.

At 31 December 2016 the Company had 79 active branches (31 December 2015: 79) in the Russian Federation. At 31 December 2016 the subsidiaries of the Group in their turn had 52 branches (31 December 2015: 60) in the Russian Federation. The number of the Group’s staff employees at 31 December 2016 was 12 200 (31 December 2015: 12 226). The list of principal consolidated subsidiaries and associates is disclosed in Notes 36 and 11 accordingly.

Registered address and place of business. The Company’s registered address is: Akademika Sakharova av. 10, Moscow, 107078, Russian Federation. The Company’s Head Office is located at the same address.

Presentation currency. These consolidated financial statements are presented in thousands of Russian Roubles (hereinafter – “RR thousand”).

2 Operating Environment

The Russian Federation. Russian economy displays certain characteristics of emerging markets. It is sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to varying interpretations (Note 32).

During the year ended 31 December 2016 Russian economy continued to be negatively impacted by low oil prices, ongoing political tension in the region and continuing international sanctions against certain Russian companies and individuals, all of which contributed to the country’s economic recession characterised by a decline in gross domestic product. Financial markets continue to be volatile and are characterised by frequent and significant price movements and increased trading spreads. The Russian Federation credit rating was downgraded to below investment grade.

Such operating environment impacts results of operations and financial position of the Group. Management makes all necessary arrangements in order to ensure steadiness of the Group activities. However, prospective consequences of current economic conditions are difficult to predict and current estimates and judgements of management may differ from actual results.

3 Summary of Significant Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with IFRS under the historical cost convention, as modified by the revaluation of financial assets and liabilities designated at fair value through profit or loss and assets available for sale.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all periods presented in these consolidated financial statements, unless otherwise stated.

The preparation of these consolidated financial statements in accordance with IFRS requires the use of estimates and assumptions that affect reported amounts of assets and liabilities, contingent assets and liabilities at the date of the consolidated financial statements, and amounts of income and expenses for the period recognised in these consolidated financial statements. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates (Note 4).

Consolidated financial statements Subsidiaries are those investees that the Group controls because it (i) has the power to direct relevant activities of the investees that significantly affect their returns, (ii) has the exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of relevant activities of the investee need to be made.

Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group, and are deconsolidated from the date on which control ceases.

The acquisition method of accounting is used to account for acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. Non-controlling interest is that part of net results and equity of a subsidiary attributable to interests that are not owned, directly or indirectly, by the Group. Non-controlling interest forms a separate component of the Group's equity.

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. Non-controlling interests that are not present ownership interests are measured at fair value.

Goodwill is measured by deducting net assets of the acquiree from the aggregate of the following amounts: the amount of consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and the fair value of the Group's direct interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after management reassesses whether it has identified all the assets acquired and all liabilities and contingent liabilities assumed, and reviews appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements, but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt instruments are deducted from their carrying amount and all other transaction costs associated with the acquisition are expensed.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policy.

3 Summary of Significant Accounting Policies (continued)

Purchases and sales of non-controlling interests. The Group applies the economic entity model to account for transactions with owners of non-controlling interest. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recognised as a capital transaction directly in equity. The Group recognises the difference between sales consideration and carrying amount of non-controlling interest sold as an equity transaction in the consolidated statement of changes in equity.

Associates. Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting, and are initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. Dividends received from associates reduce the carrying value of investments in associates.

Other post-acquisition changes in the Group's share of net assets of associates are recognised as follows: (i) the Group's share of profits or losses of associates is recognised in the consolidated statement of profit or loss and other comprehensive income within the share of results of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii) the Group's share in other changes of the carrying value of net assets of associates is recognised in the consolidated statement of profit or loss and other comprehensive income within the share of results of associates.

However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

In the consolidated statement of changes in equity, the Group's share in other comprehensive income of associates is recognised within the reserve to which other comprehensive income of associates is related.

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

The Group tests for impairment the entire carrying amount of the investment in an associate as a single asset, by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. An impairment loss recognised in those circumstances is not allocated to any asset, including goodwill, that forms part of the carrying amount of investments in associates. Accordingly, any reversal of that impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases. Impairment loss and reversal of that impairment loss are both recognised in profit or loss.

Disposal of subsidiaries and associates. When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequent accounting for the retained interest in associate or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity, are accounted for as if the Group had directly disposed of the related assets or liabilities. This means that when amounts previously recognised in other comprehensive income in respect of a subsidiary are to be reclassified to profit or loss following the sale of assets or liabilities to which they relate, they should be reclassified to profit or loss in a similar way at the date when control over this subsidiary is lost. Consequently, amounts previously recognised in other comprehensive income in respect of a subsidiary and subject to be reclassified directly to retained earnings following the sale or disposal of assets or liabilities to which they relate, should also be reclassified to retained earnings when control over this subsidiary is lost.

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

3 Summary of Significant Accounting Policies (continued)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is a quoted price in an active market. An active market is one in which transactions with the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Fair value of financial instruments traded in an active market is measured as the quoted price for the individual asset or liability multiplied by the quantity held by the Group. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity of assets and liabilities held by the Group and placing orders to sell the position in a single transaction might affect the quoted price.

Management considers the fair value equal to the weighted average price within the bid-ask spread at the reporting date, as the most representative in the circumstances.

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

Valuation techniques such as discounted cash flow models or models based on similar arm's length transactions or on the present value of the investee are used to measure fair value of certain financial instruments for which external market pricing information is not available (Note 33).

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

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

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount.

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

Initial recognition of financial instruments. Securities at fair value through profit or loss are initially recognised at fair value. All other investment financial assets are initially recognised at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price.

3 Summary of Significant Accounting Policies (continued)

A gain or loss on initial recognition is only recognised if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions with the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention are recognised at transaction date, that is the date on which the Group commits to deliver a financial asset. All other purchases are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

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

Derecognition of financial liabilities. The Group derecognises its financial liabilities when the obligation under the liability is discharged, transferred, cancelled or expired. 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, the original liability is derecognised and the new liability is recognised, and the difference in the respective carrying amounts is recognised in profit or loss.

Cash and cash equivalents. Cash and cash equivalents are items that are readily convertible to known amounts of cash and that are subject to insignificant changes in value. Cash and cash equivalents include cash on hand, settlement accounts with banks and overnight deposits. Funds restricted for a period of more than one banking day on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

Deposits with banks. Deposits with banks are funds that the Group advances to counterparty banks on the basis of deposit contracts for a period of more than one banking day. Deposits with banks are carried at amortised cost.

Securities at fair value through profit or loss. Securities at fair value through profit or loss are securities designated irrevocably, at initial recognition, into this category.

Management designates securities into this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with risk management or investment strategy, and information on that basis is regularly provided to and reviewed by management of the Group.

Interest income on securities at fair value through profit or loss calculated using the effective interest method is presented in profit or loss as interest income. Dividends are recognised as dividend income when the Group's right to receive the relevant income is established and it is probable that the dividends will be collected. All other components of changes in fair value and gains or losses on derecognition are recognised accordingly as unrealised and realised gains less losses from securities at fair value through profit or loss in the period in which they arise.

Derivative financial instruments. Derivative financial instruments are measured at fair value through profit or loss and include derivative financial instruments designated irrevocably, at initial recognition, into this category.

Those instruments include derivative financial instruments with shares and stock indexes as underlying assets. Subsequent measurement of those assets is based on public stock-exchange quotes or quotes of derivative financial instruments issuers. In case of absence of information about current quotes Black-Scholes option pricing model is used for determining fair value.

3 Summary of Significant Accounting Policies (continued)

All derivative financial instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments and gains and losses from disposal are included in profit or loss, accordingly, as unrealised and realised gains less losses from securities at fair value through profit or loss.

Investment securities available for sale. This classification includes investment securities that the Group intends to hold for an indefinite period and that may be sold in response to needs for liquidity or fluctuations in interest rates, exchange rates or equity prices. The Group classifies securities as available for sale at the acquisition date.

Investment securities available for sale are carried at fair value. Interest income on available for sale debt securities is calculated using the effective interest method and recognised in profit or loss. Dividends on available for sale equity instruments are recognised in profit or loss when the Group's right to receive payment is established and it is probable that the dividends will be collected. Income and expenses from revaluation of foreign currency securities are recognised in profit or loss. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired, at which time the cumulative gain or loss is reclassified from other comprehensive income to profit or loss.

Impairment losses are recognised in profit or loss when incurred as a result of one or more events that occurred after the initial recognition of investment securities available for sale. A significant or ongoing decline in the fair value of an equity security below its cost is an indicator that it is impaired.

The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income to profit or loss. Impairment losses on equity instruments are not reversed and any subsequent gains are recognised in other comprehensive income.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

Investment securities held to maturity. This classification includes non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. An investment is not classified as a held-to-maturity investment if the Group has the right to require that the issuer repay or redeem the investment before its maturity, because paying for such a feature is inconsistent with expressing an intention to hold the asset until maturity, except when the right of redemption before maturity arises due to worsening financial position and the risk of default of the issuer. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at the end of each reporting period. Investment securities held to maturity are carried at amortised cost using effective interest method less impairment provision.

Receivables and prepayments. Receivables are accounted for on the accrual basis and are carried at amortised cost. Prepayments are recognised at the payment date and are charged to profit or loss when services or goods are provided.

Insurance and reinsurance receivables include settlements with agents, brokers, insured and reinsurers, as well as subrogation and recourse settlements. Reinsurance receivables and payables are offset for counterparty where the legal right for this offset exists.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss when incurred as a result of one or more events that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the expected future cash flows of the financial asset or group of financial assets that can be reliably estimated.

If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, it includes the asset into a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

3 Summary of Significant Accounting Policies (continued)

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

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

- any installment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the counterparty experiences a significant financial difficulty as evidenced by counterparty's financial information that the Group obtains;
- the counterparty considers bankruptcy or a financial reorganisation; or
- there is an adverse change in the payment status of the debtor as a result of changes in the national or local economic conditions that impact the debtor.

The Group individually assesses receivables from major corporate clients on the basis of contractual future cash flows, available information on counterparties and the extent to which existing receivables are covered by provisions.

For other counterparties that are not major corporate clients, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics relate to the estimation of future cash flows for groups of such assets and indicate the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

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

Impairment losses are recognised through creating a provision necessary to write down the asset's carrying amount to the present value of expected cash flows discounted at the original effective interest rate of the asset.

If in a subsequent period the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the impairment loss provision through profit or loss.

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

The Group assesses its reinsurance assets for impairment on a regular basis. If there is objective evidence that the reinsurance asset is impaired, the Group reduces its carrying amount to recoverable amount and recognises the impairment loss in profit or loss. The Group gathers the evidence that a reinsurance asset is impaired using the criteria adopted for financial assets carried at amortised cost. The impairment loss is calculated following the method used for financial assets carried at amortised cost.

Investment property. Investment property is property held by the Group to earn rental income or for capital appreciation, or both, and is not occupied by the Group. Investment property includes premises and land plots.

Earned rental income is recognised in profit or loss within other operating income.

3 Summary of Significant Accounting Policies (continued)

Investment property is stated at cost including transaction costs less accumulated depreciation and provision for impairment. Depreciation on investment property is recognised in profit or loss within administrative and other operating expenses and is calculated by applying methods similar to those applied for calculation of depreciation of premises and equipment. If any indication exists that investment property may be impaired, the Group estimates the recoverable amount as the higher of value in use and fair value less costs to sell. The carrying amount of investment property is written down to its recoverable amount through profit or loss. Impairment loss recognised in prior years is reversed if there has been a subsequent change in the estimates used to determine the asset's recoverable amount.

Subsequent expenditure is capitalised only when it is probable that future economic benefits associated with it will flow to the Group, and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If investment property becomes occupied by companies of the Group, it is reclassified to premises and equipment.

Premises and equipment. Premises and equipment are recognised at cost, restated to the equivalent purchasing power of Russian Rouble at 31 December 2002 for assets acquired prior to 1 January 2003, less accumulated depreciation and provision for impairment, where required.

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

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

In case of impairment the carrying amount of premises and equipment is reduced to the recoverable amount and the impairment loss is recognised in profit or loss. Impairment loss recognised for an asset in prior periods is reversed if there has been a change in estimates used to determine the asset's value in use or fair value less costs to sell.

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

Depreciation. Land and construction in progress are not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate their cost to their residual values over the following estimated useful lives:

	Useful lives in years
Premises	30-50
Motor vehicles, office and computer equipment	3-7
Other equipment	5-15

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

Intangible assets. The Group's intangible assets, except for goodwill, have definite useful lives and primarily include computer software licenses obtained by the Group, computer software development costs and intangible assets acquired in business combinations, including client bases obtained as a result of acquisition of subsidiaries. Amortisation is applied on a straight-line basis over their estimated useful lives, from 1 to 5 years.

Acquired computer software licences are capitalised on the basis of costs incurred to acquire and bring to use the specific software. Expenditure, which enhances or extends the performance of computer software programs beyond their original specifications is recognised as a capital improvement and added to the original cost of the software.

3 Summary of Significant Accounting Policies (continued)

Costs associated with maintaining computer software programs are recognised as expenses as incurred. Costs that are directly associated with identifiable software products controlled by the Group and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets.

Intangible assets acquired in business combinations are recognised at fair value at the moment of obtaining control over the operating activities of the acquiree. Intangible assets whose fair value can be reliably measured are recognised separately from goodwill. The Group determines fair value of acquired intangible assets even if they were not accounted for in financial statements of an acquiree.

The Group tests intangible assets for impairment whenever there are indications that they may be impaired.

Goodwill. Goodwill is carried at cost less accumulated impairment losses. The Group tests goodwill for impairment annually.

Goodwill is allocated to cash-generating units, or groups of cash-generating units, that are expected to benefit from synergies of business combination. Such units or groups of units represent the lowest level at which the Group monitors goodwill. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the disposed operation, generally measured on the basis of the relative values of the disposed operation and the portion of the cash-generating unit which is retained.

Assets held for sale and assets of a disposal group held for sale. Assets held for sale and assets of a disposal group held for sale are classified in the consolidated statement of financial position as assets held for sale and assets of a disposal group held for sale and liabilities directly associated with assets of a disposal group held for sale if their carrying amount is recovered principally through a sale transaction (including loss of control over a subsidiary holding the assets), within twelve months after the end of the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale at a reasonable price; (d) the sale is expected within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Assets held for sale and assets of a disposal group held for sale classified in the current period's consolidated statement of financial position as held fore sale are not reclassified or represented in the comparative consolidated statement of financial position to reflect the classification at the end of the current reporting period.

Assets of a disposal group held for sale are a group of assets (current and non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

Assets held for sale and assets of a disposal group held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Held for sale premises and equipment and intangible assets are not depreciated.

Liabilities directly associated with disposal groups that will be transferred in the disposal transaction are presented separately in the consolidated statement of financial position.

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

Leases embedded in other agreements are separated if (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets and (b) the arrangement conveys a right to use the asset.

3 Summary of Significant Accounting Policies (continued)

Finance lease liabilities. Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in premises and equipment at the commencement of the lease at the lower of the fair value of leased assets, and the present value of minimum lease payments. Each lease payment is allocated between discharging liability and finance charges so as to achieve a constant rate on the finance lease balance outstanding. The corresponding rental obligations, net of future finance charges, are included in other financial liabilities of the consolidated statement of financial position.

Interest expense is charged to profit or loss over the lease period using the effective interest method. Assets acquired under finance leases are depreciated over their useful lives, or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

Payables. Payables are non-derivative financial liabilities carried at amortised cost.

Insurance and investment contracts – classification. The Group issues contracts that contain insurance risk or financial risk or both.

Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. The Group defines as significant insurance risk the possibility of having to pay a benefit on the occurrence of an insurance event that is at a certain percentage more than the benefit payable if an insurance event did not occur.

Insurance risk exists when there is an uncertainty in respect of the following matters at inception of the contract: occurrence of insurance event, date of insurance event occurrence, and the claim amount in respect of occurred insurance event. Investment contracts are those contracts that contain financial risk with no significant insurance risk.

Description of insurance products. The Group offers insurance products covering all major insurance risks. The Group’s main lines of insurance business are as follows:

- property insurance;
- health / voluntary medical insurance (hereinafter – “VMI”) and personal accident insurance;
- motor insurance, including obligatory motor third party liability of motor vehicle owners (hereinafter – “OMTPL”) and motor own damage insurance (CASCO);
- aircraft insurance;
- cargo insurance;
- voluntary liability insurance;
- hull and marine insurance;
- obligatory third party liability insurance of carriers (hereinafter – “OTPLIC”);
- obligatory insurance of third party liability of owners of hazardous production facilities (hereinafter – “OIHF”);
- life insurance.

Short-term insurance contracts include property, motor, VMI, personal accident insurance, liability insurance and short-term life insurance contracts.

Property insurance ensures that the Group’s clients receive compensation for the damage caused to their property or ensures their financial interests. Clients are also indemnified for income losses caused by their inability to use the insured property in their economic activities as a result of the occurrence of an insurance event (business interruption).

VMI is designed to provide the Group’s clients with paid medical services. VMI contracts are entered into only if at the inception of the contract the Group is unsure of the probability, timeline and amounts of cash outflows connected with this type of insurance.

3 Summary of Significant Accounting Policies (continued)

Personal accident insurance – indemnification of clients that have suffered damage as a result of personal accidents.

OMTPL protects the Group's clients against the risk of third party liability of motor vehicle owners which can occur as a result of causing harm to third parties' life, health or property during the use of motor vehicles.

CASCO – protection for risks of theft and damage of cars belonging to the insured.

Aircraft insurance – the Group insures property interests of the insured related to legal possession, use and disposal of an aircraft.

Cargo insurance – the Group insures property interests of the insured related to possession, use and disposal of cargo as a result of its loss or damage.

Voluntary liability insurance protects the Group's clients against the risk of causing harm to third parties as a result of their legitimate activities. Damages covered include both contractual and non-contractual events. The typical protection offered is designed for employers who become legally liable to pay compensation to injured employees (employers' liability) and for clients (individuals and legal entities) who become liable to pay compensation to a third party for bodily harm or property damage (public liability) in accordane with Russian law.

Hull and marine insurance – the Group insures property interests of the insured related to the possession, use and disposal of insured vessels, as well as the risk of loss or damage to the vessel or its parts at the construction site.

OTPLIC is the obligatory third party liability insurance of carriers for causing harm to life, health or property of passengers when providing transportation services.

OIHF – obligatory insurance for owners of hazardous facilities against damage resulting from an accident at a hazardous facility. The Group insures third party liability of owners of hazardous facilities against damage to persons affected.

Short-term life insurance contracts protect the Group's clients from the consequences of events, such as death or disability that would affect the ability of clients or their dependants to maintain their current level of income.

Guaranteed benefits paid on occurrence of the specified insurance event are either fixed or linked to the extent of the economic loss suffered by the policyholder. Maturity or surrender benefits are not provided for by this type of contracts.

Long-term life insurance contracts with fixed and guaranteed terms insure events associated with human life (for example, death, or survival) over a long term.

Non-life insurance

- ***Premiums written.*** Upon inception of a liability under insurance contract, premiums are recognised as written and are earned on a pro-rata basis over the term of the policy coverage. Under insurance contracts, for which the expected loss ratio is significantly affected by the seasonal factor, premiums are earned with consideration of this factor. Premiums that are not associated with significant insurance risk are not recognised as premiums written.
- ***Provision for unearned premiums.*** Provision for unearned premiums (hereinafter – "UPR") represents the portion of premiums written that relate to unexpired term of policies in force at the end of the reporting period. For insurance products with a minor seasonality effect on claims paid, UPR is calculated on a time apportionment basis. With respect to insurance products with a significant seasonality effect on claims paid, UPR is calculated in such a way so that premium earned for a period would change pro rata the seasonal risk factor (e.g. expected loss ratio).

3 Summary of Significant Accounting Policies (continued)

- ***Claims.*** Claims are recognised in profit or loss as incurred based on the evaluated liability for compensation payable to the insured or third parties suffered from occurrence of insurance event.
- ***Claims handling expenses.*** Claims handling expenses are recognised in profit or loss as incurred and include direct expenses related to negotiations and subsequent claims handling, as well as indirect expenses, including expenses of claims handling department and administrative expenses directly related to activities of this department.
- ***Loss provision.*** Loss provision represents the accumulation of estimates for ultimate losses and includes outstanding claims provision (hereinafter – "OCP") and provision for losses incurred but not yet reported (hereinafter – "IBNR"). Estimates of claims handling expenses are included in both OCP and IBNR.
- ***OCP*** is provided in respect of claims reported, but not settled at the reporting date. The estimation is made on the basis of information received by the Group during investigation of insurance event, including information received after the reporting date.
- ***IBNR*** is determined by the Group by lines of business using actuarial methods, and includes assumptions based on prior years' claims and claims handling experience. The methods of determining such estimates and establishing the resulting provisions are continually reviewed and updated (Note 17). Resulting adjustments are reflected in profit or loss as they arise. Loss provisions are estimated on an undiscounted basis due to relatively quick pattern of claims notification and payment.
- ***Subrogation asset.*** A subrogation asset is calculated using actuarial methods for individual types of insurance and represents the Group's estimation of future inflows from offenders on losses incurred under insurance contracts where the Group acts as an insurer, while an offender under the insurance contract is a party that is not a policyholder under insurance contracts signed by the Group. Subrogation asset is recognised within the insurance reserves.

Life insurance

- ***Premiums written.*** Premiums from traditional life insurance are recognised in profit or loss when they become due from the policyholder. Premiums that are not associated with significant insurance risk are not recognised as premiums written.
- ***Claims.*** Claims including claims handling expenses are recognised in profit or loss as incurred.
- ***Provisions for life insurance contracts.*** The methods of calculating provisions for life insurance contracts are disclosed in Note 17.
- ***Discretionary participation feature.*** The Group has discretionary participation feature in relation to the policyholder / the insured embedded in some insurance contracts. The Group does not consider this feature separately from an insurance contract.

Liability adequacy test. At each reporting date the Group assesses whether its recognised insurance liabilities are adequate, using current estimates of future cash flows under its insurance contracts.

If that assessment shows that the carrying amount of insurance liabilities less related deferred acquisition costs and related intangible assets is inadequate in the light of the estimated future cash flows, the deficiency is recognised in the line item "Insurance provisions" of the consolidated statement of financial position. When unearned premiums are insufficient to cover claims and expenses, that may be incurred after the end of the reporting period, the Group recognises ***unexpired risk provision*** (hereinafter – "URP"). To estimate URP the Group uses historical experience and forward looking assumptions of ultimate loss ratios (including claims handling expenses) and the level of in-force portfolio maintenance expenses. The expected claims are calculated considering events that have occurred prior to the reporting date. URP calculated at the reporting date is recognised in profit or loss initially by writing off deferred acquisition costs and then as a change in URP.

3 Summary of Significant Accounting Policies (continued)

Income and expenses related to changes in prior years' contracts. Income and expenses related to changes in prior years' contracts represent the reduction of insurance premiums on direct insurance operations and assumed reinsurance and premiums ceded under prior years' contracts, the insurance premium on which was recognised in prior years. The reduction of insurance premiums is caused by changes in terms of insurance contracts.

Income and expenses related to changes in prior years' contracts do not include changes in UPR and reinsurers' share in UPR under such contracts and are recognised in profit or loss of that reporting period where terms of insurance or reinsurance contract were changed. Related changes in UPR and reinsurers' share in UPR under prior years' contracts are included in lines "Change in provision for unearned premiums, gross" and "Change in reinsurers' share of provision for unearned premiums" of the consolidated statement of profit or loss and other comprehensive income, respectively.

Reinsurance. The Group assumes and cedes reinsurance in the normal course of business. Ceded reinsurance contracts do not relieve the Group from its obligations to policyholders. Amounts recoverable from or due to reinsurers are measured consistently with amounts associated with reinsured insurance contracts and in accordance with the term of each reinsurance contract. Reinsurance assets include balances due from reinsurance companies in respect of reimbursement for claims paid, including claims handling expenses, and premiums on assumed reinsurance. Reinsurance payables are obligations of the Group to transfer reinsurance premiums to reinsurers and obligations arising out of claims assumed.

Subrogation income. The Group has a right to pursue parties responsible for loss for payment of some or all costs related to claims settlement process of the Group (recourses, subrogation). Subrogation reimbursements are recognised as income only if the Group is confident in receipt of these amounts from these third parties.

Deferred acquisition costs. Acquisition costs represent brokerage and agent commissions, commissions for assumed reinsurance, surveyor expenses, obligatory payments to Russian association of motor insurers and policy printing expenses that vary and depend on the volume of premiums on acquisition or renewal of insurance policies. Acquisition costs that could be directly allocated to insurance contracts are deferred and amortised over the period in which the related premiums written are earned. Deferred acquisition costs are calculated separately for each insurance contract.

Obligatory medical insurance. The Federal fund for obligatory medical insurance carries out the OMI program in order to provide citizens of the Russian Federation with free of charge medical services via certain insurers, appointed under Russian legislation, including the Group, that have contracted with TFOMI to administer a portion of this program. Insurance medical institutions carry out OMI activities based on OMI financial support contracts signed with TFOMI and contracts for provision and payment of OMI medical services with medical institutions (hereinafter – "MI").

The Group incurres liabilities arising from contracts signed with TFOMI and MI in accordance with Russian legislation and terms and conditions stipulated by those contracts. The Group does not assume any insurance risk under OMI program. The Group receives commission for these services. This commission is recognised in profit or loss within other operating income.

The Group receives cash from TFOMI and makes payments to MI for services provided by them within the territorial OMI program. Funds intended for payment for medical services and received by the Group from TFOMI are treated as special purpose funding. Receipt of such funds is recognised as an increase in liabilities to TFOMI. The above special purpose funding directed to MI as advance payments is recognised as an increase in MI receivables, while the liabilities to the territorial fund are not decreased.

The fact of using special purpose funds is recognised as a decrease in OMI liabilities to TFOMI. An offset of advances earlier paid to MI in the amounts of invoice registers accepted from MI and invoices for payment of medical services, with consideration of medical review of medical and economic control, medical and economic expert examination, expert examination of the quality of medical services under such invoices, is recognised as a decrease in MI receivables and a decrease in OMI liabilities to TFOMI.

3 Summary of Significant Accounting Policies (continued)

If amount due under MI invoices exceeds amount of available special purpose funds, the Group recognises a deficit of special purpose funding from TFOMI, which is recognised as a reduction of OMI liabilities to TFOMI. The balance of the special purpose funds after settlements for medical services provided to the insured is returned to the source of funding.

Liabilities to TFOMI at the reporting date are calculated as a sum of liabilities to TFOMI at the beginning of the reporting period and special purpose funds received in the reporting period, reduced by the amount of special purpose funds used in the reporting period for the purpose intended and the amount of special purpose funds returned to the source of funding. These liabilities are non-financial liabilities as they are repaid through an offset of advances that were earlier made to MI. These liabilities are recognised as other liabilities.

Receivables from MI under payments for violations while conducting medical services and penalties as a result of expert examinations are recognised at the date of act approval or claim submission.

Payables to MI under invoices for medical services provided to the insured under OMI is a financial liability of the Group because it results in outflow of funds received under the special purpose funding and is recognised as other financial liabilities.

The Group controls the volume, dates, quality and conditions of medical services provided under OMI by conducting medical and economic control, medical and economic expert examination, expert examination of the quality of medical services and uses the results to bring sanctions against MI for the identified violations.

Conduction of such expert examinations is an absolute obligation of the Group. A failure to perform this obligation may result in penalties imposed on the Group by TFOMI. The income of insurance medical institutions related to the funds received from MI as a result of sanctions for the violations identified in the course of control of the volume, dates, quality and conditions of medical services provided is calculated as a certain percentage of the amount of corresponding sanctions. Accordingly, the moment of revenue recognition is the moment when the amount of sanctions is determined and agreed between the insurance medical institution and MI. The Group uses a portion of the funds from these sanctions to form its own funds recognised in profit or loss within other operating income.

The Group receives income due from TFOMI arising from saving funds as compared to the estimated annual amount of funding for insurance medical institution (hereinafter – “amount of special purpose funding saved”).

The amount of special purpose funding saved due to insurance medical institution is the excess of monthly funding calculated as the number of the insured multiplied by the differentiated norm per person over the amount of special purpose funding actually used by the insurance medical institution for medical services payment, including means received from the normal insurance reserve of the territorial fund.

Even when the above amounts can be determined by the insurance medical institution itself the revenue is not recognised until approval from TFOMI is received. The income in the form of contributions on administrative expenses, which is calculated as a percentage of the amount of funding for a reporting period is not recognised until two amounts determining the amount of this funding become known: the differentiated norm per person and the number of the insured.

The income due from legal entities or individuals who have caused damage to health of the insured persons in excess of the amounts spent for payment for medical services is recognised when it can be measured, i. e. when in case of such excess the exact amount spent for payment for medical services becomes known.

Income tax. Income tax has been provided for in the consolidated financial statements in accordance with Russian and Serbian legislation enacted or substantively enacted at the end of the reporting period.

Income tax charge comprises current tax and deferred tax and is recognised in profit or loss unless it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

3 Summary of Significant Accounting Policies (continued)

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

Deferred income tax is calculated using the balance sheet liability method for tax losses carried forward and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts according to the consolidated financial statements. Deferred income taxes are not recognised for temporary differences on initial recognition of asset or liability in a transaction other than business combination if the transaction, when initially recognised, affects neither accounting nor taxable profit. Deferred income tax liabilities are not recognised for temporary differences on initial recognition of goodwill and subsequently for goodwill that is not deductible for tax purposes.

Deferred income tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period and that are expected to apply to the period when temporary differences will reverse or tax losses carried forward will be utilised. Deferred income tax assets and liabilities are offset only within the individual companies of the Group.

Deferred income tax assets for deductible temporary differences and tax losses carried forward are recognised only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is not recognised on post acquisition retained earnings and other post acquisition movements in reserves of subsidiaries where the Group controls the subsidiary's dividend policy, and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

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

Share capital. Ordinary shares are classified as share capital. Incremental costs directly attributable to the issue of new shares, except where companies are merged, are shown in equity as a deduction from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Treasury shares. Where the Company or its subsidiaries purchase the Company's equity instruments, the consideration paid, including any directly attributable incremental external costs, net of income taxes, is deducted from equity attributable to the owners of the Company until the equity instruments are reissued, disposed of or cancelled. Where such shares are subsequently disposed of or reissued, any consideration received is included in equity.

Dividends. Dividends are recognised in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the consolidated financial statements are authorised for issue, are disclosed in the subsequent events note. Statutory financial statements of the Company are the basis for profit distribution and other appropriations.

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

Revenue from provision of medical services is recognised in the reporting period when these services were rendered based on the degree of completeness of the transaction assessed on the basis of the actual service rendered as a proportion of the total services to be provided under the contract. Revenue from provision of medical services is recognised net of VAT and discounts. The revenue amount is measured at fair value of the consideration received or due to be received.

3 Summary of Significant Accounting Policies (continued)

Administrative, operating and other expenses are recognised on an accrual basis when the product is received or the service is provided.

Deferred commission income. The Group receives commissions for ceding premiums to reinsurers. This type of commission is recognised within insurance activity result in profit or loss. Commission income from ceded reinsurance premiums that represent the recovery of acquisition costs reduces the applicable unamortised acquisition costs in such a manner that net acquisition costs are capitalised and charged to expenses in proportion to net insurance income recognised.

Changes in deferred commission income on reinsurance ceded are disclosed in the consolidated statement of profit or loss and other comprehensive income within acquisition costs net of commission income from premiums ceded to reinsurance.

Foreign currency translation. The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates.

The functional currency of the Company and its main subsidiaries, and the Group's presentation currency, is the national currency of the Russian Federation, Russian Rouble. The Group also includes companies with euro and Serbian dinar as functional currencies.

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the Central bank of the Russian Federation at the end of the respective reporting period.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into each entity's functional currency at period-end official exchange rates of the Central bank of the Russian Federation are recognised in profit or loss as foreign exchange translation gains less losses. Translation at period-end rates does not apply to non-monetary items that are measured at historical cost.

Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined.

Effects of exchange rate fluctuations on non-monetary items measured at fair value in a foreign currency are recognised as part of the fair value gains or losses.

The results and financial position of each Group entity are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate of the respective reporting period;
- income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at dates of transactions);
- components of equity are translated at the historic rate;
- all resulting exchange differences are recognised in other comprehensive income.

When control over a foreign company is lost, previously recognised exchange differences on translation to a different presentation currency are reclassified from other comprehensive income to profit or loss as part of gain or loss on disposal. On partial disposal of a subsidiary without loss of control, the related portion of accumulated currency translation differences is reclassified to non-controlling interest within equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign company are treated as assets and liabilities of the foreign company and translated at the closing rate.

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

3 Summary of Significant Accounting Policies (continued)

Staff costs and related contributions. Wages, salaries, contributions to state pension and social insurance funds, paid annual leaves, sick leaves, bonuses and non-monetary benefits are accrued in the period in which the associated services are rendered by the employees of the Group.

Presentation of statement of financial position in order of liquidity. The Group does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the consolidated statement of financial position. Instead, assets and liabilities are presented in the order of their liquidity. The following table provides information of amounts at 31 December 2016 expected to be recovered or settled within or after 12 months after the end of the reporting period:

	Amounts expected to be recovered or settled	
RR thousand	**Within 12 months after the reporting period**	**After 12 months after the reporting period**
ASSETS		
Cash and cash equivalents	3 710 871	-
Deposits with banks	115 581 779	7 155 422
Securities at fair value through profit or loss	718 435	14 043 890
Investment securities available for sale	1 743 565	19 387 913
Investments in associates	-	8 749 222
Receivables	27 138 641	4 509 405
Prepayments	16 257 570	-
Current income tax prepayment	1 450 763	-
Reinsurers' share of insurance provisions	23 446 558	11 455 922
Investment property	-	1 202 449
Deferred acquisition costs	2 360 074	826 979
Investment securities held to maturity	-	3 755 744
Deferred income tax asset	-	397 732
Premises and equipment	-	12 965 287
Intangible assets	-	191 042
Goodwill	-	455 564
Other assets	138 789	-
Assets held for sale and assets of a disposal group held for sale	805 794	-
TOTAL ASSETS	**193 352 839**	**85 096 571**
LIABILITIES		
Insurance provisions	103 904 487	48 917 887
Deferred commission income	1 100 456	504 650
Payables	19 905 398	893 694
Current income tax liability	3 876	-
Deferred income tax liability	-	579 042
Other financial liabilities	842 109	-
Other liabilities	13 857 305	-
Liabilities directly associated with assets of a disposal group held for sale	363 730	-
TOTAL LIABILITIES	**139 977 361**	**50 895 273**

3 Summary of Significant Accounting Policies (continued)

The following table provides information of amounts at 31 December 2015 expected to be recovered or settled within or after 12 months after the end of the reporting period:

	Amounts expected to be recovered or settled	
RR thousand	**Within 12 months after the reporting period**	**After 12 months after the reporting period**
ASSETS		
Cash and cash equivalents	5 155 163	-
Deposits with banks	82 718 154	2 386 952
Loans	15 000	-
Securities at fair value through profit or loss	1 118 622	12 739 889
Investment securities available for sale	8 877 431	21 131 963
Investments in associates	-	11 313 684
Receivables	24 827 218	4 368 061
Prepayments	16 505 973	-
Current income tax prepayment	1 178 991	-
Reinsurers' share of insurance provisions	25 875 001	6 929 993
Investment property	-	702 895
Deferred acquisition costs	3 259 102	1 001 289
Deferred income tax asset	-	163 514
Premises and equipment	-	12 350 247
Intangible assets	-	665 167
Goodwill	-	455 564
Other assets	206 705	2 210
Assets held for sale and assets of a disposal group held for sale	426 788	-
TOTAL ASSETS	**170 164 148**	**74 211 428**
LIABILITIES		
Insurance provisions	93 103 802	39 383 752
Deferred commission income	1 073 966	368 179
Payables	22 699 568	2 007 326
Current income tax liability	105 462	-
Deferred income tax liability	-	1 350 053
Other financial liabilities	597 215	5 731
Other liabilities	12 684 907	-
TOTAL LIABILITIES	**130 264 920**	**43 115 041**

Offsetting. Financial assets and liabilities are offset and the net amount is recognised in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to either settle on a net basis or to realise the asset and to settle the liability simultaneously. Such a right of offset 1) must not be contingent on a future event and 2) must be legally enforceable in all of the following circumstances: (a) in the normal course of business, (b) in the event of default and (c) in the event of insolvency or bankruptcy.

Changes in the consolidated financial statements after issue. The Group's management has the power to amend the consolidated financial statements after issue.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the amounts recognised in the consolidated financial statements and the carrying amounts of assets and liabilities within the next reporting period. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Management also makes certain judgements in the process of applying the accounting policies. Professional judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause significant adjustments to carrying amounts of assets and liabilities within the next financial period include:

Estimation of liabilities under insurance contracts. Refer to Note 17.

Impairment of receivables and prepayments. The Group regularly reviews its receivables and prepayments to assess impairment. In determining whether an impairment loss should be recognised in profit or loss, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of assets before the decrease can be identified with an individual asset in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of debtors 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 assets in the portfolio when scheduling its future cash flows.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. A 10% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in impairment losses of RR 346 983 thousand (31 December 2015: RR 249 417 thousand).

Tax legislation. Russian tax legislation is subject to varying interpretations (Note 32).

5 Adoption of New or Revised Standards and Interpretations

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

- Amendments to IFRS 11 "Joint arrangements" – "Accounting for acquisitions of interests in joint operations" (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016).
- Amendments to IAS 16 "Property, plant and equipment" and IAS 38 "Intangible assets" – "Clarification of acceptable methods of depreciation and amortisation" (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016).
- Annual improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016).
- "Disclosure initiative" – Amendments to IAS 1 "Presentation of financial statements" (issued in December 2014 and effective for annual periods on or after 1 January 2016).
- "Investment entities: applying the consolidation exception" – Amendments to IFRS 10 "Consolidated financial statements", IFRS 12 "Disclosure of interest in other entities" and IAS 28 "Investments in associates and joint ventures" (issued in December 2014 and effective for annual periods on or after 1 January 2016).

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2017, and which the Group has not early adopted.

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

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income and those to be measured subsequently at fair value through profit or loss.
- Classification of debt instruments is driven by the entity's business model for managing the financial assets and by the structure of contractual cash flows, whether they represent solely payments of principal and interest or not. If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the requirement of solely payments of principal and interest. Debt instruments that meet the solely payments of principal and interest requirement that are held in a portfolio where an entity both holds assets to collect assets' cash flows and sells assets may be classified as financial assets designated at fair value through other comprehensive income. Financial assets that do not contain cash flows that are solely payments of principal and interest must be measured at fair value through profit or loss. Embedded derivatives are no longer separated from financial assets but will be included in assessing the solely payments of principal and interest condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements from IAS 39 "Financial instruments: recognition and measurement" for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9 "Financial instruments: classification and measurement". The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 "Financial instruments: classification and measurement" introduces a new model for the recognition of impairment losses – the expected credit losses model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice the new rules mean that entities will have to recognise an immediate loss equal to the 12-month expected credit losses on initial recognition of financial assets that are not credit impaired (or lifetime expected credit losses for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime expected credit losses rather than 12-month expected credit losses. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 "Financial instruments: classification and measurement" and continuing to apply IAS 39 "Financial instruments: recognition and measurement" to all hedges because the standard currently does not address accounting for macro hedging.

The Group is currently assessing the impact of the standard on its consolidated financial statements.

IFRS 16 "Leases" (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 "Leases" eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 "Leases" and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the statement of profit or loss.

6 New Accounting Pronouncements (continued)

IFRS 16 “Leases” substantially carries forward the lessor accounting requirements in IAS 17 “Leases”. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group is currently assessing the impact of the standard on its consolidated financial statements.

“Disclosure initiative” – Amendments to IAS 7 “Statement of cash flows” (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). The amended IAS 7 “Statement of cash flows” will require disclosure of a reconciliation of movements in liabilities arising from financing activities. The Group is currently assessing the impact of amendments on its consolidated financial statements.

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

- Amendments to IFRS 10 “Consolidated financial statements” and IAS 28 “Investments in associates and joint ventures” – “Sale or contribution of assets between an investor and its associate or joint venture” (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the International accounting standards board).
- “Recognition of deferred tax assets for unrealised losses” – Amendments to IAS 12 “Income taxes” (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017).
- Amendments to IFRS 15 “Revenue from contracts with customers” (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 2 “Share-based payment” (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).

7 Cash and Cash Equivalents

RR thousand	**31 December 2016**	**31 December 2015**
Cash on hand	9 709	7 614
Settlement accounts with banks		
- Russian Rouble denominated	2 664 017	4 539 076
- foreign currencies denominated	1 037 145	608 473
Total cash and cash equivalents	**3 710 871**	**5 155 163**

At 31 December 2016 cash and cash equivalents include RR 3 499 957 thousand (31 December 2015: RR 4 729 520 thousand) placed with three Russian banks (31 December 2015: three Russian banks).

Cash and cash equivalents are neither past due nor impaired and are not pledged as collateral at 31 December 2016 and 31 December 2015.

7 Cash and Cash Equivalents (continued)

For placement of investments in cash and cash equivalents the Group considers ratings assigned to a specific bank by international rating agencies. Credit quality of cash and cash equivalents balances is as follows:

RR thousand	**Settlement accounts with banks**	
Moody's, S&P, Fitch	**31 December 2016**	**31 December 2015**
Baa1, BBB+, BBB+	4 069	-
Baa3, BBB-, BBB-	114 015	307 209
Ba1, BB+, BB+	3 055 981	4 125 353
Ba2, BB, BB	346 889	45 682
Ba3, BB-, BB-	6 407	4 879
B1, B+, B+	279	429
B2, B, B	6	320
C, C, C	320	-
Unrated	173 196	663 677
Total	**3 701 162**	**5 147 549**

RR 170 566 thousand out of the “unrated” category in the table above (31 December 2015: RR 560 297 thousand) were placed with banks that have national long-term ratings assigned by Russian rating agencies from “A+” to “A++” (31 December 2015: “A++”).

Fair value of cash and cash equivalents approximately equals the carrying value. Information on related party transactions is disclosed in Note 35.

8 Deposits with Banks

RR thousand	**31 December 2016**	**31 December 2015**
Russian Rouble denominated	109 302 669	70 584 090
Foreign currencies denominated	13 434 532	14 521 016
Total deposits with banks	**122 737 201**	**85 105 106**

At 31 December 2016 deposits with banks include RR 88 001 655 thousand (31 December 2015: RR 60 440 449 thousand) placed with four (31 December 2015: four) Russian banks.

For placement of deposits with banks the Group considers ratings assigned to a specific bank by international rating agencies. Analysis by credit quality of deposits with banks is as follows:

RR thousand	**Deposits with banks**	
Moody`s, S&P, Fitch	**31 December 2016**	**31 December 2015**
Baa3, BBB-, BBB-	15 840 029	22 537 544
Ba1, BB+, BB+	41 081 186	33 051 316
Ba2, BB, BB	17 668 738	4 805 183
Ba3, BB-, BB-	13 340 996	7 643 754
B1, B+, B+	1 513 491	3 171 123
B2, B, B	13 200	4 409 365
B3, B-, B-	-	15 642
Unrated	33 279 561	9 471 179
Total	**122 737 201**	**85 105 106**

8 Deposits with Banks (continued)

RR 33 089 483 thousand out of the “unrated” category in the table above (31 December 2015: RR 9 221 030 thousand) were placed with banks that have national long-term ratings assigned by Russian rating agencies from “A+” to “A++” (31 December 2015: “A++”).

At 31 December 2016 and 31 December 2015 deposits with banks are neither past due nor impaired and are not pledged as collateral.

The Group monitors interest rates for deposits with banks. The table below presents analysis of weighted average effective interest rates:

% p.a.	31 December 2016	31 December 2015
Russian Roubles	9.64	11.24
US dollars	0.69	3.52
Euro	1.37	2.20

Information on fair value is disclosed in Note 33. Information on related party transactions is disclosed in Note 35.

9 Securities at Fair Value through Profit or Loss

RR thousand	31 December 2016	31 December 2015
Corporate bonds	8 697 231	7 393 797
Municipal bonds	2 567 510	2 411 472
Russian government bonds (hereinafter – “OFZ”)	1 072 930	1 190 119
Corporate eurobonds	966 228	1 954 881
Foreign government bonds	201 598	175 963
Government eurobonds	31 155	41 676
Total debt securities	**13 536 652**	**13 167 908**
Corporate shares	1 099 741	690 527
Units in mutual investment funds	76	76
Total equity securities	**1 099 817**	**690 603**
Derivative financial instruments	125 856	-
Total securities at fair value through profit or loss	**14 762 325**	**13 858 511**

The Group irrevocably designated the above securities as at fair value through profit or loss. The securities meet the criteria for classification at fair value through profit or loss because management assess performance of the investments based on their fair values in accordance with the Group strategy.

9 Securities at Fair Value through Profit or Loss (continued)

Interest rates and maturity of debt securities at 31 December 2016 is as follows:

	Russian Rouble denominated securities		*US dollar denominated securities*		*Euro denominated securities*	
	Coupon rate (%)	**Maturity**	**Coupon rate (%)**	**Maturity**	**Coupon rate (%)**	**Maturity**
Corporate bonds	7.50 - 12.70	2017 - 2046	-	-	-	-
Municipal bonds	6.89 - 14.15	2017 - 2023	-	-	-	-
OFZ	6.80 - 11.90	2017 - 2025	-	-	-	-
Corporate eurobonds	7.75	2018	4.95 - 7.50	2022 - 2037	-	-
Foreign government bonds	-	-	-	-	2.35 - 4.00	2018
Government eurobonds	-	-	7.50	2030	-	-

Interest rates and maturity of debt securities at 31 December 2015 is as follows:

	Russian Rouble denominated securities		*US dollar denominated securities*		*Euro denominated securities*	
	Coupon rate (%)	**Maturity**	**Coupon rate (%)**	**Maturity**	**Coupon rate (%)**	**Maturity**
Corporate bonds	7.68 - 18.53	2016 - 2045	-	-	-	-
Municipal bonds	6.89 - 12.43	2016 - 2021	-	-	-	-
OFZ	6.80 - 14.42	2017 - 2020	-	-	-	-
Corporate eurobonds	7.00 - 8.70	2016 - 2019	4.95 - 7.50	2022 - 2037	-	-
Foreign government bonds	-	-	-	-	3.90 - 4.72	2016 - 2018
Government eurobonds	-	-	7.50	2030	-	-

9 Securities at Fair Value through Profit or Loss (continued)

At 31 December 2016 and 31 December 2015 investment portfolio of the Group recognised at fair value through profit or loss contains debt securities with long-term ratings of the following international rating agencies: Moody's, Standard & Poor's and Fitch Ratings. If a security`s rating varies from distinctive rating agencies it is classified within the group with the highest rating. Analysis of the debt securities designated at fair value through profit or loss by credit quality is as follows:

	31 December 2016						
RR thousand	Corporate bonds	Municipal bonds	OFZ	Corporate eurobonds	Foreign government bonds	Government eurobonds	Total
Moody's, S&P, Fitch							
Baa3, BBB-, BBB-	4 239 129	550 548	1 072 930	184 841	-	31 155	**6 078 603**
Ba1, BB+, BB+	2 218 338	586 734	-	140 908	-	-	**2 945 980**
Ba2, BB, BB	1 067 650	1 343 710	-	-	-	-	**2 411 360**
Ba3, BB-, BB-	334 658	86 518	-	-	-	-	**421 176**
B1, B+, B+	167 369	-	-	640 479	201 598	-	**1 009 446**
Unrated	670 087	-	-	-	-	-	**670 087**
Total	**8 697 231**	**2 567 510**	**1 072 930**	**966 228**	**201 598**	**31 155**	**13 536 652**

	31 December 2015						
RR thousand	Corporate bonds	Municipal bonds	OFZ	Corporate eurobonds	Foreign government bonds	Government eurobonds	Total
Moody's, S&P, Fitch							
Baa3, BBB-, BBB-	2 465 327	315 206	1 190 119	180 967	-	41 676	**4 193 295**
Ba1, BB+, BB+	2 697 790	477 886	-	1 101 072	-	-	**4 276 748**
Ba2, BB, BB	465 710	1 482 155	-	-	-	-	**1 947 865**
Ba3, BB-, BB-	343 594	131 739	-	484 933	-	-	**960 266**
B1, B+, B+	602 978	4 486	-	187 909	175 963	-	**971 336**
Unrated	818 398	-	-	-	-	-	**818 398**
Total	**7 393 797**	**2 411 472**	**1 190 119**	**1 954 881**	**175 963**	**41 676**	**13 167 908**

9 Securities at Fair Value through Profit or Loss (continued)

RR 613 663 thousand out of the “unrated” category in the table above (31 December 2015: RR 716 924 thousand) were placed in securities of issuers that have long-term ratings assigned by Russian rating agencies “A+” (31 December 2015: “A+”).

At 31 December 2016 and 31 December 2015 debt securities are not collateralised and are not impaired.

Information on fair value of securities at fair value through profit or loss is disclosed in Note 33. Information on related party transactions is disclosed in Note 35.

10 Investment Securities Available for Sale

RR thousand	**31 December 2016**	**31 December 2015**
Corporate bonds	20 903 766	23 075 104
Municipal bonds	64 164	203 731
Corporate eurobonds	-	6 579 559
Total debt securities	**20 967 930**	**29 858 394**
Corporate shares	163 548	151 000
Total equity securities	**163 548**	**151 000**
Total investment securities available for sale	**21 131 478**	**30 009 394**

Interest rates and maturity of debt securities at 31 December 2016 is as follows:

	Russian Rouble denominated securities	
	Coupon rate (%)	**Maturity**
Corporate bonds	7.50 – 13.25	2017 - 2032
Municipal bonds	9.65	2023

Interest rates and maturity of debt securities at 31 December 2015 is as follows:

	Russian Rouble denominated securities		*US dollar denominated securities*		*Euro denominated securities*	
	Coupon rate (%)	**Maturity**	**Coupon rate (%)**	**Maturity**	**Coupon rate (%)**	**Maturity**
Corporate bonds	7.50 - 18.30	2016 - 2032	-	-	-	-
Municipal bonds	7.00	2016	-	-	-	-
Corporate eurobonds	7.00 - 8.63	2016 - 2019	5.94 - 7.88	2020 - 2073	4.36	2025

10 Investment Securities Available for Sale (continued)

Movements in investment securities available for sale are as follows:

RR thousand	2016	2015
Carrying amount at 1 January	**30 009 394**	**16 689 887**
Disposals	(14 401 150)	(6 667 964)
Additions	7 339 701	17 843 091
Interest income received	(2 740 160)	(1 481 054)
Interest income accrued (Note 23)	2 569 753	1 888 518
Reclassification to invetments held to maturity	(1 458 435)	-
Fair value revaluation through other comprehensive income	471 511	1 672 260
Impairment charge to profit or loss	(327 161)	(44 308)
Fair value (gains) / losses reclassified from equity to profit or loss	(271 604)	64 193
Effect of exchange rate fluctuations on the carrying amount	(141 996)	44 771
Acquisition of subsidiary (Note 36)	81 947	-
Reclassification to assets of a disposal group held for sale	(322)	-
Carrying amount at 31 December	**21 131 478**	**30 009 394**

Reclassification of securities into category investment securities held to maturity was made due to expiration of moratory for using the category investment securities held to maturity by the Group since 1 January 2016, in accordance with IAS 39 “Financial instruments: classification and measurement”.

At 31 December 2016 and 31 December 2015, debt securities are not pledged as collateral.

At 31 December 2016 and 31 December 2015 the majority of issuers of debt securities available for sale have long-term ratings from international rating agencies Moody’s, Standard & Poor’s and Fitch Ratings. If a security`s rating varies from distinctive rating agencies it is classified within the group with the highest rating.

Analysis of the investment securities available for sale at 31 December 2016 by credit quality is as follows:

RR thousand	Corporate bonds	Municipal bonds	Total
Moody’s, S&P, Fitch			
Baa1, BBB+, BBB+	35 797	-	**35 797**
Baa3, BBB-, BBB-	7 832 160	-	**7 832 160**
Ba1, BB+, BB+	6 957 832	64 164	**7 021 996**
Ba2, BB, BB	887 056	-	**887 056**
Ba3, BB-, BB-	3 498 585	-	**3 498 585**
B1, B+, B+	207 198	-	**207 198**
B2, B, B	1 045 753	-	**1 045 753**
C, C, C	65 997	-	**65 997**
Unrated	373 388	-	**373 388**
Total	**20 903 766**	**64 164**	**20 967 930**

10 Investment Securities Available for Sale (continued)

Analysis of investment securities available for sale at 31 December 2015 by credit quality is as follows:

RR thousand	Corporate bonds	Corporate eurobonds	Municipal bonds	Total
Moody's, S&P, Fitch				
Baa1, BBB+, BBB+	36 429	-	-	**36 429**
Baa3, BBB-, BBB-	11 334 996	2 946 163	203 731	**14 484 890**
Ba1, BB+, BB+	6 929 418	3 617 853	-	**10 547 271**
Ba2, BB, BB	1 363 122	-	-	**1 363 122**
Ba3, BB-, BB-	1 531 051	-	-	**1 531 051**
B1, B+, B+	1 043 756	-	-	**1 043 756**
B2, B, B	75 984	-	-	**75 984**
Unrated	760 348	15 543	-	**775 891**
Total	**23 075 104**	**6 579 559**	**203 731**	**29 858 394**

RR 373 388 thousand out of the "unrated" category in the table above (31 December 2015: RR 759 837 thousand) were placed in securities of issuers that have long-term ratings assigned by national rating agencies "A+" (31 December 2015: "A+").

Equity investment securities out of nvestment securities available for sale portolio are represented by investments in shares:

			Fair value, RR thousand	
Name	**Principal activity**	**Country of incorporation**	**31 December 2016**	**31 December 2015**
CJSC GK Video International	Russian media market operator	The Russian Federation	151 000	151 000
JSC East-Siberian railway joint-stock insurance company	insurance	The Russian Federation	6 494	-
JSC SK Railway insurance fund	insurance	The Russian Federation	2 815	-
PJSC Mosenergo	power generation by power plants	The Russian Federation	1 911	-
PJSC Uralkali	fertilizer and nitrogen compound production	The Russian Federation	578	-
CJSC Orel corn-calibration plant	grain crops cultivation	The Russian Federation	750	-
Total			**163 548**	**151 000**

Information on fair value is disclosed in Note 33. Information on related party transactions is disclosed in Note 35.

11 Investments in Associates

The carrying value of investments in associates by investment is as follows:

RR thousand	**31 December 2016**	**31 December 2015**
NMG Group	5 067 321	5 280 967
Tele 2	3 681 901	4 240 454
SOVAG	-	976 382
Insurance Company ZhASO	-	787 185
LLC MSC	-	28 696
Total associates	**8 749 222**	**11 313 684**

NMG Group represents CJSC National Media Group and its subsidiaries and associates, including REN-TV Group, Saint Petersburg TV Broadcasting Company, OJSC Channel One, Izvestiya newspaper and other assets.

Tele 2 (Netherlands) B.V. (hereinafter – “Tele 2”) is a holding company for a group of companies which provides telecommunication services in the Russian Federation. Tele 2 was registered in the Netherlands, with principal activity carried out in the Russian Federation. The Group has significant influence over Tele 2 and its subsidiaries in accordance with Tele 2 shareholders’ agreements.

In December 2015 the Company entered into two contracts for purchase of 100 % shares of Insurance Company ZhASO. Under the transaction terms the title to 100 % shares could be transferred to the Company only after receiving a due permit from the Federal Anti-Monopoly Service. Consequently, in December 2015 the Company acquired 24.99 % shares of Insurance Company ZhASO and at 31 December 2015 recognised them within investments in associates. The title to the remaining 75.01 % share was transferred to the Company at 10 February 2016 when the Company received the permit from the Federal Anti-Monopoly Service to acquire 100 % of Insurance Company ZhASO shares. Therefore, at 10 February 2016 the Group obtained control over Insurance Company ZhASO (Note 36).

At 23 December 2015 the Group sold 25.8 % of SOVAG shares. As a result of the transaction the Group’s share in SOVAG decreased to 25.1 % and the Group lost control (Note 36). SOVAG was recognised in the consolidated financial statements of the Group at 31 December 2016 and at 31 December 2015 as an associate of the Group. SOVAG and its subsidiaries are registered in Germany and operate in accordance with the German legislation. At 31 December 2016 the Group recognised impairment of the investment in this associate.

In November 2015 the Group acquired 44.01 % shares in LLC MSC, which in its turn owns 100 % share in LLC Municipal Insurance Company of Krasnodar – Medicine. Both entities are registered in the Russian Federation, in the city of Krasnodar. At 31 December 2015 the Group’s share in LLC MSC was recognised within investments in associates. At 26 February 2016 the Group acquired the remaining 56 % share in LLC MSC. At 21 April 2016 the Group exited from LLC MSC. Effective value of the Group share was paid by 100 % share in LLC Municipal Insurance Company of Krasnodar – Medicine. As a result of these transactions 100 % share in LLC Municipal Insurance Company of Krasnodar – Medicine is owned by the Group (Note 36).

11 Investments in Associates (continued)

The Group's share in associates is as follows:

	31 December 2016		31 December 2015	
	% interest held	**Country of incorporation**	**% interest held**	**Country of incorporation**
NMG Group	*	The Russian Federation	*	The Russian Federation
Tele 2	5.00	The Netherlands	5.00	The Netherlands
SOVAG	25.10	Germany	25.10	Germany
Insurane Company ZhASO	-	-	24.99	The Russian Federation
LLC MSC	-	-	44.01	The Russian Federation

* At 31 December 2016 and 31 December 2015 investments in NMG Group represent 21.219 % interest in CJSC NMG, 18 % interest in LLC Akcept (REN TV channel) and 3.0002 % share in OJSC Saint Petersburg TV Broadcasting Company.

The table below summarises movements in the carrying amount of the Group's investment in associates.

RR thousand	**2016**	**2015**
Carrying amount at 1 January	**11 313 684**	**9 922 137**
Share of results of associates	(924 755)	(290 413)
Gaining control over subsidiaries (Note 36)	(815 881)	-
Impairment of investments in associates	(561 132)	(109 741)
Share in other changes of net assets of associates	(174 599)	(562)
Share of other comprehensive income of associates	(88 095)	23 455
Fair value of an associate that was previously recognised as a subsidiary (Note 36)	-	952 927
Acquisition of associates	-	815 881
Carrying amount at 31 December	**8 749 222**	**11 313 684**

Information on related party transactions is disclosed in Note 35.

12 Receivables

RR thousand	31 December 2016	31 December 2015
Receivables arising from direct insurance operations	28 104 185	25 197 445
Receivables arising from assumed reinsurance operations	3 270 674	2 730 944
Receivables arising from ceded reinsurance operations	1 142 099	1 866 051
Less provision for impairment	(1 615 582)	(978 865)
Total receivables arising from insurance operations	**30 901 376**	**28 815 575**
Receivables arising from securities transactions	57 984	18 057
Other financial receivables	2 542 930	1 876 956
Less provision for impairment	(1 854 244)	(1 515 309)
Total other financial receivables	**746 670**	**379 704**
Total receivables	**31 648 046**	**29 195 279**

Overdue receivable arising from direct insurance operations is not considered to be impaired until the Group receives evidence that the counterparty will not settle the receivable.

Within the scope of dealing with overdue receivables the Group monitors cases when unearned premium is insufficient to cover overdue receivables and makes impairment provision if required.

In the analysis below the insurance debtors are classified in accordance with the Group's internal categorisation of counterparties by insurance contracts. For reinsurance operations large clients include major Russian companies and all foreign companies, the remaining companies are classified as medium size clients. Non-insurance debtors are broken down into large, medium and small depending upon the balance of settlements at the end of the reporting period.

Analysis of receivables arising from direct insurance by credit quality is as follows:

RR thousand	31 December 2016	31 December 2015
Neither past due nor impaired receivables	**26 070 478**	**23 775 176**
Large corporate clients	18 121 517	15 149 791
Other legal entities	7 350 777	7 948 347
Individuals	598 184	677 038
Past due but not impaired receivables	**186 730**	**123 712**
Delayed 30-90 days	20 939	98 737
Delayed > 90 days	165 791	24 975
Impaired receivables	1 846 977	1 298 557
Total receivables before provision for impairment	**28 104 185**	**25 197 445**
Provision for impairment	(1 535 091)	(892 654)
Total receivables arising from direct insurance operations	**26 569 094**	**24 304 791**

12 Receivables (continued)

Analysis of reinsurance and financial receivables at 31 December 2016 by credit quality is as follows:

RR thousand	Receivables arising from assumed reinsurance operations	Receivables arising from ceded reinsurance operations	Receivables arising from securities transactions	Other financial receivables	Total other financial receivables
Neither past due nor impaired receivables	**3 117 196**	**1 098 723**	**57 984**	**683 100**	**741 084**
Large counterparties	1 588 633	1 092 756	57 984	23 032	81 016
Medium counterparties	1 528 563	5 967	-	145 249	145 249
Small counterparties	-	-	-	258 648	258 648
Individuals	-	-	-	256 171	256 171
Past due but not impaired receivables	**116 363**	**-**	**-**	**5 586**	**5 586**
Delayed < 30 days	93 060	-	-	5 311	5 311
Delayed 30-90 days	9 525	-	-	267	267
Delayed > 90 days	13 778	-	-	8	8
Impaired receivables	37 115	43 376	-	1 854 244	1 854 244
Total receivables before provision for impairment	**3 270 674**	**1 142 099**	**57 984**	**2 542 930**	**2 600 914**
Provision for impairment	(37 115)	(43 376)	-	(1 854 244)	(1 854 244)
Total receivables	**3 233 559**	**1 098 723**	**57 984**	**688 686**	**746 670**

12 Receivables (continued)

Analysis of reinsurance and financial receivables at 31 December 2015 by credit quality is as follows:

RR thousand	Receivables arising from assumed reinsurance operations	Receivables arising from ceded reinsurance operations	Receivables arising from securities transactions	Other financial receivables	Total other financial receivables
Neither past due nor impaired receivables	**2 519 416**	**1 772 423**	**18 057**	**314 660**	**332 717**
Large counterparties	2 194 474	1 708 617	6 476	40 669	47 145
Medium counterparties	324 942	63 806	7 922	156 763	164 685
Small counterparties	-	-	3 659	82 919	86 578
Individuals	-	-	-	34 309	34 309
Past due but not impaired receivables	**179 321**	**39 624**	**-**	**46 987**	**46 987**
Delayed < 30 days	107 460	37 090	-	29 090	29 090
Delayed 30-90 days	50 972	398	-	7 168	7 168
Delayed > 90 days	20 889	2 136	-	10 729	10 729
Impaired receivables	32 207	54 004	-	1 515 309	1 515 309
Total receivables before provision for impairment	**2 730 944**	**1 866 051**	**18 057**	**1 876 956**	**1 895 013**
Provision for impairment	(32 207)	(54 004)	-	(1 515 309)	(1 515 309)
Total receivables	**2 698 737**	**1 812 047**	**18 057**	**361 647**	**379 704**

Information on fair value and related party transactions is disclosed in Notes 33 and 35 respectively.

12 Receivables (continued)

Movements in provision for impairment of receivables are as follows:

	2016				
RR thousand	**Provision for impairment of receivables arising from direct insurance operations**	**Provision for impairment of receivables arising from assumed reinsurance operations**	**Provision for impairment of receivables arising from ceded reinsurance operations**	**Provision for impairment of other financial receivables**	**Total provision for impairment of receivables**
Provision for impairment of receivables at 1 January	**892 654**	**32 207**	**54 004**	**1 515 309**	**2 494 174**
Provision / (recovery of provision) for impairment of receivables during the year (Notes 25, 26)	748 071	4 908	(10 628)	339 888	1 082 239
Receivables written-off as uncollectible during the year	(104 886)	-	-	(116)	(105 002)
Reclassification to assets held for sale	(308)	-	-	(802)	(1 110)
Translation to presentation currency	(440)	-	-	(35)	(475)
Provision for impairment of receivables at 31 December	**1 535 091**	**37 115**	**43 376**	**1 854 244**	**3 469 826**

	2015				
RR thousand	**Provision for impairment of receivables arising from direct insurance operations**	**Provision for impairment of receivables arising from assumed reinsurance operations**	**Provision for impairment of receivables arising from ceded reinsurance operations**	**Provision for impairment of other financial receivables**	**Total provision for impairment of receivables**
Provision for impairment of receivables at 1 January	**790 911**	**37 477**	**317**	**11 759**	**840 464**
Provision / (recovery of provision) for impairment of receivables during the year (Notes 25, 26)	408 560	(5 270)	53 687	1 503 685	1 960 662
Receivables written-off as uncollectible during the year	(307 003)	-	-	(135)	(307 138)
Reclassification to assets held for sale	186	-	-	-	186
Provision for impairment of receivables at 31 December	**892 654**	**32 207**	**54 004**	**1 515 309**	**2 494 174**

13 Prepayments

RR thousand	31 December 2016	31 December 2015
Prepayments for tendering	477 326	359 507
Prepayments for shares of associates	-	2 362 815
Total financial prepayments	**477 326**	**2 722 322**
Prepayments under OMI	12 716 408	11 653 274
Prepayments for premises and equipment	2 000 158	1 042 919
Prepayments under VMI	454 070	509 822
Prepaid taxes other than income tax	153 410	67 060
Prepayments for software	49 137	48 652
Prepayments for lease	29 129	110 470
Prepayments to state non-budget funds	14 167	8 230
Other prepayments	363 765	343 224
Total non-financial prepayments	**15 780 244**	**13 783 651**
Total prepayments	**16 257 570**	**16 505 973**

Prepayments for tendering were returned back to the Group at the date of the issue of consolidated financial statements due to finalisation of the tenders.

At 31 December 2016 and 31 December 2015 prepayments are neither past due nor impaired. Information on fair value of prepayments is disclosed in Note 33.

14 Investment Property

RR thousand	2016	2015
Investment property at carrying value at 1 January, including:	**702 895**	**776 278**
Cost	742 148	804 496
Accumulated depreciation	(39 253)	(28 218)
Additions	14 591	-
Acquisition of subsidiary (Note 36)	11 282	-
Disposals	(56 633)	(87 055)
Accumulated depreciation on disposals	-	3 533
Transfers from premises and equipment category during the year – cost	551 676	24 707
Transfers from premises and equipment category during the year – accumulated depreciation	(2 863)	(946)
Depreciation charge during the year (Note 25)	(18 499)	(13 622)
Investment property at carrying value at 31 December, including:	**1 202 449**	**702 895**
Cost	1 263 064	742 148
Accumulated depreciation	(60 615)	(39 253)

During the year ended 31 December 2016 premises and equipment in the amount of RR 548 813 thousand (the year ended 31 December 2015: RR 23 761 thousand) were transferred to the investment property because the purpose of their usage has changed.

At 31 December 2016 and 31 December 2015 the investment property was not pledged to the third parties as collateral. Fair value of the investment property is disclosed in Note 33.

15 Premises and Equipment

RR thousand	Land and premises	Motor vehicles, office and computer equipment	Other equipment	Construction in progress	Total
Carrying amount at 31 December 2014	**8 901 106**	**465 004**	**2 693 673**	**102 134**	**12 161 917**
Cost					
Balance at the beginning of the year	9 589 697	1 655 445	4 070 264	102 134	15 417 540
Additions	657 978	288 719	597 537	75 365	1 619 599
Acquisition of subsidiary (Note 36)	34 747	3 567	-	-	38 314
Reclassification to assets held for sale	(426 788)	-	-	-	(426 788)
Transfers (Note 14)	(24 707)	-	-	-	(24 707)
Disposals	(375 966)	(108 624)	(9 424)	(6 886)	(500 900)
Translation to presentation currency	27 579	4 588	-	-	32 167
Balance at the end of the year	**9 482 540**	**1 843 695**	**4 658 377**	**170 613**	**16 155 225**
Accumulated depreciation					
Balance at the beginning of the year	688 591	1 190 441	1 376 591	-	3 255 623
Depreciation charge (Note 25)	241 748	214 998	330 324	-	787 070
Transfers (Note 14)	(946)	-	-	-	(946)
Disposals	(127 062)	(106 105)	(8 671)	-	(241 838)
Translation to presentation currency	2 865	2 204	-	-	5 069
Balance at the end of the year	**805 196**	**1 301 538**	**1 698 244**	**-**	**3 804 978**
Carrying amount at 31 December 2015	**8 677 344**	**542 157**	**2 960 133**	**170 613**	**12 350 247**
Cost					
Balance at the beginning of the year	9 482 540	1 843 695	4 658 377	170 613	16 155 225
Additions	70 890	173 885	77 574	-	322 349
Acquisition of subsidiary (Note 36)	1 450 019	40 963	924	-	1 491 906
Reclassification to assets of a disposal group held for sale	(43 033)	(15 738)	-	-	(58 771)
Transfers (Note 14)	(45 107)	-	2 055	(97 568)	(140 620)
Disposals	(66 803)	(154 102)	(96 047)	(227)	(317 179)
Impairment of premises and equipment	(16 845)	-	-	-	(16 845)
Translation to presentation currency	(14 297)	(2 522)	-	-	(16 819)
Balance at the end of the year	**10 817 364**	**1 886 181**	**4 642 883**	**72 818**	**17 419 246**
Accumulated depreciation					
Balance at the beginning of the year	805 196	1 301 538	1 698 244	-	3 804 978
Depreciation charge (Note 25)	269 351	232 105	342 027	-	843 483
Transfers (Note 14)	(2 904)	-	-	-	(2 904)
Reclassification to assets of a disposal group held for sale	-	(14 456)	-	-	(14 456)
Disposals	(8 143)	(85 510)	(78 786)	-	(172 439)
Translation to presentation currency	(2 956)	(1 747)	-	-	(4 703)
Balance at the end of the year	**1 060 544**	**1 431 930**	**1 961 485**	**-**	**4 453 959**
Carrying amount at 31 December 2016	**9 756 820**	**454 251**	**2 681 398**	**72 818**	**12 965 287**

15 Premises and Equipment (continued)

At 31 December 2016 construction in progress comprises the Group's investments in reconstruction of the buildings located outside of Moscow in the amount of RR 72 782 thousand (31 December 2015: RR 167 782 thousand). The buildings are intended for office use by the Company's branches.

At 31 December 2016 premises and equipment in the amount of RR 235 802 thousand are represented by medical equipment and other assets related to medical activities of LLC IMC SOGAZ and LLC SOGAZ-PROFMEDICINE (31 December 2015: RR 330 886 thousand).

In the year ended 31 December 2013 the Group acquired transport facilities under a finance lease. The maturity of the finance lease is the first half of the year ended 31 December 2017, the price that will be used by the Group to purchase these premises and equipment in the end of the lease term is RR 3 000 thousand. At 31 December 2016 the carrying amount of vehicles was RR 557 263 thousand (31 December 2015: RR 593 399 thousand). The assets are classified as other equipment. At 31 December 2016 liabilities under the finance lease were RR 5 701 thousand (31 December 2015: RR 67 608 thousand) (Note 20). Interest expenses under finance lease are recognised within administrative and other operating expenses in the consolidated statement of profit or loss and other comprehensive income in the amount of RR 10 010 thousand for the year ended 31 December 2016 (the year ended 31 December 2015: RR 30 399 thousand).

Management believes there were no indicators of impairment of premises and equipment during the years ended 31 December 2016 and 31 December 2015.

Information on fair value is disclosed in Note 33.

16 Insurance Provisions

	31 December 2016			**31 December 2015**		
RR thousand	**Gross provision**	**Reinsurers' share of provision**	**Provisions, net of reinsurance**	**Gross provision**	**Reinsurers' share of provision**	**Provisions, net of reinsurance**
Provisions for life insurance contracts	14 404 652	(1 431)	14 403 221	12 282 325	(1 661)	12 280 664
Provisions for non-life insurance contracts	138 417 722	(34 901 049)	103 516 673	120 205 229	(32 803 333)	87 401 896
Total insurance provisions	**152 822 374**	**(34 902 480)**	**117 919 894**	**132 487 554**	**(32 804 994)**	**99 682 560**

16 Insurance Provisions (continued)

a) Provisions for life insurance contracts:

	31 December 2016			31 December 2015		
RR thousand	**Gross provision**	**Reinsurers' share of provision**	**Provision, net of reinsurance**	**Gross provision**	**Reinsurers' share of provision**	**Provision, net of reinsurance**
Mathematical provision	13 022 607	(1 297)	13 021 310	11 397 724	(1 627)	11 396 097
Provision for additional payments (insurance bonuses)	954 395	-	954 395	670 605	-	670 605
OCP and IBNR	351 554	(134)	351 420	147 092	(34)	147 058
Provision for expenses on servicing insurance obligations	75 369	-	75 369	64 297	-	64 297
Equalisation provision	727	-	727	2 607	-	2 607
Total provision for life insurance contracts	**14 404 652**	**(1 431)**	**14 403 221**	**12 282 325**	**(1 661)**	**12 280 664**

Movements in mathematical provision, provision for expenses on servicing insurance obligations and equalisation provision (on a provisioning basis) are presented with the breakdown to the main components, specifically: changes in actuarial current value of claims and actuarial current value of receipts of reserved net premiums. Each component is calculated as a value at the end of the reviewing period, less value at the beginning of the period and values at the beginning of the inception of liability under the new contracts signed in the period. Additionally, the aggregate change in liabilities related to the fluctuations in exchange rates has been assessed.

Movements of mathematical provision are presented below:

	2016			2015		
RR thousand	**Gross provision**	**Reinsurers' share of provision**	**Provision, net of reinsurance**	**Gross provision**	**Reinsurers' share of provision**	**Provision, net of reinsurance**
At 1 January	**11 397 724**	**(1 627)**	**11 396 097**	**10 473 532**	**(1 853)**	**10 471 679**
Movements in provision due to reserved net premium	3 542 436	(4 579)	3 537 857	2 625 184	(5 184)	2 620 000
Movements in provision due to claims, terminations or changes in insurance obligations	(1 734 177)	5 064	(1 729 113)	(2 131 606)	5 438	(2 126 168)
Movements in provision due to changes in actuarial assumptions	-	-	-	8 212	-	8 212
Effect of exchange rate fluctuations	(441 242)	25	(441 217)	422 402	(28)	422 374
Acquisition of subsidiary (Note 36)	257 866	(180)	257 686	-	-	-
At 31 December	**13 022 607**	**(1 297)**	**13 021 310**	**11 397 724**	**(1 627)**	**11 396 097**

16 Insurance Provisions (continued)

Movement of provision for additional payments (insurance bonuses) is presented as accrual of additional claims under agreements valid at the beginning of the period and signed in the period, but not including those terminated in the period, less provision released under contracts expired during the period due to occurrence of an insurance event. Additionally, the aggregate change in liabilities related to fluctuations in exchange rates is assessed.

Movement of provision for additional payments (insurance bonuses) is presented below:

	2016			2015		
RR thousand	**Gross provision**	**Reinsurers' share of provision**	**Provision, net of reinsurance**	**Gross provision**	**Reinsurers' share of provision**	**Provision, net of reinsurance**
At 1 January	**670 605**	**-**	**670 605**	**214 042**	**-**	**214 042**
Accrual of additional claims under contracts	498 513	-	498 513	517 841	-	517 841
Release of provision on expired contracts	(211 373)	-	(211 373)	(63 728)	-	(63 728)
Effect of exchange rate fluctuations	(3 350)	-	(3 350)	2 450	-	2 450
At 31 December	**954 395**	**-**	**954 395**	**670 605**	**-**	**670 605**

Movements of OCP and IBNR are presented below:

	2016			2015		
RR thousand	**Gross provision**	**Reinsurers' share of provision**	**Provision, net of reinsurance**	**Gross provision**	**Reinsurers' share of provision**	**Provision, net of reinsurance**
At 1 January	**147 092**	**(34)**	**147 058**	**207 638**	**(1 249)**	**206 389**
Losses incurred in the current reporting period	2 675 361	(271)	2 675 090	1 846 127	(1 362)	1 844 765
Changes in the amounts of losses incurred in prior years	(42 388)	-	(42 388)	(20 450)	-	(20 450)
Claims during the reporting period	(2 428 511)	171	(2 428 340)	(1 886 223)	2 577	(1 883 646)
At 31 December	**351 554**	**(134)**	**351 420**	**147 092**	**(34)**	**147 058**

16 Insurance Provisions (continued)

b) Provisions for non-life insurance contracts:

	31 December 2016		
RR thousand	**Gross provision**	**Reinsurers' share of provision**	**Provision, net of reinsurance**
UPR	66 845 772	(16 277 218)	50 568 554
OCP and IBNR	69 865 598	(18 623 831)	51 241 767
Provision for claims handling expenses	2 249 967	-	2 249 967
URP	12 809	-	12 809
Subrogation asset	(556 424)	-	(556 424)
Total provisions for non-life insurance contracts	**138 417 722**	**(34 901 049)**	**103 516 673**

	31 December 2015		
RR thousand	**Gross provision**	**Reinsurers' share of provision**	**Provision, net of reinsurance**
UPR	59 684 386	(15 443 487)	44 240 899
OCP and IBNR	59 406 548	(17 359 846)	42 046 702
Provision for claims handling expenses	1 814 241	-	1 814 241
URP	60	-	60
Subrogation asset	(700 006)	-	(700 006)
Total provisions for non-life insurance contracts	**120 205 229**	**(32 803 333)**	**87 401 896**

Movements of UPR is presented in the table below:

	2016			2015		
RR thousand	**Gross provision**	**Reinsurers' share of provision**	**Provision, net of reinsurance**	**Gross provision**	**Reinsurers' share of provision**	**Provision, net of reinsurance**
At 1 January	**59 684 386**	**(15 443 487)**	**44 240 899**	**55 774 931**	**(14 822 428)**	**40 952 503**
Premiums accrued in the reporting period	148 929 245	(26 540 579)	122 388 666	132 858 692	(24 536 866)	108 321 826
Premiums earned in the reporting period	(146 031 751)	25 804 202	(120 227 549)	(129 363 707)	24 022 666	(105 341 041)
Acquisition of subsidiary (Note 36)	4 520 189	(135 764)	4 384 425	34 555	-	34 555
Recovery of previously eliminated provisions due to reclassification of a subsidiary to associates	-	-	-	308 361	(42 286)	266 075
Translation to presentation currency	(32 893)	29 012	(3 881)	71 554	(64 573)	6 981
Reclassification to assets of a disposal group held for sale	(223 404)	9 398	(214 006)	-	-	-
At 31 December	**66 845 772**	**(16 277 218)**	**50 568 554**	**59 684 386**	**(15 443 487)**	**44 240 899**

16 Insurance Provisions (continued)

Movements of OCP and IBNR are analysed below:

	2016			2015		
RR thousand	**Gross provision**	**Reinsurers' share of provision**	**Provision, net of reinsurance**	**Gross provision**	**Reinsurers' share of provision**	**Provision, net of reinsurance**
At 1 January	**59 406 548**	**(17 359 846)**	**42 046 702**	**70 809 007**	**(37 352 218)**	**33 456 789**
Losses incurred in the current reporting period	90 913 553	(14 810 672)	76 102 881	72 790 631	(4 861 707)	67 928 924
Changes in amounts of losses incurred in prior years (run-off)	(10 901 484)	3 942 835	(6 958 649)	(17 487 210)	12 625 462	(4 861 748)
Claims during the reporting period	(73 363 578)	9 755 743	(63 607 835)	(68 936 452)	12 293 802	(56 642 650)
Acquisition of subsidiary (Note 36)	3 921 161	(158 759)	3 762 402	3 802	-	3 802
Recovery of previously eliminated provisions due to reclassification of a subsidiary to associates	-	-	-	2 225 507	(65 027)	2 160 480
Translation to presentation currency	(3 365)	967	(2 398)	1 263	(158)	1 105
Reclassification to assets of a disposal group held for sale	(107 237)	5 901	(101 336)	-	-	-
At 31 December	**69 865 598**	**(18 623 831)**	**51 241 767**	**59 406 548**	**(17 359 846)**	**42 046 702**

Movements of provision for claims handling expenses are as follows:

	2016			2015		
RR thousand	**Gross provision**	**Reinsurers' share of provision**	**Provision, net of reinsurance**	**Gross provision**	**Reinsurers' share of provision**	**Provision, net of reinsurance**
At 1 January	**1 814 241**	**-**	**1 814 241**	**1 638 222**	**-**	**1 638 222**
Claims handling expenses incurred in the current reporting period	5 411 720	-	5 411 720	3 974 818	-	3 974 818
Changes in amounts of claims handling expenses incurred in prior reporting periods	(333 348)	-	(333 348)	(31 306)	-	(31 306)
Claims handling expenses paid during the reporting period	(4 644 463)	-	(4 644 463)	(3 767 706)	-	(3 767 706)
Acquisition of subsidiary (Note 36)	1 958	-	1 958	115	-	115
Translation to presentation currency	(141)	-	(141)	98	-	98
At 31 December	**2 249 967**	**-**	**2 249 967**	**1 814 241**	**-**	**1 814 241**

16 Insurance Provisions (continued)

Movements of subrogation asset are as follows:

	2016			2015		
RR thousand	**Gross provision**	**Reinsurers' share of provision**	**Provision, net of reinsurance**	**Gross provision**	**Reinsurers' share of provision**	**Provision, net of reinsurance**
At 1 January	**(700 006)**	**-**	**(700 006)**	**(1 034 115)**	**6 574**	**(1 027 541)**
Evaluation of income from subrogation and recourses related to losses incurred in the reporting period	(385 311)	2	(385 309)	(673 312)	236	(673 076)
Income from subrogation and recourses received during the reporting period	630 757	(3 042)	627 715	761 110	(6 136)	754 974
Change in evaluation of income from subrogation and recourses related to losses incurred in prior reporting periods (run-off)	(101 864)	3 040	(98 824)	246 311	(674)	245 637
At 31 December	**(556 424)**	**-**	**(556 424)**	**(700 006)**	**-**	**(700 006)**

Changes in URP are presented below:

	2016			2015		
RR thousand	**Gross provision**	**Reinsurers' share of provision**	**Provision, net of reinsurance**	**Gross provision**	**Reinsurers' share of provision**	**Provision, net of reinsurance**
At 1 January	**60**	**-**	**60**	**110 415**	**(680)**	**109 735**
Accrual of provision in the reporting period	-	-	-	51	-	51
Usage of provision in the reporting period	(194 050)	-	(194 050)	(110 415)	680	(109 735)
Acquisition of subsidiary (Note 36)	206 809	-	206 809	-	-	-
Translation to presentation currency	(10)	-	(10)	9	-	9
At 31 December	**12 809**	**-**	**12 809**	**60**	**-**	**60**

Information on related party transactions is disclosed in Note 35.

17 Evaluation of Insurance Liabilities

Liabilities under life insurance contracts

The Group calculates provisions under life insurance contracts on the basis of "Rules on life insurance provisions", approved by the Order of the Ministry of Finance of the Russian Federation No. 32n of 9 April 2009 and "Regulations on life insurance provisions", approved by the Order of 6 June 2016 No. 073 of subsidiary LLC IC SOGAZ-Life and submitted for approval to insurance supervising authorities in accordance with Russian legislation.

Calculation of insurance provisions (mathematical provision, provision for expenses on servicing insurance obligations, equalisation provision) is performed on the basis of reserved net premium and provisioning basis, subject to terms and conditions of life insurance contracts.

17 Evaluation of Insurance Liabilities (continued)

Values of provisioning basis parameters (mortality tables and profitability rates) coincide with values of rates basis, though profitability rates should not exceed 5 %.

For valuation purposes, the prescribed prospective net method of insurance liabilities evaluation is used which is based on accounting for the current value of expected insurance claims / expenses on servicing insurance obligations / deficit of insurance premiums, less the present value of expected insurance premiums.

The amount of outstanding claims provision at the date of calculation is determined as the aggregate amount of money payable to the insured (beneficiary) in relation to:

- insurance events reported to the insurer under the set procedure,
- survival until a certain age or date or other event provided by life insurance contract,
- early termination of life insurance contracts providing for payment of surrender benefits.

To calculate the ultimate amount of outstanding claims provision, these amounts are increased by claims handling expenses. For the purposes of IFRS the Group measures provision for claims handling expenses taking into account statistical data for prior reporting periods.

The amount of incurred but not yet reported loss reserve is calculated based on statistics of claims under insurance contracts not including the risk of survival until a certain age, date or other event, using the Chain Ladder method.

Provision for additional payments (insurance bonuses) at the date of calculation is determined as accumulated cost of accrued additional payments (insurance bonuses), the insured (policyholder, beneficiary) is entitled to under the insurance contract, less amount of additional payments (insurance bonuses) paid earlier.

Equalisation provision is calculated in case gross the premium written is insufficient to set up a mathematical provision, when the reserved net premium (cilmerised net premium) exceeds 98 % of the gross premium under life insurance contract. The amount of equalisation provision at the date of insurance event is defined as the actuarial value of difference between the upcoming receipts of reserved net premiums and 98 % of the gross premium written payments.

The Group conducts liability adequacy test to assess, whether its recognised insurance liabilities under life insurance contracts (mathematical provision, provision for additional payments (insurance bonuses), provision for expenses on servicing insurance obligations, equalisation provision) are adequate using current estimates of future cash flows. The test considers current estimates of all contractual cash flows and of related cash flows.

The Group makes estimations and assumptions to project the amounts of assets and liabilities for future periods. Such estimations and assumptions include mortality rates, cancellation rates, expenses and investment income. Estimations and assumptions are based on the Group’s expectations about future events which are believed to be reasonable under the circumstances.

The Group performs analysis of sensitivity of recognised insurance liabilities under endowment, survival and pension contracts to changes in mortality and profitability rates assumptions, which results in evaluation of relevant changes in the amount of liabilities. A significant level is a level of change in assumptions, at which changes in liabilities based on the liability adequacy test result in origination / removal of deficit in provision.

The table below represents a significant level of changes in estimated mortality and profitability rates and amounts of liability adjustments that will be required in case mortality and profitability rates estimates change by 1 %.

17 Evaluation of Insurance Liabilities (continued)

Sensitivity of life insurance contracts portfolio for the year ended 31 December 2016:

	Level of change in variable leading to origination / removal of provision deficit	Change in variable	Change in liabilities at the reporting date, RR thousand	Change in liabilities at the beginning of the year, RR thousand
Mortality rate change	(100) % *	(1) %	5 011	5 914
Discount rate change	(1,20) %	(1) %	459 790	437 124

Sensitivity of life insurance contracts portfolio for the year ended 31 December 2015:

	Level of change in variable leading to origination / removal of provision deficit	Change in variable	Change in liabilities at the reporting date, RR thousand	Change in liabilities at the beginning of the year, RR thousand
Mortality rate change	(90,96) %	(1) %	5 914	5 295
Discount rate change	(1,23) %	(1) %	437 124	423 371

* The level of change in variable leading to origination / removal of provision deficit is calculated based on assumption about linear character of impact of mortality rate change on this variable, that is fair for the expected range of mortality rate change to (2) % ... (3) % and states insignificance of the effect. However, for more significant, but not expected mortality rate change, due to evident nonlinearity of impact on provision proficite / deficite change, the estimation of variable change level stated above is approximate and consequently reflects the high quality of the change level.

Liabilities under non-life insurance contracts

The Group uses a number of statistical methods to estimate ultimate claim costs for all types of risks. The Chain-Ladder method, the method based on independence of standard increments of losses from the occurrence period and Bornhuetter-Ferguson method are the most frequently used for this purpose. Information on paid or incurred claims may be used as a statistical database for evaluation.

The Chain-Ladder method can be applied to claims paid or to the amount of claims reported but not yet settled. The main approach implies analysis of claims development factors (coefficients) for past periods and selection of estimated development factors based on the previous experience. Afterwards, selected development factors are applied to aggregate loss data for each period within which an insurance event occurs for the purpose of estimation of ultimate claims for each period.

The Chain Ladder method mostly fits developed lines of business with a relatively stable development model implying independence of mathematical expectation of individual development coefficients from loss occurrence period. It is less useful when an insurer does not have a developed experience of claims in a specific line of business.

Bornhuetter-Ferguson method is preferred where there is ground to suggest independence of mathematical expectation of individual development coefficients from loss occurrence period and independence of mathematical expectation of loss from loss occurrence period.

The method based on independence of standard increments of losses from occurrence period is based on the assumption that the normalised (to the parameter of amount) increments of loss do not depend on the period of insurance event occurrence and have similar distributions.

If no sufficiently homogeneous statistics is available, this method is preferable to the Chain Ladder method, as it is less exposed to the impact of inhomogenuity of claims statistics, therefore, it may give more smoothed estimation of loss provision in case of extremely high or extremely low values in the claims triangle.

17 Evaluation of Insurance Liabilities (continued)

If any assumptions of certain method are obviously not realised, however, some consistent pattern is observed (trend, periodicity, etc.), such methods may be used with some modifications subject to selected coefficients.

If there is insufficient statistical information to identify the full development of losses and to differentiate between the observable losses under significant insurance contracts and other similar contracts, loss provision may be calculated using the expected loss method. An expected loss could be set as equal to the loss ratio resulting from the tarification of a specific contract slightly adjusted upward to ensure the sufficient level of prudence. This approach was used to evaluate loss provision for obligatory insurance contract for employees of the Russian Defence Ministry, the Russian General Prosecutor's Office, the Russian Ministry for Civil Defense, for the personal accident insurance contract for employees of JSCo RZD and Transneft Group, for the personal accident insurance contract for clients of JSC Federal Passenger Company at 31 December 2016 and 31 December 2015.

The final estimation of loss provision for each period of loss in each line of business depends on how adequate each method or technique is to observable events over the past periods. In some cases different claims evaluation techniques or a combination of several techniques can be selected for certain insurance event periods within the same line of business.

Significant unusual claims that can substantially distort the results of computations are excluded from the analysis.

OCP is established based on an expert review. IBNR is calculated for each occurrence period as a difference between a projected ultimate cost of claims incurred within this period and an amount of reported, but not yet settled claims within the same period. IBNR for each period cannot be less than zero.

Loss provision is adjusted subject to subrogation component, which is calculated using actuarial methods based on historical data on cash inflows under subrogation and recourse claims. For calculation purposes the data is grouped by quarter of insurance event for which claims are put in and by quarter of actual cash receipt. In relation to the resulting development triangles actuarial methods similar to those used for calculation of provisions are applied.

Voluntary medical insurance. VMI represents 30 % (the year ended 31 December 2015: 26 %) of non-life portfolio of the Group. In the year ended 31 December 2016 92 % (the year ended 31 December 2015: 94 %) of gross premiums were underwritten by the Company.

The Group calculates loss provision for VMI using the Chain-Ladder method.

The claims settlement trend indicates that VMI is not a "long tail" business. Thus, the amount of IBNR is not materially sensitive to reasonable changes in assumptions on duration of claim settlement process.

The Group's claim settlement process is effectively a settlement of medical invoices, risk portfolio is well diversified and the Group does not anticipate a possibility of significant influence of claim inflation on liability for incurred claims.

Property insurance. Property insurance represents 39 % (the year ended 31 December 2015: 43 %) of non-life portfolio. In the year ended 31 December 2016 99 % (the year ended 31 December 2015: 92 %) of property insurance of the Group was underwritten by the Company. Significant part of business is represented by property and construction risks insurance of large corporate clients, such as PJSC Gazprom, JSC NK Rosneft, JSCo RZD, companies of nuclear industry, electricity, etc.

Due to the nature of business there is a significant probability of large scale losses and the Group manages risks by means of obligatory reinsurance of property insurance portfolio, which includes obligatory excess of loss reinsurance as well as facultative reinsurance of individually large objects. The significant part of reinsurance risks falls on large European reinsurers with high international ratings. Therefore, the Group believes that the existing structure of reinsurance provides an adequate protection from significant losses that could materially impact its financial position.

17 Evaluation of Insurance Liabilities (continued)

The Group calculates loss provision for property insurance primarily using the method based on independence of standard increments of losses from occurrence period. Subsidiaries of the Group apply other methods, however, the share of provisions of subsidiaries in the total amount of insurance provisions of the Group in this line of business is immaterial and amounts to 0.2 % (31 December 2015: 7 %).

The claims settlement trend indicates that property insurance is not a “long tail” business. However, the claims settlement is not as intense as under VMI, especially regarding significant property claims. Thus, the insurance liability amount is relatively sensitive to reasonable changes in assumptions on duration of claims settlement process. Nevertheless, 10 % or 20 % shift of all claims from the original period of settlement (quarter) to the following quarter will give an immaterial change in liabilities.

The Group’s property claims settlement procedures are subject to claims inflation since the total claims payment amount is not finalised before the settlement process. The Group estimates the effect of inflation on some types of property insurance when such effect may be material. In particular, the effect of inflation on provisions of subsidiaries operating in developed countries with a stable low inflation is not estimated. An introduction of additional nominal claim inflation of 3 % per quarter will give rise to additional liabilities of RR 155 331 thousand (31 December 2015: RR 556 441 thousand). An inflation of 5 % will give rise to additional liabilities of RR 762 710 thousand (31 December 2015: RR 1 146 827 thousand), an inflation of 10 % – to additional liabilities of RR 4 579 567 thousand (31 December 2015: RR 4 060 442 thousand).

Motor own damage insurance. Motor own damage insurance represents 5% (the year ended 31 December 2015: 6 %) of non-life portfolio of the Group. In the year ended 31 December 2016 99 % (the year ended 31 December 2015: 83 %) of the Group’s motor own damage insurance premiums were underwritten by the Company.

The Company calculates loss provision for motor own damage insurance using primarily the Chain-Ladder method based on claims incurred.

Provisions for subsidiaries and for assumed reinsurance are calculated using other methods. The share of provisions for the above segments is insignificant and amounts to 2.2 % of total provisions of the Group under this line of business (31 December 2015: 2 %).

The claims settlement trend indicates that motor own damage insurance is not a “long tail” business. However, the claims settlement process is not as intense as under VMI. The insurance liability amount is relatively sensitive to reasonable changes in assumptions on duration of claims settlement process. The 10 % shift of all claims paid and reported from the original period of settlement (quarter) to the following quarter will give a rise to surplus liabilities of RR 13 545 thousand (31 December 2015: RR 24 329 thousand). The 20 % shift will give a rise to additional liabilities of RR 28 361 thousand (31 December 2015: RR 48 012 thousand).

The calculation techniques applied to calculate provisions for assumed reinsurance are not sensitive to assumptions related to shift of claims. The Group does not anticipate any material effect of inflation of claims on its liability for paid claims.

17 Evaluation of Insurance Liabilities (continued)

Ultimate claims estimations. The table below represents the adequacy analysis of the Group's gross loss provisions:

RR thousand	Claim occurrence year 2013	2014	2015	2016	Total
Estimate of ultimate claims:					
- at the end of the claim occurrence year	51 692 933	90 039 442	76 085 317	99 885 303	-
- one year later	51 562 302	75 995 525	70 794 643	-	-
- two years later	50 691 624	73 048 738	-	-	-
- three years later	46 695 668	-	-	-	-
Current estimate of cumulative claims	46 695 668	73 048 738	70 794 643	99 885 303	290 424 352
Cumulative claims paid to date	42 738 300	67 859 361	58 002 670	53 235 835	221 836 166
Liabilities recognised in the consolidated statement of financial position	3 957 368	5 189 377	12 791 973	46 649 468	68 588 186
Provision for prior years' claims	-	-	-	-	1 156 113
Liabilities recognised in the consolidated statement of financial position on claims of subsidiaries occurred before their acquisition date	6 679	15 440	49 933	116 799	188 851
Provisions for prior years' losses of acquired entities	-	-	-	-	36 182
Reclassification to assets of a disposal group held for sale	-	-	-	-	(103 734)
Total gross OCP and IBNR provision (Note 16)	**-**	**-**	**-**	**-**	**69 865 598**

18 Investment Securities Held to Maturity

RR thousand	31 December 2016	31 December 2015
Corporate bonds	2 463 891	-
Corporate eurobonds	1 227 689	-
Municipal bonds	64 164	-
Total investment securities held to maturity	**3 755 744**	**-**

Interest rates and maturity of debt securities at 31 December 2016 is as follows:

	Russian Rouble denominated securities		*US dollar denominated securities*		*Euro denominated securities*	
	Coupon rate (%)	**Maturity**	**Coupon rate (%)**	**Maturity**	**Coupon rate (%)**	**Maturity**
Corporate bonds	8.40 - 14.25	2018 - 2026	-	-	-	-
Corporate eurobonds	-	-	5.25 - 7.88	2020 - 2079	4.36	2025
Municipal bonds	9.65	2023	-	-	-	-

At 31 December 2016 the majority of issuers of debt securities held to maturity have long-term ratings from international rating agencies Moody's, Standard & Poor's and Fitch Ratings. If a security's rating varies from distinctive rating agencies it is classified within the group with the highest rating.

18 Investment securities held to maturity (continued)

Analysis of investment securities held to maturity at 31 December 2016 by credit quality is as follows:

RR thousand	Corporate bonds	Corporate eurobonds	Municipal bonds	Total
Moody's, S&P, Fitch				
Baa3, BBB-, BBB-	1 343 322	158 810	-	**1 502 132**
Ba1, BB+, BB+	1 120 569	738 128	64 164	**1 922 861**
Ba3, BB-, BB-	-	330 751	-	**330 751**
Total	**2 463 891**	**1 227 689**	**64 164**	**3 755 744**

19 Payables

RR thousand	31 December 2016	31 December 2015
Payables arising from reinsurance operations	9 787 476	13 985 198
Payables to agents	2 000 610	3 924 374
Payables arising from coinsurance operations	8 745	275 178
Payables arising from transactions with securities	839	107 777
Other payables	589 545	615 590
Total insurance and financial payables	**12 387 215**	**18 908 117**
Payables to employees and social funds	5 168 684	2 457 225
Insurance premiums received in advance	3 015 839	3 186 852
Taxes payable other than on income	133 404	124 408
Other non-financial payables	93 950	30 292
Total non-financial payables	**8 411 877**	**5 798 777**
Total payables	**20 799 092**	**24 706 894**

Information on fair value is disclosed in Note 33. Information on related party transactions is disclosed in Note 35.

20 Other Liabilities

RR thousand	31 December 2016	31 December 2015
Liabilities to medical institutions	836 408	535 338
Finance lease liabilities	5 701	67 608
Total financial liabilities	**842 109**	**602 946**
OMI liabilities	11 974 049	11 610 111
Provision for legal cases	1 624 701	927 535
Other	258 555	147 261
Total non-financial liabilities	**13 857 305**	**12 684 907**

20 Other Liabilities (continued)

At 31 December 2016 the Company's finance lease liabilities were RR 5 701 thousand (31 December 2015: RR 67 608 thousand) out of the total of finance lease liabilities. The fair value of finance lease liabilities equals to RR 5 701 thousand (31 December 2015: RR 67 608 thousand). These liabilities were originated as a result of the finance lease of motor vehicles from a related party (Note 15).

Minimum lease payments of the Group under the finance leases and their present values are as follows:

RR thousand	Due within 1 year	Due from 1 to 5 years	Total
Minimum lease payments at 31 December 2016	**5 899**	**-**	**5 899**
Less future finance charges	(198)	-	(198)
Present value of minimum lease payments at 31 December 2016	**5 701**	**-**	**5 701**
Minimum lease payments at 31 December 2015	**71 917**	**5 899**	**77 816**
Less future finance charges	(10 040)	(168)	(10 208)
Present value of minimum lease payments at 31 December 2015	**61 877**	**5 731**	**67 608**

Effective interest rate on finance lease equals to 31.86 % (31 December 2015: 31.86 %).

Information on fair value is disclosed in Note 33. Information on related party transactions is disclosed in Note 35.

21 Non-Controlling Interest

RR thousand	Notes	2016	2015
Non-controlling interest at 1 January		**301 376**	**1 453 646**
Acquisition of non-controlling interest in subsidiary	36	(159 913)	(1 998)
Share in other comprehensive income of subsidiaries		(51 824)	127 239
Share in profit / (loss) of subsidiaries		27 663	(321 080)
Acquisition of subsidiary	36	3 871	-
Disposal of subsidiaries	36	-	(1 902 195)
Increase of subsidiaries` equity		-	933 380
Increase of subsidiaries' equity against non-controlling interest		-	12 384
Non-controlling interest at 31 December		**121 173**	**301 376**

At 10 February 2016 the Group gained control over Insurance Company ZHASO (Note 36). As a result, the Group recognised non-controlling interest of 2.05 % in JSC YUZHURALZHASO, which is a subsidiary of Insurance Company ZhASO, in the consolidated financial statements at 31 December 2016.

At 17 May 2016 the Group acquired the remaining 1.1 % shares of JSC IC Transneft. As a result of this transaction 100 % share of JSC IC Transneft is owned by the Group at 31 December 2016.

At 23 December 2015 the Group sold 25.8 % share in insurance company SOVAG. As a result, the Group lost control over SOVAG (Note 36).

21 Non-Controlling Interest (continued)

The following table provides information about each subsidiary that has non-controlling interest.

RR thousand	Place of business and country of incorporation	Non-controlling interest	Acquisition of subsidiary (Note 36)	Total comprehensive (loss) / income attributable to non-controlling interest	Accumulated non-controlling interest in the subsidiary
Year ended 31 December 2016					
SOGAZ JSIC NOVI SAD	Serbia	49 %	-	(39 627)	117 870
JSC YUZHURALZHASO	The Russian Federation	2.05 %	3 871	(568)	3 303
Total			**3 871**	**(40 195)**	**121 173**
Year ended 31 December 2015					
SOGAZ JSIC NOVI SAD	Serbia	49 %	-	44 927	157 497
JSC IC Transneft	The Russian Federation	1.1 %	-	23 398	143 879
Total			**-**	**68 325**	**301 376**

In the years ended 31 December 2016 and 31 December 2015 no dividends were paid to non-controlling interest.

Summarised financial information of subsidiaries for the year or from the date of acquisition is presented in the table below:

RR thousand	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit	Total compre-hensive (loss) / income	Cash flows
Year ended 31 December 2016								
SOGAZ JSIC NOVI SAD	186 667	353 615	38 983	116 067	331 466	23 409	(80 868)	(10 880)
JSC YUZHURAL ZHASO	455 099	46 931	342 862	-	516 219	1 320	420	(343)
Total	**641 766**	**400 546**	**381 845**	**116 067**	**847 685**	**24 729**	**(80 448)**	**(11 223)**
Year ended 31 December 2015								
SOGAZ JSIC NOVI SAD	312 799	394 688	73 732	167 655	282 937	24 657	91 687	8 916
JSC IC Transneft	16 894 846	917 653	3 587 337	830 868	6 988 227	3 452 237	3 484 133	286 977
Total	**17 207 645**	**1 312 341**	**3 661 069**	**998 523**	**7 271 164**	**3 476 894**	**3 575 820**	**295 893**

22 Share Capital and Reserves

	31 December 2016			31 December 2015		
RR thousand	Number of shares	Nominal amount	Inflation adjusted amount	Number of shares	Nominal amount	Inflation adjusted amount
Ordinary shares	9 351 165	25 061 122	25 278 125	9 351 165	15 111 483	15 328 487
Total share capital	**9 351 165**	**25 061 122**	**25 278 125**	**9 351 165**	**15 111 483**	**15 328 487**

All ordinary shares have a nominal value of RR 2 680 (31 December 2015: RR 1 616) per share. Each share carries one vote. At 31 December 2016 and 31 December 2015 all shares were paid.

At 20 February 2016 changes to the Charter of the Company were registered. As a result, the share capital of the Company was increased to RR 25 061 122 thousand against retained earnings of the prior years.

In March 2014 LLC SOGAZ-Realty acquired 2.5 % of the Company's shares. Consequently, at 31 December 2016 and 31 December 2015 the Group recognised treasury shares of RR 770 001 thousand within its equity.

At 15 May 2016 the Company declared dividends for the year ended 31 December 2015 in the total amount of RR 6 828 922 thousand, or RR 730 per ordinary share, and paid them out in the first half of the year ended 31 December 2016 (Note 28).

At 15 May 2015 the Company declared dividends for the year ended 31 December 2014 in the total amount of RR 6 828 921 thousand, or RR 730 per ordinary share, and paid them out in the first half of the year ended 31 December 2015 (Note 28).

22 Share Capital and Reserves (continued)

Analysis of other comprehensive income by item for each component of equity is as follows:

	Attributable to owners of the Group					
RR thousand	**Fair value reserve for investment securities available for sale**	**Currency translation reserve**	**Accumulated gains less losses recognised in other comprehensive income related to a disposal group held for sale**	**Total**	**Non-controlling interest (Note 21)**	**Total**
Year ended 31 December 2015						
Revaluation	1 671 820	-	(16 972)	1 654 848	(15 931)	1 638 917
Transfer to profit or loss	64 193	-	(10 111)	54 082	(9 754)	44 328
Change in currency translation reserve	-	57 848	265 371	323 219	288 831	612 050
Share of other comprehensive income of associates	23 455	-	-	23 455	-	23 455
Income tax effect	(351 894)	-	(140 798)	(492 692)	(135 907)	(628 599)
Total other comprehensive income	**1 407 574**	**57 848**	**97 490**	**1 562 912**	**127 239**	**1 690 151**
Year ended 31 December 2016						
Revaluation	472 421	-	-	472 421	(910)	471 511
Transfer to profit or loss	(271 604)	-	-	(271 604)	-	(271 604)
Change in currency translation reserve	-	(61 896)	-	(61 896)	(51 096)	(112 992)
Share of other comprehensive income of associates	(88 095)	-	-	(88 095)	-	(88 095)
Income tax effect	(22 544)	-	-	(22 544)	182	(22 362)
Total other comprehensive income	**90 178**	**(61 896)**	**-**	**28 282**	**(51 824)**	**(23 542)**

23 Interest Income

RR thousand	2016	2015
Deposits with banks	10 149 064	9 853 885
Debt securities available for sale	2 569 753	1 920 369
Debt securities at fair value through profit or loss	1 165 321	1 274 062
Other	1 386	69 228
Total interest income	**13 885 524**	**13 117 544**

Information on related party transactions is disclosed in Note 35.

24 Acquisition Costs Net of Commission Income from Premiums Ceded to Reinsurance

RR thousand	2016	2015
Brokerage and agent commissions	3 942 573	6 589 445
Commissions for assumed reinsurance	868 047	645 703
Surveyor expenses	102 470	91 384
Other	591 599	476 812
Total acquisition costs	**5 504 689**	**7 803 344**
Less: commission income on ceded reinsurance	(2 758 487)	(1 987 271)
Change in deferred acquisition costs	1 154 380	93 883
Change in deferred commission income on ceded reinsurance	155 219	251 444
Total acquisition costs net of commission income from premiums ceded to reinsurance	**4 055 801**	**6 161 400**

RR thousand	2016	2015
Deferred acquisition costs at 1 January	**4 260 391**	**4 347 868**
Change in deferred acquisition costs	(1 154 380)	(87 919)
Acquisition of subsidiaries (Note 36)	102 737	125
Reclassification to assets of a disposal group held for sale	(21 382)	-
Translation to presentation currency	(313)	317
Deferred acquisition costs at 31 December	**3 187 053**	**4 260 391**
Deferred commission income at 1 January	**1 442 145**	**1 161 593**
Change in deferred commission income on ceded reinsurance	155 219	278 720
Acquisition of subsidiaries (Note 36)	10 786	-
Reclassification to assets of a disposal group held for sale	(2 410)	-
Translation to presentation currency	(634)	1 832
Deferred commission income at 31 December	**1 605 106**	**1 442 145**

Information on related party transactions is disclosed in Note 35.

25 Administrative and Other Operating Expenses

Administrative and other operating expenses comprise the following:

RR thousand	**2016**	**2015**
Salaries, bonuses and other payments to the staff	8 631 607	8 663 630
Social security expenses	2 940 578	2 472 653
Provision for unused vacations	850 221	752 892
Other staff costs	271 102	468 391
Total staff costs	**12 693 508**	**12 357 566**
Depreciation and amortisation (Notes 14, 15)	1 713 623	1 837 756
Other expenses related to premises and equipment	1 430 050	1 295 340
Information and consulting services	1 357 733	1 249 940
Advertising and marketing services	1 083 154	1 174 267
Provision for legal cases	701 166	461 922
Operating lease expenses	613 661	961 074
Provision for impairment of other receivables, prepayments and other assets (Note 12)	340 642	1 541 149
Materials	318 806	354 877
Other expenses	1 403 201	1 298 546
Total administrative and other operating expenses	**21 655 544**	**22 532 437**

Staff costs for the year ended 31 December 2016 of RR 3 446 973 thousand (the year ended 31 December 2015: RR 2 406 969 thousand) are included in the consolidated statement of profit or loss and other comprehensive income within claims handling expenses as they relate to claims handling activity.

Pension contributions for the year ended 31 December 2016 of RR 2 003 378 thousand (the year ended 31 December 2015: RR 1 656 331 thousand) to state pension fund are included in the consolidated statement of profit or loss and other comprehensive income within staff costs.

Information on related party transactions is disclosed in Note 35.

26 Other Operating Income

Other operating income comprises the following:

RR thousand	**2016**	**2015**
Commission income from OMI program	2 188 772	2 049 067
Income from provision of medical services	830 594	661 451
Income from penalties related to OMI	396 835	515 331
Rental income	184 618	178 749
Premises and equipment disposal or write-off	93 449	119 937
Recovery of provision for impairment of other receivables and prepayments (Note 12)	754	3 297
Gain from disposal of subsidiaries (Note 36)	-	1 015 269
Other income	738 171	316 277
Total other operating income	**4 433 193**	**4 859 378**

27 Income Tax

Income tax expense comprises the following:

RR thousand	2016	2015
Current income tax	7 606 478	6 559 629
Deferred income tax	(1 026 697)	(751 679)
Deferred income tax of a disposal group held for sale	-	(97 009)
Income tax expense for the year	**6 579 781**	**5 710 941**

Income tax rate applicable to the majority of the Group's income is 20 %. Income tax rates applicable to subsidiaries located in Cyprus and Serbia are 10 % and 15 %, respectively. Reconciliation between theoretical and actual taxation charge is provided below.

RR thousand	2016	2015
Profit before tax	**30 169 448**	**27 719 631**
Theoretical tax charge at statutory rate of 20 %	6 033 890	5 543 926
Tax effect of items that are not deductible or taxable for taxation purposes:		
- Non-deductible expenses	354 625	490 145
- Income taxed at different rates	(17 834)	(16 761)
- Loss incurred in other tax jurisdictions taxed at 10 % and 15 %	(3 453)	(21 642)
- Dividends paid by subsidiaries	2 434	22 763
- Goodwill impairment	-	8 171
- Other	210 740	(327 541)
Changes in unrecognised deferred tax asset	(621)	11 880
Income tax expense for the year	**6 579 781**	**5 710 941**

In the year ended 31 December 2016 deferred income tax of RR 22 362 thousand (the year ended 31 December 2015: RR 628 599 thousand) was recognised directly in other comprehensive income due to fair valuation of investment securities available for sale and translation of assets and liabilities in the presentation currency.

The differences between IFRS and respective statutory taxation regulations give rise to the temporary differences between the carrying amount of the assets and liabilities for consolidated financial reporting purposes and their tax bases. Tax effect of the movements in these temporary differences is detailed below and is recognised at 20 % (the year ended 31 December 2015: 20 %), except for the income on state securities that is taxed at 15 % (the year ended 31 December 2015: 15 %) and profit / (loss) earned / incurred by subsidiaries located in Cyprus and Serbia (the year ended 31 December 2015: Cyprus, Serbia and Germany) that are taxed at 10 % and 15 %, respectively (the year ended 31 December 2015: 10 %, 15 % and 30 %).

27 Income Tax (continued)

RR thousand	1 January 2016	Acquisition of subsidiaries (Note 36)	(Charged) / credited to profit or loss	Reclassification to assets of a disposal group held for sale	Credited / (charged) to other comprehensive income	31 December 2016
Tax effect of deductible temporary differences:						
Accrued expenses	2 048 939	27 832	(88 787)	(2 667)	-	1 985 317
Receivables	466 164	90 377	237 693	(1 001)	-	793 233
Tax losses carried forward	278 589	24	1 802	-	-	280 415
UPR, net of reinsurers' share of UPR	(26 358)	30 726	8 905	(3 125)	-	10 148
Intangible assets	(81 067)	(42 239)	129 165	-	-	5 859
Associates	(154 702)	-	404 916	-	17 619	267 833
Other	142 005	11 851	(71 962)	(163)	-	81 731
Gross deferred tax asset	2 673 570	118 571	621 732	(6 956)	17 619	3 424 536
Less: unrecognised deferred tax asset	(305 246)	-	621	-	-	(304 625)
Net deferred tax asset prior to offset with deferred tax liability	**2 368 324**	**118 571**	**622 353**	**(6 956)**	**17 619**	**3 119 911**
Recognised deferred tax asset	**163 514**	**163 922**	**69 386**	**910**	**-**	**397 732**
Tax effect of taxable temporary differences:						
Securities at fair value through profit or loss	(1 326)	-	(54 209)	-	-	(55 535)
Investment securities available for sale	(8 263)	(34)	13 990	-	(39 981)	(34 288)
Other insurance provisions, net of reinsurers' share of other insurance provisions	(2 882 224)	96 459	211 393	(2 884)	-	(2 577 256)
Deferred acquisition costs	(564 145)	(18 391)	135 647	3 794	-	(443 095)
Premises and equipment	(98 905)	(196 621)	97 523	6 956	-	(191 047)
Gross deferred tax liability	**(3 554 863)**	**(118 587)**	**404 344**	**7 866**	**(39 981)**	**(3 301 221)**
Recognised deferred tax liability	**(1 350 053)**	**(163 938)**	**957 311**	**-**	**(22 362)**	**(579 042)**

27 Income Tax (continued)

RR thousand	1 January 2015	Acquisition / disposal of subsidiaries (Note 36)	Credited / (charged) to profit or loss	Charged to other comprehensive income	31 December 2015
Tax effect of deductible temporary differences:					
Accrued expenses	1 894 474	49	154 416	-	2 048 939
Receivables	(191 073)	-	657 237	-	466 164
Tax losses carried forward	280 322	-	(1 733)	-	278 589
Other	140 251	77	1 677	-	142 005
Gross deferred tax asset	2 123 974	126	811 597	-	2 935 697
Less: unrecognised deferred tax asset	(293 366)	-	(11 880)	-	(305 246)
Net deferred tax asset prior to offset with deferred tax liability	**1 830 608**	**126**	**799 717**	**-**	**2 630 451**
Recognised deferred tax asset	**133 306**	**-**	**42 758**	**(12 550)**	**163 514**
Tax effect of taxable temporary differences:					
Securities at fair value through profit or loss	223 823	-	(225 149)	-	(1 326)
Investment securities available for sale	336 474	-	2 554	(347 291)	(8 263)
Associates	(179 876)	-	29 865	(4 691)	(154 702)
UPR, net of reinsurers’ share of UPR	193 157	25	(219 540)	-	(26 358)
Other insurance provisions, net of reinsurers’ share of other insurance provisions	(2 947 564)	(5 339)	70 679	-	(2 882 224)
Deferred acquisition costs	(655 100)	(25)	90 980	-	(564 145)
Intangible assets	(246 474)	(26 269)	191 676	-	(81 067)
Premises and equipment	(114 496)	4 694	10 897	-	(98 905)
Gross deferred tax liability	**(3 390 056)**	**(26 914)**	**(48 038)**	**(351 982)**	**(3 816 990)**
Recognised deferred tax liability	**(1 692 754)**	**(26 788)**	**708 921**	**(339 432)**	**(1 350 053)**

In the context of the Group’s current structure, tax losses and current tax assets of different Group companies may not be offset against current tax liabilities and taxable profits of other companies and, accordingly, taxes may accrue even where there is a net consolidated tax loss. Therefore, deferred income tax assets and liabilities are offset only when they relate to the same taxable entity. At 31 December 2016 the Group recognised deferred tax liability of RR 579 042 thousand (31 December 2015: RR 1 350 053 thousand) and deferred tax asset of RR 397 732 thousand (31 December 2015: RR 163 514 thousand).

27 Income Tax (continued)

At 31 December 2016 the Group did not recognise deferred tax liability in respect of temporary differences related to investments in subsidiaries of RR 521 256 thousand (31 December 2015: RR 1 268 892 thousand), as the Group is able to control the timing of those temporary differences reversal and does not intend to reverse them in the foreseeable future.

28 Dividends

RR thousand	**2016**	**2015**
Dividends payable at 1 January	-	-
Dividends declared during the year	6 828 922	6 828 921
Dividends paid during the year	(6 828 922)	(6 828 921)
Dividends payable at 31 December	**-**	**-**
Dividends per share declared during the year (RR per share)	**730**	**730**

29 Analysis of Premiums and Claims

Premiums and claims information for the main lines of business of the Group for the years ended 31 December 2016 and 31 December 2015 is set out below.

	2016		**2015**	
RR thousand	**Gross premiums written**	**Gross claims paid**	**Gross premiums written**	**Gross claims paid**
Property insurance	62 220 953	(17 364 940)	60 874 640	(19 817 114)
VMI	47 843 678	(43 631 458)	36 994 961	(33 147 019)
Personal accident insurance	11 263 702	(7 295 377)	9 728 116	(5 357 090)
OMTPL	10 774 507	(5 786 612)	8 762 345	(3 633 214)
CASCO	7 955 700	(4 115 649)	8 209 289	(5 536 497)
Aircraft insurance	4 675 702	(357 562)	3 511 006	(1 904 726)
Cargo insurance	3 660 175	(752 954)	4 149 863	(330 557)
Voluntary third party liability insurance	2 821 739	(379 725)	1 565 078	(430 607)
Hull and marine insurance	1 830 385	(214 855)	1 940 155	(606 805)
OTPLIC	1 585 942	(265 348)	1 161 780	(228 539)
OIHF	932 277	(68 337)	1 617 804	(55 634)
Other non-life insurance	172	-	541 346	(259 031)
Life insurance	4 021 197	(2 455 257)	1 953 002	(1 886 223)
Total	**159 586 129**	**(82 688 074)**	**141 009 385**	**(73 193 056)**

Information on related party transactions is disclosed in Note 35.

30 Financial and Insurance Risk Management

Risk management function within the Group is carried out in respect of financial risks (insurance, credit, market and liquidity risks), operational risks (including legal, reputation and complience risk) and strategic risks. The purpose of the financial risk management system is to protect the Group's interests.

30 Financial and Insurance Risk Management (continued)

The primary objective of financial risk management is to ensure the optimal relation between the expected income and risks. At the same time, the general level of risk is limited by the amount of available capital. Additional limitations are imposed by Russian legislation in respect of requirements to assets accepted as coverage of insurance reserves and equity and the ratio between actual and regulatory solvency margin of insurance companies included in the Group.

For financial risk management purposes the Group has formulated internal financial risk management policy where, along with Russian regulations and generally accepted risk management principles, own valuation techniques, indicators and management tools are used. Based on the above, the Group has developed a system of parameters for assigning operations to certain risk groups and their qualitative and quantitative assessment.

The Group's risk management strategy is based on compliance with risk appetite – an aggregate level of risk the Group considers acceptable for implementation of its business strategy. Risk appetite is set by the Declaration of risk appetite approved by the Company's Board of Directors. The risk management strategy provides for:

- compliance of the Group's operations with legislation and state regulatory and monitoring agencies' requirements;
- application of Solvency II principles and methodology to design risk management system;
- maintenance of the leading position in Russian insurance market in terms of reliability and solvency;
- protection of the Group's long-term competitive advantages: reputation and brand;
- appointment of risk owners responsible for managing individual types of risks within their competencies;
- delegation of risk management processes to the level that ensures their most efficient application;
- generation of regular reports on risks submitted to the Group management.

Risk management process in the Group includes systematic addressing of the following tasks:

- risk identification – identification and initial of risks arising in the process of the Group's activities. Risks are identified on a regular basis due to dynamic changes in external and internal environment;
- determining approaches to different types of risk and definition of risk management criterion which is performed subject to maximum compliance with state regulation and control and according to the Group's strategy. Risks that the Group is unwilling to accept are entirely eliminated. The Group determines maximum level of risks that it is ready to accept;
- performing qualitative and / or quantitative evaluation (measurement) of certain types of risks and total risk valuation;
- establishing relationships between separate types of risk for the purpose of evaluation of impact of events, planned for restricting one type of risk, on decrease or increase in other risks;
- evaluating acceptability and reasonableness of aggregate risks assumed by the Group and optimising risks on the basis of established risk management criteria;
- making decisions on risk management measures to bring risks to optimal level;
- controlling efficiency of measures taken.

In implementing various types of financial risk management for the purpose of risk minimization, the Group uses the following procedures and instruments:

- monitoring – calculating the level of risk, studying its dynamics over time and analysing reasons for changes. Monitoring precedes other procedures and is carried out on a regular basis;

30 Financial and Insurance Risk Management (continued)

- diversification – reducing the level of aggregate risk by means of acceptance of high number of individual risks with weak correlation between themselves. Diversification often allows the Group to reduce the level of risk without considerable reduction of income;
- limiting operations – setting limits on risk levels and following-up subsequent compliance. The limit level reflects the Group's readiness to take on certain risk. Limiting operations procedure is aimed to set the maximum allowable risk level for each area of activity and to clearly allocate functions and responsibility;
- scenario analysis or stress testing. Scenario analysis or stress testing is used in forecasting possible development trends. During scenario analysis the Group develops ways of responding to unfavourable external changes. Especially unfavourable scenarios are analysed with stress testing which is carried out on a regular basis.

The primary approach to financial risk management is to establish risk limits, and then to ensure compliance with these limits. Within its insurance risk management, the Group determines its own retention limits by lines of business. Risks exceeding the limits set are ceded for reinsurance. For market risks, limits are set by types of assets and industries. For credit risks, limits are set by individual counterparties, depending on the level of their solvency. Moreover, there is a policy implying approval of significant transactions and related party transactions.

The amounts of limits are defined based on internal regulations of the Group. Limits are approved by the following management bodies – Chairman of the Board, the Board and Reserves committee. The limit level is subject to review at least once a year, unless otherwise stated on approval, and as required.

Credit risk. The Group takes on exposure to credit risk which is the risk that one party to a contract or transaction with a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk arises as a result of the Group's investment operations on insurance reserves and equity placement, insurance, reinsurance and other transactions with counterparties, giving rise to financial assets and liabilities.

The risk is associated with counterparties' potential insolvency and changes in their credit rating. The Group monitors its counterparties' solvency and undertakes actions in order to minimise portential credit risk.

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the consolidated statement of financial position. The impact of possible offset of assets and liabilities to reduce potential credit exposure is not significant.

Expected losses estimated as part of credit risk analysis are the function of probability of default, exposure at default and losses given default (subject to partial or full repayment of liabilities after the default). Probability of default is estimated using international and national ratings and internal mechanisms of risk assessment based on internal techniques designed for various categories of counterparties and industries / sectors. The techniques are developed and based on statistical analysis with application of integral expert valuation (judgement) including review of financial position and solvency of counterparties as well as their market position and changes in quality of their assets.

In order to reduce credit risks on ceded reinsurance, the Group selects reinsurers to whom the risks are ceded. The main criterion is availability and level of rating by an international rating agency (Standard & Poor's, Moody's, Fitch, A.M.Best) and rating agencies (Expert RA and ACRA). Risks may be ceded to reinsurers with ratings below BBB+ in terms of Standard & Poor's or equivalent rating of other agencies only if they are included in security list and limits on the amount of risk are set. The procedure of regular review of the security list is set by the Group's internal regulations.

Under investment operations, credit risks are primarily related to the following types of transactions:

- cash placement on deposits with credit institutions and issue of loans;
- investments in debt securities.

30 Financial and Insurance Risk Management (continued)

The primary method of credit risk reduction is setting limits on such transactions. Setting a limit restricts volume of losses from conducting transactions exposed to credit risk with each counterparty.

Limits are opened for counterparty banks, debtors and issuers of debt securities. Limits are set for the aggregate amount of transactions between the Group and the counterparty. The Group has set a number of mandatory requirements for counterparties.

Determining maximum acceptable amount of operations with counterparties proportionate to credit risk exposure depends on five main factors:

- counterparty's financial position;
- counterparty's credit history;
- type of transaction performed;
- term of the transaction;
- existence of collateral reducing credit risk.

The main purpose of comprehensive review of the counterparty's financial position is obtaining objective evaluation of its solvency, financial stability, business and investment activity. Technologies used ensure comprehensive evaluation of counterparty's financial position and include an algorithm of actions for setting a limit on conducting transactions which implies four stages:

- preparing primary data and collecting information;
- carrying out a comprehensive review and evaluating the counterparty's financial position;
- calculating the limit;
- setting and monitoring the limits.

During the whole period for which a limit on conducting transactions with counterparty is set the Group monitors its solvency, financial stability, business and investment activity (qualitative and quantitative valuation parameters). To ensure regular evaluation of risks associated with a counterparty, reports are monitored and limits are reviewed with frequency depending on the reliability pool to which this counterparty is assigned.

If any operational information showing worsening of the counterparty's financial position, and increased risk of interaction with such counterparty is identified, or if other negative information on the counterparty is obtained, the Group makes decision to improve control over transactions with this counterparty or to terminate relations with it.

In the ordinary course of insurance activities accounts receivable arise. Management of the Group performs the following procedures to control the level of accounts receivable:

- the total amount of accounts receivable is analysed weekly by the financial director together with insurance directors;
- information about delays in payments is analysed based on terms of insurance contracts. Overdue payments are weekly reported to the financial director;
- clients are analysed on a quarterly basis. Findings of such analysis are disclosed in corporate reports submitted to management and shareholders;
- bad debt provisions are set up based on available information and written off on an individual basis. The amount of debts written off is not material for the Group.

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in (a) foreign currency assets and liabilities, (b) interest rates and (c) equity instruments, exposed to general and specific market volatility. Management 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 losses outside of these limits in the event of more significant market volatility.

30 Financial and Insurance Risk Management (continued)

In carrying out market risk evaluation, the focus should be placed on quantitative evaluation, i.e. evaluation of probable losses from appropriate financial instruments during a particular investment horizon. It allows reflecting risk of each position and portfolio risk in general and to arrange classification by risk level.

Price risk. The Group has exposure to equity price risk. If equity prices at 31 December 2016 had been 2.47 % (31 December 2015: 4.92 %) lower, with all other variables held constant, profit for the year ended 31 December 2016 would have been RR 21 771 thousand (the year ended 31 December 2015: RR 27 204 thousand) lower, mainly as a result of revaluation of corporate shares at fair value through profit or loss, and other components of equity would have been RR 3 237 thousand (the year ended 31 December 2015: RR 5 948 thousand) lower, mainly as a result of a decrease in the fair value of corporate shares classified as available for sale. The percentage of equities price changes used is an annual mean of absolute monthly changes of MICEX index and assessed by management as volatility of equity market.

Currency risk. The Group takes on exposure to effects of fluctuations in foreign currency exchange rates on its financial position and cash flows. At the year-end, the Group had balances in Russian Roubles and other currencies, primarily US Dollars and Euro. In addition, part of losses incurred under insurance contracts is fixed in US Dollars or Euro at the date of loss recognition. Furthermore, a part of premiums is fixed in US Dollars or Euro at the date of insurance agreement. The Group is exposed to currency risk on these losses and premiums if foreign exchange rates fluctuate. The Group manages currency risk by maintaining its assets denominated in US Dollars and Euro at the level required to meet its obligations. Management sets and controls limits on the value of risk that may be accepted by currencies and in general, on a regular basis.

30 Financial and Insurance Risk Management (continued)

The analysis of the Group's monetary financial and insurance assets and liabilities by currency at 31 December 2016 is as follows:

	31 December 2016				
RR thousand	Russian Roubles	US dollars	Euro	Other currencies	Total
Monetary financial and insurance assets					
Cash and cash equivalents	2 673 726	397 070	594 399	45 676	**3 710 871**
Deposits with banks	109 302 669	13 236 763	149 104	48 665	**122 737 201**
Securities at fair value through profit or loss	12 522 514	812 541	185 483	16 114	**13 536 652**
Investment securities available for sale	20 967 930	-	-	-	**20 967 930**
Investment securities held to maturity	2 528 056	1 220 541	7 147	-	**3 755 744**
Receivables	22 135 134	5 892 437	3 307 527	312 948	**31 648 046**
Prepayments	477 326	-	-	-	**477 326**
Reinsurers' share of insurance provisions	17 627 098	929 402	63 245	5 517	**18 625 262**
Assets held for sale and assets of a disposal group held for sale	805 794	-	-	-	**805 794**
Total monetary financial and insurance assets at 31 December 2016	**189 040 247**	**22 488 754**	**4 306 905**	**428 920**	**216 264 826**
Monetary financial and insurance liabilities					
Insurance provisions	77 320 301	4 576 465	3 778 740	301 096	**85 976 602**
Payables	5 468 688	3 805 940	2 983 717	128 870	**12 387 215**
Other financial liabilities	842 109	-	-	-	**842 109**
Liabilities directly associated with assets of a disposal group held for sale	363 730	-	-	-	**363 730**
Total monetary financial and insurance liabilities at 31 December 2016	**83 994 828**	**8 382 405**	**6 762 457**	**429 966**	**99 569 656**
Net balance sheet position	**105 045 419**	**14 106 349**	**(2 455 552)**	**(1 046)**	**116 695 170**

30 Financial and Insurance Risk Management (continued)

The analysis of the Group's monetary financial and insurance assets and liabilities by currency at 31 December 2015 is as follows:

	31 December 2015				
RR thousand	Russian Roubles	US dollars	Euro	Other currencies	Total
Monetary financial and insurance assets					
Cash and cash equivalents	4 546 690	219 654	335 928	52 891	**5 155 163**
Deposits with banks	70 584 090	10 606 967	3 854 568	59 481	**85 105 106**
Loans	15 000	-	-	-	**15 000**
Securities at fair value through profit or loss	12 130 433	861 512	175 963	-	**13 167 908**
Investment securities available for sale	29 397 535	452 959	7 900	-	**29 858 394**
Receivables	16 947 214	7 342 348	4 597 907	307 810	**29 195 279**
Prepayments	2 722 322	-	-	-	**2 722 322**
Reinsurers' share of insurance provisions	14 795 768	1 754 753	809 934	1 052	**17 361 507**
Total monetary financial and insurance assets at 31 December 2015	**151 139 052**	**21 238 193**	**9 782 200**	**421 234**	**182 580 679**
Monetary financial and insurance liabilities					
Insurance provisions	62 976 902	5 472 086	4 187 062	167 118	**72 803 168**
Payables	9 614 723	5 374 070	3 764 803	154 521	**18 908 117**
Other financial liabilities	602 946	-	-	-	**602 946**
Total monetary financial and insurance liabilities at 31 December 2015	**73 194 571**	**10 846 156**	**7 951 865**	**321 639**	**92 314 231**
Net balance sheet position	**77 944 481**	**10 392 037**	**1 830 335**	**99 595**	**90 266 448**

The above analysis includes only monetary assets and liabilities. Investments in equity securities and non-financial assets and liabilities are not considered to give rise to any material currency risk.

The table below presents sensitivities of net profit or loss to reasonably possible changes in exchange rates assessed by management as applied at the reporting date, with all other variables held constant:

	The effect on profit before tax	
RR thousand	31 December 2016	31 December 2015
US Dollar strengthening by 20 %	2 257 016	1 662 726
US Dollar weakening by 20 %	(2 257 016)	(1 662 726)
Euro strengthening by 20 %	(392 888)	292 854
Euro weakening by 20 %	392 888	(292 854)
Other currencies strengthening by 20 %	(167)	15 935
Other currencies weakening by 20 %	167	(15 935)

30 Financial and Insurance Risk Management (continued)

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the respective entities of the Group. No specific procedures, other than disclosed above, are applied by the Group to manage currency risk.

Interest rate risk. Interest rate risk arises as a result of possible impact of changes in market interest rates on fair value of financial instruments or future cash flows from them. The management regularly sets and monitors limits on the level of mismatch of interest rate repricing that may be undertaken.

The analysis of sensitivity of profit or loss and equity to changes in fair values of financial assets at fair value due to fluctuations of interest rates, based on positions at 31 December 2016 and 31 December 2015 and in case of reasonably possible changes of 307 b.p. (31 December 2015: 269 b.p.), representing symmetric drop or growth of all yield curves, is presented below:

	2016		2015	
RR thousand	**Profit or loss**	**Equity**	**Profit or loss**	**Equity**
Parallel growth of 307 b.p. (31 December 2015: 269 b.p.)	(2 335 767)	(1 030 849)	(898 110)	(545 269)
Parallel drop of 307 b.p. (31 December 2015: 269 b.p.)	2 420 308	1 141 186	(95 586)	597 241

Management of the Group considers 307 b.p. (31 December 2015: 269 b.p.) change as a sufficiently accurate estimate of the interest rates volatility under the current market conditions.

Liquidity risk. Liquidity risk arises when the maturities of assets and liabilities do not match. The Group is exposed to daily calls on its available cash resources for claims settlement.

At 31 December 2016 and 31 December 2015 the management does not believe the current maturity profile of the Group’s financial assets and liabilities leads to material liquidity risk, taking into account the level of cash and deposits at the year-end as well as the nature of its securities portfolio which is realisable at the short notice if required.

30 Financial and Insurance Risk Management (continued)

For the purpose of liquidity risk evaluation the table below shows financial and insurance assets and liabilities at 31 December 2016 by their remaining expected maturity for insurance provisions and reinsurers' share of insurance provisions and contractual maturity for all other categories.

RR thousand	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Not stated maturity	Total
Assets						
Cash and cash equivalents	3 710 871	-	-	-	-	**3 710 871**
Deposits with banks	5 057 897	66 036 326	44 487 556	7 155 422	-	**122 737 201**
Securities at fair value through profit or loss	-	217 230	501 205	12 944 073	1 099 817	**14 762 325**
Investment securities available for sale	39 408	673 102	1 031 055	19 224 365	163 548	**21 131 478**
Investment securities held to maturity	-	-	-	3 755 744	-	**3 755 744**
Receivables	3 280 174	18 095 113	5 763 354	4 509 405	-	**31 648 046**
Prepayments	257 671	219 655	-	-	-	**477 326**
Reinsurers' share of insurance provisions	1 627 406	6 806 916	3 888 953	6 301 987	-	**18 625 262**
Assets held for sale and assets of a disposal group held for sale	73 416	732 378	-	-	-	**805 794**
Total financial and insurance assets	**14 046 843**	**92 780 720**	**55 672 123**	**53 890 996**	**1 263 365**	**217 654 047**
Liabilities						
Insurance provisions	7 979 467	30 501 032	16 020 544	31 475 559	-	**85 976 602**
Payables	1 943 699	7 260 756	2 347 209	835 551	-	**12 387 215**
Other financial liabilities	840 738	1 371	-	-	-	**842 109**
Liabilities directly associated with assets of a disposal group held for sale	24 769	338 961	-	-	-	**363 730**
Total financial and insurance liabilities	**10 788 673**	**38 102 120**	**18 367 753**	**32 311 110**	**-**	**99 569 656**
Net position in financial and insurance obligations	**3 258 170**	**54 678 600**	**37 304 370**	**21 579 886**	**1 263 365**	**118 084 391**
Cumulative net position	**3 258 170**	**57 936 770**	**95 241 140**	**116 821 026**	**118 084 391**	**-**

30 Financial and Insurance Risk Management (continued)

For the purpose of liquidity risk evaluation the table below shows financial and insurance assets and liabilities at 31 December 2015 by their remaining expected maturity for insurance provisions and reinsurers' share of insurance provisions and contractual maturity for all other categories.

RR thousand	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Not stated maturity	Total
Assets						
Cash and cash equivalents	5 155 163	-	-	-	-	**5 155 163**
Deposits with banks	8 118 597	37 253 806	37 345 751	2 386 952	-	**85 105 106**
Loans	-	-	15 000	-	-	**15 000**
Securities at fair value through profit or loss	10 219	364 824	743 579	12 049 286	690 603	**13 858 511**
Investment securities available for sale	2 547 802	2 177 971	4 151 658	20 980 963	151 000	**30 009 394**
Receivables	6 917 532	12 187 691	5 721 995	4 368 061	-	**29 195 279**
Prepayments	42 697	2 679 625	-	-	-	**2 722 322**
Reinsurers' share of insurance provisions	3 378 536	8 701 076	2 365 121	2 916 774	-	**17 361 507**
Total financial and insurance assets	**26 170 546**	**63 364 993**	**50 343 104**	**42 702 036**	**841 603**	**183 422 282**
Liabilities						
Insurance provisions	8 479 028	26 288 288	12 546 192	25 489 660	-	**72 803 168**
Payables	5 842 054	8 484 390	2 578 844	2 002 829	-	**18 908 117**
Other financial liabilities	541 319	27 444	28 452	5 731	-	**602 946**
Total financial and insurance liabilities	**14 862 401**	**34 800 122**	**15 153 488**	**27 498 220**	**-**	**92 314 231**
Net position in financial and insurance obligations	**11 308 145**	**28 564 871**	**35 189 616**	**15 203 816**	**841 603**	**91 108 051**
Cumulative net position	**11 308 145**	**39 873 016**	**75 062 632**	**90 266 448**	**91 108 051**	**-**

Insurance risk. An insurance risk is a risk associated with any insurance contract arising from a possibility of insurance event occurrence and uncertainty of the amount of loss incurred. The very nature of an insurance contract implies that such a risk is likely to occur accidentally, and it is derived from possibility of the insurance event and uncertainty of the amount of the resulting claim.

Insurance risk is the most significant financial risk for the Group. Possible accumulation of significant claims in such lines of business as property insurance, marine insurance, liability insurance and others is the major factor that could have a significant impact on the Group's financial results and performance indicators. Therefore, the Group chooses risk management policy and, first and foremost, reinsurance protection management policy, in order to minimize the impact of this factor.

The process of insurance risk management is implemented at stages from insurance tariffs development to insurance portfolio formation.

The system of insurance products development and implementation enables the Group to minimise the following risks associated with possible unsuccessful implementations:

- implementation of a product on the basis of unjustified insurance tariffs;

30 Financial and Insurance Risk Management (continued)

- implementation of a product not meeting market requirements;
- implementation of a product through inefficient sales channels.

The basic principle of insurance risk diversification is managing risks on the basis of a regulated tariff policy. The tariff policy is regulated on the basis of review of current portfolio structure, allocation of losses by various ranges of insurance amounts, collection of market data on other insurers' loss experience and modelling of various loss realisation projections in future.

Insurance tariffs are set on the basis of analysis of the following factors:

- expected loss ratio based on the analysis of own insurance portfolio and similar market products;
- commission rates based on market information;
- review of average market insurance tariffs.

Reinsurance. Depending on the size of insurance amount and types of insurance risks, the insurance contract may be self-retained by the Group or reinsured. Most insurance contracts are reinsured on the basis of obligatory reinsurance treaties. If a contract requires facultative reinsurance, the Group places risks in the market, among companies approved by the management of the Group.

In case of extension of obligatory treaties, the management of the Group approves limits on the basis of which the Group reinsures risks with one company or another. These limits are determined on the basis of the balance of assumed or ceded business, review of the reinsurer's protection and also on the basis of review of the reinsurer's financial position and claims handling experience.

Claims settlement. Under the insurance contract a policyholder should notify the insurer of the insurance event within the specified period. Claims settlement is carried out by special divisions of the Group, separate from the sales divisions. Claims are generally paid only after the Group receives all necessary documents confirming that the insurance event has actually occurred. If necessary, claims settlement documents are also reviewed by the economic security department, the legal department and the financial department.

If at the moment of the claim payment the policyholder had an outstanding premium payable, such outstanding amount is deducted from the amount of the claim.

If the insurance contract has been reinsured, upon the receipt of the claim notification, the Group notifies the reinsurer about the reported claim. During the entire period of the claim settlement, the reinsurer receives information on the progress of the settlement and additional expenses associated with the claim settlement. After the Group pays the claim, settlement documents are sent to the reinsurer. Loss reimbursement from the reinsurer is generally received by the Group within 90 days since the date of the direct claim payment.

Diversification of insurance portfolio. For reduction of insurance risk the Group also uses diversification of its insurance portfolio by underwriting large volume of medium and small risks together with significant risks. This, in particular, is achieved by means of developed branches network of the Group in the Russian Federation.

31 Management of Capital

The Group's objectives when managing capital are: (i) to comply with capital requirements set by Russian law and the insurance regulator, and (ii) to safeguard the Group's ability to continue as a going concern.

Insurance companies of the Group are subject to the following capital regulatory requirements (that are calculated based on financial statements prepared in accordance with Russian statutory requirements):

31 Management of Capital (continued)

- excess of actual solvency margin over the amount of regulatory solvency margin (set by Instruction of the Central bank of the Russian Federation No. 3743-U dated 28 July 2015 “On calculation of the regulatory ratio of equity (capital) and assumed liabilities by insurance organisation”);
- excess of net assets over share capital (set by the Federal law No. 208-FZ dated 26 December 1995 “On joint stock companies” and the Federal law No. 14-FZ dated 8 February 1998 “On limited liability companies” and the Order of the Ministry of Finance of the Russian Federation No. 84n dated 28 August 2014 “On approving the method of net assets valuation”);
- compliance with requirements to composition and structure of assets accepted as coverage of the insurer’s equity (set by the Order of the Central bank of the Russian Federation No. 3445-U dated 16 November 2014 “On investing the insurer's equity (capital) and list of assets allowed for investment”);
- compliance with requirements to the minimal share capital (set by the Law of the Russian Federation No. 4015-1 dated 27 November 1992 “On organisation of insurance business in the Russian Federation”).

Compliance with capital adequacy ratios is monitored quarterly or semiannually (JSC IC SOGAZ-Med) with reports outlining their calculation reviewed and signed by the Group companies’ management. The Group maintains its capital to assets ratio at a level higher than the obligatory minimal value.

Calculation of the Company’s solvency margin on the basis of reports prepared in accordance with Russian legislation is provided in the table below:

RR thousand	**31 December 2016**	**31 December 2015**
Share capital formed by ordinary shares in accordance with Russian statutory requirements	25 061 122	15 111 483
Additional paid-in capital, including property revaluation in accordance with Russian statutory requirements	1 456 093	1 623 388
Reserve capital in accordance with Russian statutory requirements	872 804	872 804
Retained earnings of the reporting year and prior years in accordance with Russian statutory requirements, including impaired receivables	50 604 642	38 679 159
Total actual solvency margin	**77 994 661**	**56 286 834**
Regulatory solvency margin	**21 725 793**	**20 793 092**
Excess of the actual solvency margin over the regulatory solvency margin, %	259.00	170.70

The companies of the Group complied with all externally imposed capital and solvency margin requirements during the years ended 31 December 2016 and 31 December 2015.

The minimal level of share capital of entities engaged exclusively in OMI is set at RR 120 000 thousand, for non-life insurance companies – at RR 120 000 thousand, at RR 240 000 thousand for life insurance companies and at RR 480 000 thousand for companies holding a license for assumed reinsurance. At 31 December 2016 and 31 December 2015 all Group companies meet the above requirements.

32 Contingent Assets and Liabilities

Legal proceedings. From time to time in the normal course of business claims against the Group may be received. On the basis of its own estimates and internal and external professional advice management believes that no material losses will be incurred by the Group.

At 31 December 2016 the Group was engaged as plaintiff in litigation proceedings in relation to various issues, such as collecting receivables under an insurance agreement, recognising an insurance agreement void pursuant to the non-payment of premiums by insurer, claims recourse and other issues related to activities of the Group. The Group was also involved in court proceedings as a defendant to claims mainly related to the denial of insurance claims payments. The Group divides proceedings based on probability of losses. For legal proceedings with high probability of losses, based on the opinion of internal experts, a loss provision amounting to RR 1 624 701 thousand was set up at 31 December 2016 (31 December 2015: RR 927 535 thousand). This provision is recognised within other liabilities in the consolidated statement of financial position (Note 20).

Tax legislation. Russian tax, currency and insurance legislation that was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to transactions and activities of the Group. Therefore, tax positions taken by management and the formal documentation supporting tax positions may be challenged by tax authorities.

Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by tax authorities for three calendar years, preceding the year of review. Under certain circumstances reviews may cover longer periods.

Russian transfer pricing legislation is closely aligned with international transfer pricing principles developed by the Organisation for Economic Cooperation and Development. This legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controllable transactions, provided that the transaction price differs from the market price. Controllable transactions include transactions with related parties and some types of transactions with unrelated parties.

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

As Russian tax legislation does not provide explicit guidance in certain areas, the Group adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Group. Management currently believes that there is a risk that outflow of resources will be required should such tax positions and interpretations be challenged by the relevant authorities. The impact of any such challenge cannot be reliably estimated, however, it may be significant to the financial position and / or the overall operations of the Group.

In addition to the above matters, management estimates that the Group has no other possible obligations from exposure to tax risks other than remote. These exposures are estimates that result from uncertainties in interpretation of applicable legislation and related documentation requirements.

The Group includes the companies incorporated outside of the Russian Federation (Note 36). Tax liabilities of the Group are determined on the assumption that these companies are not subject to Russian income tax, because they do not have a permanent establishment in the Russian Federation. Russian tax legislation does not provide detailed rules on taxation of foreign companies. It is possible that with the evolution of interpretation of these rules and changes in the approach of Russian tax authorities, non-taxable status of some or all of the foreign companies of the Group may be challenged. The impact of any such challenge cannot be reliably estimated, however, it may be significant to the financial position and / or the overall operations of the Group.

32 Contingent Assets and Liabilities (continued)

Operating lease commitments. Where the Group acts as a lessee, future lease payments under non-cancellable operating leases are as follows:

RR thousand	**2016**	**2015**
Due within 1 year	273 483	244 603
Due from 1 to 5 years	367 918	125 067
Due over 5 years	484 172	481 698
Total operating lease commitments	**1 125 573**	**851 368**

33 Fair Value of Financial Instruments

Fair value measurements are analysed and categorised by levels of fair value hierarchy as follows: (i) Level 1 are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) Level 2 measurements are valuations techniques with all material inputs observable for the asset or liability either directly or indirectly, and (iii) Level 3 measurements are valuations not based on solely observable market data. Management applies professional judgement in categorising financial instruments by fair value hierarchy. If fair value measurement uses observable inputs that require significant adjustment, it is categorized as a Level 3 measurement. Significance of valuation input is assessed against the fair value measurement in its entirety.

(a) Recurring fair value measurements

Recurring fair value measurements are those required or permited by other IFRS at the end of each reporting period.

33 Fair Value of Financial Instruments (continued)

Levels of fair value hierarchy which recurring fair value measurements are categorised into are as follows:

	31 December 2016			31 December 2015		
RR thousand	**Quoted price in an active market (Level 1)**	**Valuation technique with inputs observable in markets (Level 2)**	**Valuation technique of discounted cash flows (Level 3)**	**Quoted price in an active market (Level 1)**	**Valuation technique with inputs observable in markets (Level 2)**	**Valuation technique of discounted cash flows (Level 3)**
FINANCIAL ASSETS						
Securities at fair value through profit or loss						
- corporate bonds	8 640 808	-	56 423	6 838 845	-	554 952
- municipal bonds	2 567 510	-	-	2 411 472	-	-
- corporate shares	1 099 741	-	-	690 527	-	-
- OFZ	1 072 930	-	-	1 190 119	-	-
- corporate eurobonds	966 228	-	-	1 954 881	-	-
- foreign government bonds	201 598	-	-	175 963	-	-
- derivative financial instruments	125 856	-	-	-	-	-
- government eurobonds	31 155	-	-	41 676	-	-
- units in mutual investment funds	-	76	-	-	76	-
Investment securities available for sale						
- corporate bonds	18 408 961	1 541 074	953 731	22 230 563	239 714	604 827
- corporate eurobonds	-	-	-	6 579 559	-	-
- municipal bonds	64 164	-	-	203 731	-	-
- corporate shares	-	-	163 548	-	-	151 000

Description of valuation techniques and description of inputs used in fair value measurement for Level 2 measurements at 31 December 2016 are set out in the table below:

RR thousand	**Fair value**	**Valuation technique**	**Inputs used**
Financial assets at fair value			
Securities at fair value through profit or loss			
- units in mutual investment funds	76	Multiplier of net assets	Fair value of net assets
Investment securities available for sale			
- corporate bonds	1 541 074	Market data of comparable companies	“Average weighted price” quote at Moscow stock exchange, “Market price 3” quote at Moscow stock exchange
Total recurring fair value measurements at Level 2	**1 541 150**		

There were no changes in valuation techniques for Level 2 recurring fair value measurements during the years ended 31 December 2016 and 31 December 2015.

33 Fair Value of Financial Instruments (continued)

Valuation techniques and inputs used in the fair value measurement for Level 3 measurements and related sensitivity to reasonably possible changes in those inputs are as follows at 31 December 2016:

RR thousand	**Fair value**	**Valuation technique**	**Inputs used**	**Range of inputs (weighted average)**	**Reasonable change**	**Sensitivity of fair value measurements**
Financial assets at fair value						
Securities at fair value through profit or loss						
- corporate bonds	56 423	Discounted cash flows model	Yield to maturity	10.06%	+ 2.5 % - 2.5 %	7 474 (6 477)
Investment securities available for sale						
- corporate bonds	953 731	Discounted cash flows model	Yield to maturity	12.36% -12.85 %	+ 2.5 % - 2.5 %	138 643 (113 282)
- corporate shares	163 548	Value of net assets	Statement of financial position	-	-	-
Total recurring fair value measurements at Level 3	**1 173 702**	**-**	-	**-**	**-**	**-**

The above table discloses sensitivity to valuation inputs for financial assets and financial liabilities, if changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change fair value significantly. For this purpose, significance of its impact was judged with respect to profit or loss and total assets or, when changes in fair value are recognised in other comprehensive income, total equity.

There were no changes in valuation techniques for Level 3 recurring fair value measurements during the years ended 31 December 2016 and 31 December 2015.

33 Fair Value of Financial Instruments (continued)

Transfers between levels of fair value hierarchy are deemed to have occurred at the end of the reporting period. A reconciliation of movements in Level 3 of the fair value hierarchy by class of instruments is as follows:

	Securities at fair value through profit or loss		Investment securities available for sale			
	Corporate bonds		Corporate bonds		Corporate shares	
RR thousand	2016	2015	2016	2015	2016	2015
Fair value at 1 January	**554 952**	**175 206**	**604 827**	**496 611**	**151 000**	**151 000**
Realisation	(347 135)	(74 249)	-	-	-	-
Transfers out of Level 3	(148 130)	-	(322 057)	-	-	-
Interest income received	(7 475)	(17 779)	(39 472)	(45 493)	-	-
Interest income accrued	2 263	17 775	37 949	51 507	-	-
Revaluation	1 948	522	(7 739)	2 179	-	-
Additions	-	252 816	680 223	100 023	12 548	-
Transfers into Level 3	-	200 661	-	-	-	-
Fair value at 31 December	**56 423**	**554 952**	**953 731**	**604 827**	**163 548**	**151 000**

(b) Valuation processes for recurring Level 3 fair value measurements

Level 3 fair value measurements are analysed on a monthly basis. The Group considers appropriateness of valuation model inputs, as well as valuation results using various valuation methods generally recognised as standard within the financial services industry. In selecting the most appropriate valuation model the Group considers which model's results are aligned most closely to the actual market transactions. In order to value Level 3 equity investments, the Group utilises net assets method. Level 3 debt instruments are valued at net present value of estimated future cash flows. The Group also considers liquidity, credit and market risk factors, and adjusts valuation models as deemed necessary.

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

Fair values in Level 2 and Level 3 of fair value hierarchy were estimated using discounted cash flows method. Fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Fair value of investment property and premises and equipment was determined based on reports of independent appraisers and market data on similar properties.

33 Fair Value of Financial Instruments (continued)

Fair values analysed by levels of fair value hierarchy and carrying values of assets and liabilities not measured at fair value are as follows:

	31 December 2016				31 December 2015		
(в тысячах рублей)	**Level 1**	**Level 2**	**Level 3**	**Carrying value**	**Level 2**	**Level 3**	**Carrying value**
INSURANCE AND FINANCIAL ASSETS							
Deposits with banks	-	122 401 587	-	122 737 201	85 295 622	-	85 105 106
Loans	-	-	-	-	-	15 439	15 000
Receivables	-	-	30 605 601	31 648 046	-	28 336 236	29 195 279
Prepayments	-	-	470 102	477 326	-	2 655 006	2 722 322
Investment securities held to maturity	3 755 744	-	-	3 755 744	-	-	-
NON-FINANCIAL ASSETS							
Premises and equipment	-	-	11 920 865	9 756 820	-	11 261 575	8 677 344
Investment property	-	-	1 313 260	1 202 449	-	819 497	702 895
Total	**3 755 744**	**122 401 587**	**44 309 828**	**169 577 586**	**85 295 622**	**43 087 753**	**126 417 946**
INSURANCE AND FINANCIAL LIABILITIES							
Payables	-	-	12 179 527	12 387 215	-	18 562 771	18 908 117
Other financial liabilities	-	-	838 566	842 109	-	597 045	602 946
Total	**-**	**-**	**13 018 093**	**13 229 324**	**-**	**19 159 816**	**19 511 063**

For assets the Group used assumptions about counterparty's incremental borrowing rate and prepayment rates. Liabilities were discounted at the Group's own incremental borrowing rate. Liabilities due on demand were discounted from the first date that the amount could be required to be paid by the Group.

34 Presentation of Financial Instruments by Measurement Category

In accordance with IAS 39 “Financial instruments: recognition and measurement”, the Group classifies financial assets into the following categories: (a) loans and receivables; (b) financial assets held to maturity; (c) financial assets available for sale; and (d) financial assets at fair value through profit or loss.

The following table provides a reconciliation of classes of financial assets with measurement categories at 31 December 2016:

RR thousand	Loans and receivables	Assets available for sale	Assets at fair value through profit or loss	Assets held to maturity	Total
ASSETS					
Cash and cash equivalents	3 710 871	-	-	-	**3 710 871**
Deposits with banks	122 737 201	-	-	-	**122 737 201**
Securities at fair value through profit or loss	-	-	14 762 325	-	**14 762 325**
Investment securities available for sale	-	21 131 478	-	-	**21 131 478**
Receivables	746 670	-	-	-	**746 670**
Investment securities held to maturity	-	-	-	3 755 744	**-**
Prepayments	477 326	-	-	-	**477 326**
TOTAL FINANCIAL ASSETS	**127 672 068**	**21 131 478**	**14 762 325**	**3 755 744**	**163 565 871**

The following table provides a reconciliation of classes of financial assets with measurement categories at 31 December 2015:

RR thousand	Loans and receivables	Assets available for sale	Assets at fair value through profit or loss	Total
ASSETS				
Cash and cash equivalents	5 155 163	-	-	**5 155 163**
Deposits with banks	85 105 106	-	-	**85 105 106**
Loans	15 000	-	-	**15 000**
Securities at fair value through profit or loss	-	-	13 858 511	**13 858 511**
Investment securities available for sale	-	30 009 394	-	**30 009 394**
Receivables	379 704	-	-	**379 704**
Prepayments	2 722 322	-	-	**2 722 322**
TOTAL FINANCIAL ASSETS	**93 377 295**	**30 009 394**	**13 858 511**	**137 245 200**

At 31 December 2016 and 31 December 2015 all financial liabilities of the Group are recognised at amortised cost.

35 Related Party Transactions

For the purposes of these consolidated financial statements parties are considered to be related if one party has the ability to control the other party or 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. Related parties are shareholders that have significant influence on the Group. Subsidiaries of these shareholders also have significant influence on the Group and are treated as related parties. Outstanding balances at the end of the period, as well as income and expenses for the period with related parties are as follows:

	31 December 2016		31 December 2015	
RR thousand	**Shareholders and their subsidiaries**	**Associates**	**Shareholders and their subsidiaries**	**Associates**
Cash and cash equivalents	3 050 278	-	3 223 069	-
Deposits with banks	14 374 450	-	9 793 909	-
Securities at fair value through profit or loss	1 343 990	-	1 196 694	-
Investment securities available for sale	624 182	-	4 247 215	-
Investments in associates	-	8 749 222	-	11 313 684
Receivables	6 638 646	394 238	4 220 572	655 233
Investment securities held to maturity	23 468	-	-	-
Insurance provisions	28 687 111	-	18 437 861	-
Payables	303 321	376 072	452 694	377 023
Other financial liabilities	2 793	113	2 076	1 094
Dividends	(6 828 922)	-	(6 828 921)	-

	2016		2015	
RR thousand	**Shareholders and their subsidiaries**	**Associates**	**Shareholders and their subsidiaries**	**Associates**
Gross premiums written	53 241 077	3 247 568	38 533 212	250 168
Premiums ceded	(175 868)	-	-	-
Changes in the prior years' contracts	(205 819)	(65 691)	(109 568)	-
Gross claims paid	(18 487 875)	(184 305)	(15 251 100)	(173 824)
Acquisition costs	(262 551)	(276 904)	(244 153)	-
Changes in fair value reserve for investment securities available for sale	(34 757)	-	513 008	-
Realised and unrealised gains less losses from transactions with securities at fair value through profit or loss	39 344	3 035	47 066	-
Interest income	1 326 193	144 904	1 174 879	5 520
Administrative and other operating expenses	(67 599)	(229 128)	(68 540)	(217 630)
Other operating income	22 413	362	15 846	180

35 Related Party Transactions (continued)

In the year ended 31 December 2016 the Company's key management personnel total remuneration, consisting of basic salary, bonuses and compensations, amounted to RR 1 829 309 thousand (the year ended 31 December 2015: RR 1 723 934 thousand). In the year ended 31 December 2016 total remuneration of the Group's subsidiaries management, consisting of basic salary and bonuses, amounted to RR 317 322 thousand (the year ended 31 December 2015: RR 335 366 thousand). All remuneration to key management personnel is short-term. Short-term bonuses fall due within twelve months after the end of the period in which management rendered related services.

Moreover, the Group is under significant influence of Russian Government and in the course of its ordinary operations interacts with various companies controlled by the state. The Group applied exemption described in paragraph 25 of IAS 24 in respect of disclosure of transactions with entities under control or significant influence of the state, or entities under joint state control.

Debt instruments of the Group are placed on an arm's length basis.

36 Main Subsidiaries and Business Combinations

At 31 December 2016 the following subsidiaries of the Group have been included into the consolidated financial statements for the year ended 31 December 2016:

Name	Country of incorporation	Effective percentage of equity controlled	Principal activity
JSC IC SOGAZ-Med	The Russian Federation	100 %	OMI
LLC IC Dal-Rosmed	The Russian Federation	100 %	OMI
LLC Municipal Insurance Company of Krasnodar – Medicine	The Russian Federation	100 %	OMI
LLC SOGAZ-Medservice	The Russian Federation	100 %	Intermediary services provider
LLC IC SOGAZ-Life	The Russian Federation	100 %	Life insurance
LLC International Medical Centre SOGAZ	The Russian Federation	100 %	Medical activity
LLC SOGAZ-PROFMEDICINE	The Russian Federation	100 %	Medical activity
LLC SOGAZ-Finance	The Russian Federation	100 %	Finance, loans, support to business process in the area of insurance services
JSC SOGAZ Tower	The Russian Federation	100 %	Property management
LLC SOGAZ-Realty	The Russian Federation	100 %	Finance, loans, pensions, support to business process in the area of insurance services
LLC Valdaiskoye Podvorje	The Russian Federation	100 %	Specialised tourist services
LLC SOGAZ-Broker	The Russian Federation	100 %	Finance, loans, support to business process in the area of insurance services
Lenachan Trading Limited	Cyprus	100 %	Dormant
LLC SOGAZ-INVEST	The Russian Federation	100 %	Specialised tourist services, hotel business
SOGAZ JSIC NOVI SAD	Serbia	51 %	Insurance
JSC IC Transneft	The Russian Federation	100 %	Insurance
LLC Pipeline insurance company	The Russian Federation	100 %	Insurance
LLC Parex	The Russian Federation	60 %	Dormant
Insurance Company ZhASO	The Russian Federation	100 %	Insurance
LLC ZHASO-LIFE	The Russian Federation	100 %	Insurance
JSC YUZHURALZHASO	The Russian Federation	97.95 %	Insurance
LLC IMC ZHASO-Med	The Russian Federation	100 %	OMI
JSC IC REGIONGARANT	The Russian Federation	100 %	Insurance

36 Main Subsidiaries and Business Combinations (continued)

In December 2015 the Company entered into two contracts for purchase of 100 % shares of Insurance Company ZhASO. Under the transaction terms the title to 100 % shares could be transferred to the Company only after receiving a due permit from the Federal Anti-Monopoly Service. Consequently, in December 2015 the Company acquired 24.99 % shares of Insurance Company ZhASO and at 31 December 2015 recognised them within investments in associates.

The title to the remaining 75.01 % share transferred to the Company at 10 February 2016 when the Company received the permit from the Federal Anti-Monopoly Service to acquire 100 % of Insurance Company ZhASO shares. Therefore, at 10 February 2016 the Group obtained control over Insurance Company ZhASO.

The information on the fair values of acquired assets and liabilities is as follows:

RR thousand	**Fair value at the acquisition date**
Cash and cash equivalents	768 465
Deposits with banks	6 355 501
Investment securities available for sale	9 639
Receivables	2 765 730
Prepayments	67 499
Current income tax prepayment	98 828
Reinsurers' share of life provision	180
Reinsurers' share of UPR	80 780
Reinsurers' share of loss provisions	91 033
Deferred acquisition costs	89 501
Deferred income tax asset	154 577
Premises and equipment	1 340 228
Client base	210 894
Other assets	30 521
Life provision	(255 459)
UPR	(4 137 646)
Loss provision	(3 598 000)
URP	(194 027)
Deferred commission income	(10 786)
Payables	(671 345)
Current income tax liability	(63)
Deferred income tax liability	(42 179)
Net assets of subsidiary	**3 153 871**
Less: non-controlling interest (Note 21)	(3 871)
Total purchase consideration	**3 150 000**
Less: cash and cash equivalents of subsidiary acquired	(768 465)
Less: prepayment for shares of the associate	(3 150 000)
Inflow of cash and cash equivalents resulting from gaining control over the subsidiary	**(768 465)**

At 31 December 2016 net assets of JSC YUZHURALZHASO and LLC ZHASO-LIFE, that are subsidiaries of Insurance Company ZhASO, are recognised at their carrying values as assets of a disposal group held for sale due to the Group's intention to sell those companies.

36 Main Subsidiaries and Business Combinations (continued)

At 26 February 2016 the Group acquired the remaining 56 % share in LLC MSC. As a result of this transaction 100 % share of LLC MSC is owned by the Group. At 21 April 2016 the Group exited from LLC MSC. Effective value of the Group share was paid by 100 % share in LLC Municipal Insurance Company of Krasnodar – Medicine. As a result of these transactions 100 % share in LLC Municipal Insurance Company of Krasnodar – Medicine is owned by the Group. The information on the fair values of acquired assets and liabilities is as follows:

RR thousand	**Fair value at the acquisition date**
Cash and cash equivalents	1 745
Deposits with banks	36 589
Receivables	777
Prepayments	158 478
Investment property	11 282
Deferred income tax asset	9 345
Premises and equipment	30 800
Intangible assets	334
Payables	(58 720)
Other liabilities	(139 114)
Net assets of subsidiary	**51 516**
Total purchase consideration	**51 516**
Less: cash and cash equivalents of subsidiary acquired	(1 745)
Less: investment in the company before gaining control	(28 696)
Outflow of cash and cash equivalents resulting from gaining control over the subsidiary	**21 075**

36 Main Subsidiaries and Business Combinations (continued)

At 26 December 2016 the Group acquired 100 % share in JSC IC REGIONGARANT. The information on the fair values of acquired assets and liabilities is as follows:

RR thousand	**Fair value at the acquisition date**
Cash and cash equivalents	46 410
Deposits with banks	1 882 491
Investment securities available for sale	72 308
Receivables	115 093
Prepayments	32 761
Current income tax prepayment	26 898
Reinsurers' share of UPR	54 984
Reinsurers' share of loss provisions	67 726
Deferred acquisition costs	13 236
Premises and equipment	120 878
Intangible assets	51
Life provision	(2 407)
UPR	(382 543)
Loss provision	(325 119)
URP	(12 782)
Payables	(74 951)
Deferred income tax liability	(121 759)
Other liabilities	(83 275)
Net assets of subsidiary	**1 430 000**
Total purchase consideration	**1 430 000**
Less: cash and cash equivalents of subsidiary acquired	(46 410)
Outflow of cash and cash equivalents resulting from acquisition of subsidiary	**1 383 590**

At 17 May 2016 the Group acquired the remaining 1.1 % share in JSC IC Transneft. As a result of this transaction 100 % share in JSC IC Transneft is owned by the Group at 31 December 2016.

36 Main Subsidiaries and Business Combinations (continued)

Comparative information for the year ended 31 December 2015

At 31 December 2015 the following subsidiaries of the Group have been included into the consolidated financial statements for the year ended 31 December 2015:

Name	Country of incorporation	Effective percentage of equity controlled	Principal activity
JSC IC SOGAZ-Med	The Russian Federation	100 %	OMI
LLC IC Dal-Rosmed	The Russian Federation	100 %	OMI
LLC IC Medika-Tomsk	The Russian Federation	100 %	OMI
LLC SOGAZ-Medservice	The Russian Federation	100 %	Intermediary services provider
LLC IC SOGAZ-Life	The Russian Federation	100 %	Life insurance
LLC International Medical Centre SOGAZ	The Russian Federation	100 %	Medical activity
LLC SOGAZ-PROFMEDICINE	The Russian Federation	100 %	Medical activity
LLC SOGAZ-Finance	The Russian Federation	100 %	Finance, loans, support to business process in the area of insurance services
JSC SOGAZ Tower	The Russian Federation	100 %	Property management
LLC SOGAZ-Realty	The Russian Federation	100 %	Finance, loans, pensions, support to business process in the area of insurance services
LLC Valdaiskoye Podvorje	The Russian Federation	100 %	Specialised tourist services
LLC SOGAZ-Broker	The Russian Federation	100 %	Finance, loans, support to business process in the area of insurance services
Lenachan Trading Limited	Cyprus	100 %	Dormant
SOGAZ JSIC NOVI SAD	Serbia	51 %	Insurance
JSC IC Transneft	The Russian Federation	98.9 %	Insurance
LLC Pipeline Insurance Company	The Russian Federation	98.9 %	Insurance
LLC Insurance Company IC AL-SO	The Russian Federation	100 %	Insurance
LLC Parex	The Russian Federation	60 %	Dormant

At 30 March 2015 the Company, being the sole participant of LLC IC SOGAZ-Agro, decided to include third parties into the entity's equity holders. As a result of this decision, the Group’s share in LLC IC SOGAZ-Agro decreased by 2.63 %.

At 2 April 2015 the Company acquired the remaining 0.26 % in the share capital of LLC Insurance Company IC Alrosa.

At 23 April 2015 the Company exited from LLC IC SOGAZ-Agro. The actual value of the Company’s 97.37 % share was RR 804 060 thousand. The gain on disposal of the subsidiary was RR 345 577 thousand.

36 Main Subsidiaries and Business Combinations (continued)

Information about disposed assets and liabilities at 23 April 2015 is as follows:

RR thousand	**Carrying value at the disposal date**
Cash and cash equivalents	25 818
Deposits with banks	230 945
Prepayments	554
Premises and equipment	232 397
Payables	(4 766)
Deferred income tax liability	(6 258)
Other liabilities	(7 823)
Net assets of subsidiary	**470 867**
Less: non-controlling interest (Note 21)	(12 384)
Carrying value of disposed net assets of subsidiary	**458 483**
Gain on disposal of subsidiary (Note 26)	345 577
Less: cash and cash equivalents of subsidiary disposed	(25 818)
Less non-cash consideration	(648 156)
Inflow of cash and cash equivalents on subsidiary disposal	**130 086**

At 23 September 2015 the Group acquired 33 % in the share capital of LLC Dal-Rosmed which renders OMI and VMI services. At 24 September 2015 as a result of exit of other equity holders from LLC Dal-Rosmed, the Group became the sole participant of LLC Dal-Rosmed and gained control over the company. Information about acquired assets and liabilities at 24 September 2015 is as follows:

RR thousand	**Fair value at the acquisition date**
Cash and cash equivalents	154 413
Deposits with banks	69 972
Loans	5 018
Receivables	24 893
Prepayments	807 967
Current income tax prepayment	821
Deferred acquisition costs	125
Premises and equipment	38 314
Intangible assets	194
Client base	163 487
Loans received	(24 304)
UPR	(34 555)
Loss provision	(3 917)
Payables	(12 151)
Deferred income tax liability	(33 046)
Other liabilities	(929 987)
Net assets of subsidiary	**227 244**
Goodwill arising on acquisition	40 854
Total purchase consideration	**268 098**
Less: cash and cash equivalents of subsidiary acquired	(154 413)
Outflow of cash and cash equivalents on acquisition	**113 685**

36 Main Subsidiaries and Business Combinations (continued)

At 29 June 2015 JSC MSK Dalmedstrakh merged with JSC Insurance Company SOGAZ-Med.

At 2 October 2015 the subsidiary LLC Insurance Company IC Alrosa was renamed into LLC Insurance Company IC AL-SO.

At 23 December 2015 the Group sold 25.8 % share in insurance company SOVAG. As a result, the Group lost control over SOVAG. At 31 December 2016 and 31 December 2015 the Group maintains 25.1 % of SOVAG shares and recognises them within investments in associates (Note 11). Information about disposed assets and liabilities at 23 December 2015 is disclosed in the table below:

RR thousand	**Carrying value at the disposal date**
Cash and cash equivalents	1 658 129
Deposits with banks	10 848
Loans	32 893
Securities at fair value through profit or loss	5 104 969
Investment securities available for sale	1 515 487
Receivables	3 199 471
Prepayments	174 731
Reinsurers’ share in provision for unearned premiums	587 344
Reinsurers’ share of loss provisions	4 498 898
Deferred acquisition costs	212 496
Deferred income tax asset	629 236
Premises and equipment	406 168
Intangible assets	530 949
Other assets	1 256 144
UPR	(1 269 046)
Loss provision	(10 104 866)
URP	(87 782)
Deferred commission income	(91 107)
Payables	(3 461 787)
Deferred income tax liability	(1 000 534)
Other liabilities	(6 119)
Net assets of subsidiary	**3 796 522**
Less: non-controlling interest (Note 21)	(1 889 811)
Carrying value of disposed net assets of subsidiary	**1 906 711**
Recognition of investment in associate	(952 927)
Reclassification of amounts previously recognised within other comprehensive income into profit or loss	(632 586)
Gain on disposal of subsidiary (Note 26)	669 692
Less: cash and cash equivalents of subsidiary disposed	(1 658 129)
Offset of receivables for shares of disposed subsidiary against contribution payable to the subsidiary’s share capital	(602 817)
Outflow of cash and cash equivalents on disposal	**(1 270 056)**

37 Events after the Reporting Date

LLC IMC ZHASO-Med and LLC Pipeline Insurance Company were liquidated at 13 February 2017 and 23 March 2017, respectively.