CREDIT BANK OF MOSCOW
(public joint-stock company)

Consolidated Financial Statements
for the year ended 31 December 2017

Contents

Independent Auditors' Report

To the Shareholders and Supervisory Board of CREDIT BANK OF MOSCOW (public joint-stock company)

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of CREDIT BANK OF MOSCOW (public joint-stock company) (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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 *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the independence requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation and with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the requirements in the Russian Federation and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of loans to customers	
Please refer to note 13 in the consolidated financial statements.	
The key audit matter	**How the matter was addressed in our audit**
The impairment of loans to customers is estimated by management through application of judgment and use of highly subjective assumptions. Due to the significance of loans to customers (representing 41% of total assets) and the related estimation uncertainty, this is considered a key audit risk. For loans to corporate clients we focused on most significant loan exposures and analysed the adequacy of collective impairment allowance versus historical losses incurred and the assumptions and methodology used for calculation of impairment allowance for loans with signs of impairment. For loans to individuals we focused on key assumptions and judgements made by the Group in calculation of impairment allowance.	We assessed and tested the design and operating effectiveness of the controls over impairment identification for loans to corporate clients. With respect to unimpaired loans to corporate clients, where impairment is calculated based on historical data, we assessed whether historical experience was reflective of the losses incurred in the portfolio based upon the current economic environment and the current circumstances of the borrowers by comparing historical information to our own assessment. For a sample of exposures that were subject to an individual impairment assessment, we specifically challenged the Group's assumptions on the expected future cash flows, including the analysis of cash flows from operating activities and value of realizable collateral based on our own understanding of relevant industry-specific and other available market information. For impairment of loans to individuals calculated using statistical models, we tested the basis and operation of those models and the data used. • We tested whether historical losses are calculated accurately and compared main assumptions to our own assessment in relation to key inputs. • We tested system-generated reports for impairment calculation in respect of completeness and accuracy of data used and the calculations within the reports. We also assessed IT controls over timely reflection of default events in the underlying systems. We also assessed whether the consolidated financial statement disclosures appropriately reflect the Group's exposure to credit risk.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual report for the year ended 31 December 2017 but does not include the consolidated financial statements and our auditors' report thereon. The Annual report is expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

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

Auditors' 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 auditors' 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 the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report of findings from procedures performed in accordance with the requirements of Federal Law No. 395-1, dated 2 December 1990, *On Banks and Banking Activity*

Management is responsible for the Group's compliance with mandatory ratios and for maintaining internal controls and organizing risk management systems in accordance with the requirements established by the Bank of Russia.

In accordance with Article 42 of Federal Law No. 395-1, dated 2 December 1990 *On Banks and Banking Activity* (the "Federal Law"), we have performed procedures to examine:

— the Group's compliance with mandatory ratios as at 1 January 2018 established by the Bank of Russia; and

— whether the elements of the Group's internal control and organization of its risk management systems comply with the requirements established by the Bank of Russia.

These procedures were selected based on our judgment, and were limited to the analysis, inspection of documents, comparison of the Bank's internal policies, procedures and methodologies with the applicable requirements established by the Bank of Russia, and recalculations, comparisons and reconciliations of numerical data and other information.

Our findings from the procedures performed are reported below.

— Based on our procedures with respect to the Group's compliance with the mandatory ratios established by the Bank of Russia, we found that the Group's mandatory ratios, as at 1 January 2018, were within the limits established by the Bank of Russia.

  We have not performed any procedures on the accounting records maintained by the Group, other than those which we considered necessary to enable us to express an opinion as to whether the Group's consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards.

— Based on our procedures with respect to whether the elements of the Group's internal control and organization of its risk management systems comply with the requirements established by the Bank of Russia, we found that:

  - as at 31 December 2017, the Bank's internal audit function was subordinated to, and reported to, the Supervisory Board, and the risk management function was not subordinated to, and did not report to, divisions taking relevant risks in accordance with the regulations and recommendations issued by the Bank of Russia;

  - the Bank's internal documentation, effective on 31 December 2017, establishing the procedures and methodologies for identifying and managing the Group's significant credit, operational, market, interest rate, legal, liquidity and reputational risks, and for stress-testing, was approved by the authorised management bodies of the Bank in accordance with the regulations and recommendations issued by the Bank of Russia;

  - as at 31 December 2017, the Bank maintained a system for reporting on the Group's significant credit, operational, market, interest rate, legal, liquidity and reputational risks, and on the Group's capital;

  - the frequency and consistency of reports prepared by the Bank's risk management and internal audit functions during 2017, which cover the Group's credit, operational, market, interest rate, legal, liquidity and reputational risk management, was in compliance with the Bank's internal documentation. The reports included observations made by the Bank's risk management and internal audit functions as to their assessment of the effectiveness of the Group's procedures and methodologies, and recommendations for improvement;

  - as at 31 December 2017, the Supervisory Board and Executive Management of the Bank had responsibility for monitoring the Group's compliance with the risk limits and capital adequacy ratios established in the Bank's internal documentation. In order to monitor the effectiveness of the Group's risk management procedures and their consistent application during 2017, the Supervisory Board and Executive Management of the Bank periodically discussed the reports prepared by the risk management and internal audit functions, and considered the proposed corrective actions.

Procedures with respect to elements of the Group's internal control and organization of its risk management systems were performed solely for the purpose of examining whether these elements, as prescribed in the Federal Law and as described above, comply with the requirements established by the Bank of Russia.

The engagement partner on the audit resulting in this independent auditors' report is:

Kolosov A. E.

JSC "KPMG"

Moscow, Russian Federation

28 March 2018

(in millions of Russian Roubles unless otherwise stated)

	Notes	2017	2016
Interest income	4	126 959	113 398
Interest expense	4	(81 679)	(73 099)
Net interest income	4	**45 280**	**40 299**
Provision for impairment of loans	13	(18 597)	(29 783)
Net interest income after provision for impairment of loans		**26 683**	**10 516**
Fee and commission income	5	15 510	13 394
Fee and commission expense	5	(3 002)	(2 247)
Net gain on financial instruments at fair value through profit or loss		773	235
Net realized gain and impairment of available-for-sale assets		341	1 208
Net foreign exchange gains		2 701	6 065
State deposit insurance scheme contributions		(1 286)	(920)
Operating lease income		1 634	1 252
Net income from disposal of subsidiaries	33	1 076	-
Other operating losses, net		(593)	(549)
Non-interest income		**17 154**	**18 438**
Operating income		**43 837**	**28 954**
Salaries and employment benefits	6	(9 516)	(7 700)
Administrative expenses	6	(5 377)	(5 260)
Depreciation of property and equipment	14	(1 863)	(1 481)
Provisions for impairment of other assets and credit related commitments	7	(264)	(778)
Operating expense		**(17 020)**	**(15 219)**
Profit before income taxes		**26 817**	**13 735**
Income tax	8	(6 114)	(2 861)
Profit for the year		**20 703**	**10 874**

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes, forming an integral part of the consolidated financial statements.

(in millions of Russian Roubles unless otherwise stated)

	Notes	2017	2016
Profit for the year		**20 703**	**10 874**
Other comprehensive (loss) income			
Items that will not be reclassified subsequently to profit or loss:			
- revaluation of buildings		(132)	(102)
- income tax for revaluation of buildings		26	20
Items that are or may be reclassified subsequently to profit or loss:			
Revaluation reserve for available-for-sale securities:			
- net change in fair value		474	1 558
- net change in fair value transferred to profit or loss		(545)	(1 269)
- income tax related to revaluation reserve for securities		14	(58)
Exchange differences on translation:			
- exchange differences on translation		6	45
- exchange differences transferred to profit or loss on disposal of subsidiary		(51)	-
- income tax related to exchange differences on translation		6	(6)
Other comprehensive (loss) income for the year, net of tax		**(202)**	**188**
Total comprehensive income for the year		**20 501**	**11 062**
Basic and diluted earnings per share (in RUB per share)	32	**0.85**	**0.46**

Chairman of the Management Board — Vladimir A. Chubar

Chief Accountant — Svetlana V. Sass

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes, forming an integral part of the consolidated financial statements.

(in millions of Russian Roubles unless otherwise stated)

	Notes	31 December 2017	31 December 2016
ASSETS			
Cash and cash equivalents	9	934 033	373 327
Obligatory reserves with the Central bank of the Russian Federation		8 884	7 287
Deposits in credit and other financial institutions	10	16 369	403 480
Financial instruments at fair value through profit or loss, including	11	117 282	83 909
- *pledged under sale and repurchase agreements*	*11*	*21 763*	*6 544*
Available-for-sale securities, including	12	25 066	45 903
- *pledged under sale and repurchase agreements*	*12*	*1 793*	*19 818*
Loans to customers	13	768 676	626 535
- *loans to corporate customers*	*13*	*685 937*	*533 470*
- *loans to individuals*	*13*	*82 739*	*93 065*
Property and equipment	14	7 866	21 278
Deferred tax assets	8	281	-
Other assets	15	9 734	6 250
Total assets		**1 888 191**	**1 567 969**
LIABILITIES AND EQUITY			
Deposits by the Central bank of the Russian Federation	16	-	247 170
Deposits by credit institutions	17	639 861	381 624
Due to customers	18	941 724	689 496
- *due to corporate customers*	*18*	*650 507*	*440 842*
- *due to individuals*	*18*	*291 217*	*248 654*
Debt securities issued	19	116 280	137 203
Deferred tax liabilities	8	3 779	190
Other liabilities	20	8 958	8 885
Total liabilities		**1 710 602**	**1 464 568**
Equity			
Share capital	21	27 942	24 742
Additional paid-in capital		46 247	35 047
Perpetual debt issued	21	40 320	-
Revaluation surplus for buildings		582	688
Revaluation reserve for available-for-sale securities		394	451
Currency translation reserve		-	39
Retained earnings		62 104	42 434
Total equity		**177 589**	**103 401**
Total liabilities and equity		**1 888 191**	**1 567 969**

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Chairman of the Management Board — Vladimir A. Chubar

Chief Accountant — Svetlana V. Sass

The consolidated statement of financial position is to be read in conjunction with the notes, forming an integral part of the consolidated financial statements.

(in millions of Russian Roubles unless otherwise stated)

	Notes	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		129 680	109 337
Interest payments		(77 607)	(69 793)
Fees and commission receipts		15 606	13 714
Fees and commission payments		(2 989)	(2 247)
Net receipts from operations with securities		1 103	1 328
Net receipts from foreign exchange		13 495	3 037
State deposit insurance scheme contributions payments		(1 223)	(851)
Net other operating (payments) income receipts		(782)	242
Operating leases income receipts		1 633	1 241
Salaries and employment benefits paid		(9 312)	(7 684)
Administrative expenses paid		(5 081)	(4 990)
Income tax paid		(4 592)	(3 414)
Operating cash flows before changes in operating assets and liabilities		**59 931**	**39 920**
(Increase) decrease in operating assets			
Obligatory reserves with the Central bank of the Russian Federation		(1 597)	(1 350)
Deposits in credit and other financial institutions		366 282	(177 327)
Financial instruments at fair value through profit or loss		5 644	(11 390)
Loans to customers		(161 646)	(95 123)
Other assets		(1 168)	1 132
(Decrease) increase in operating liabilities			
Deposits by the Central bank of the Russian Federation		(237 786)	249 439
Deposits by credit institutions except syndicated and subordinated loans		247 939	319 981
Due to customers except subordinated debt		191 557	(128 548)
Promissory notes issued		(1 113)	238
Other liabilities		1 137	1 167
Net cash from operations		**469 180**	**198 139**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of available-for-sale securities		(89 718)	(51 859)
Proceeds from disposal and redemption of available-for-sale securities		108 347	80 457
Net payments on acquisition of subsidiary		-	(194)
Net cash outflow on disposal of subsidiary		(265)	-
Purchase of property and equipment		(1 980)	(913)
Sale of property and equipment		3	77
Purchase of investment property		-	(370)
Net cash from investing activities		**16 387**	**27 198**

The consolidated statement of cash flows is to be read in conjunction with the notes, forming an integral part of the consolidated financial statements.

(in millions of Russian Roubles unless otherwise stated)

	Notes	2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of share capital		14 400	-
Proceeds from placement and issuance of perpetual debt		40 818	-
Interest on perpetual debt paid		(1 852)	-
Proceeds from subordinated deposits		22 000	-
Repayments of subordinated deposits		(582)	(701)
Proceeds from syndicated borrowings		28 006	-
Proceeds from placement and issuance of subordinated bonds		33 933	-
Repayments from subordinated bonds		(23 481)	-
Proceeds from placement and issuance of other bonds		13 229	44 536
Repayments of other bonds		(38 486)	(14 870)
Net cash from financing activities		**87 985**	**28 965**
Effect of exchange rates changes on cash and cash equivalents		(12 846)	(18 990)
Change in cash and cash equivalents		**560 706**	**235 312**
Cash and cash equivalents, beginning of the year		373 327	138 015
Cash and cash equivalents, end of the year	9	**934 033**	**373 327**

Chairman of the Management Board — Vladimir A. Chubar

Chief Accountant — Svetlana V. Sass

The consolidated statement of changes in equity is to be read in conjunction with the notes, forming an integral part of consolidated financial statements.

(in millions of Russian Roubles unless otherwise stated)

	Share capital	Additional paid-in capital	Perpetual debt issued	Revaluation surplus for buildings	Revaluation reserve for available-for-sale securities	Currency translation reserve	Retained earnings	Total equity
1 January 2016	24 742	35 047	-	769	220	-	31 560	92 338
Total comprehensive income for the year	-	-	-	(81)	231	39	10 874	11 063
31 December 2016	24 742	35 047	-	688	451	39	42 434	103 401
1 January 2017	24 742	35 047	-	688	451	39	42 434	103 401
Total comprehensive income for the year	-	-	-	(106)	(57)	(39)	20 703	20 501
Issue of share capital	3 200	11 200	-	-	-	-	-	14 400
Interest paid on perpetual debt issued	-	-	-	-	-	-	(1 852)	(1 852)
Perpetual debt issued (note 21)	-	-	40 977	-	-	-	-	40 977
Foreign exchange translation of perpetual debt issued	-	-	(657)	-	-	-	657	-
Transaction costs on perpetual debt issued	-	-	-	-	-	-	(159)	(159)
Tax effect on perpetual debt issued	-	-	-	-	-	-	270	270
Disposal of subsidiary	-	-	-	-	-	-	51	51
31 December 2017	27 942	46 247	40 320	582	394	-	62 104	177 589

Chairman of the Management Board Vladimir A. Chubar

Chief Accountant Svetlana V. Sass

The consolidated statement of changes in equity is to be read in conjunction with the notes, forming an integral part of consolidated financial statements.

(in millions of Russian Roubles unless otherwise stated)

1 Background

Principal activities

These consolidated financial statements include the financial statements of CREDIT BANK OF MOSCOW (public joint-stock company) (the Bank) and its subsidiaries (together referred to as the Group).

The Bank was formed on 5 August 1992 as an open joint-stock company, then re-registered as a limited liability company under the legislation of the Russian Federation. On 18 August 1999 the Bank was reorganized as an open joint-stock company. On 16 May 2016 the Bank was re-registered as a public joint-stock company under the legislation of the Russian Federation. The Bank's registered legal address is 2 (bldg. 1) Lukov pereulok, Moscow, Russia. The Bank operates under a general banking license from the Central bank of the Russian Federation (the CBR), renewed on 21 January 2013. In December 2004 the Bank was admitted to the state program for individual deposit insurance.

The Bank is among the 10 largest banks in Russia by assets and conducts its business in Moscow and the Moscow region with a branch network comprising 100 branches, 1 143 ATMs and 6 372 payment terminals.

The principal subsidiaries of the Group are as follows:

			Degree of control, %	
Name	**Country of incorporation**	**Principal activities**	**31 December 2017**	**31 December 2016**
"CBOM Finance p.l.c."	Ireland	Raising finance	100%	100%
"MKB-Leasing" Group	Russia	Finance leasing	100%	100%
"INKAKHRAN" Group	Russia	Cash handling	100%	100%
"CBM Ireland Leasing Limited"	Ireland	Operating leasing	-	100%
LLC "MKB-Invest"	Russia	Transactions with securities	100%	100%
LLC "Bank SKS"	Russia	Investment banking	100%	100%
CJSC "Mortgage Agent MKB"	Russia	Raising finance	100%	100%
LLC "Mortgage Agent MKB 2"	Russia	Raising finance	100%	100%

The Bank does not have any direct or indirect shareholdings in the subsidiaries "CBOM Finance p.l.c.", "MKB Invest", CJSC "Mortgage Agent MKB" and "LLC Mortgage Agent MKB 2". "CBOM Finance p.l.c." was established to raise capital by the issue of debt securities and to use the proceeds of each such issuance to advance loans to the Bank. "MKB Invest" is controlled by the Group through an option agreement. CJSC "Mortgage Agent MKB" was established for the purposes of the mortgage loans securitization program launched by the Bank in 2014. "LLC Mortgage Agent MKB 2" was established for the purposes of the mortgage loans securitization program launched by the Bank in 2016. CBM Ireland Leasing Limited was established for operating leasing of aircrafts and was sold by the Group in December 2017 (note 33). In August 2016 the Bank acquired 100% of shares in LLC Bank SKS to develop investment banking activities (note 33).

Shareholders

The Bank's shareholders as at 31 December 2017 are:

- LLC Concern Rossium – 55.74%
- RegionFinanceResurs, JSC – 9.99%
- LLC IC Algoritm – 8.70%

- Other shareholders – 25.57%.

The majority shareholder of Concern Rossium, LLC, is Roman I. Avdeev, who is an ultimate controlling party of the Group.

Related party transactions are detailed in note 26.

Russian business environment

The Group's operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation, which display emerging-market characteristics. Legal, tax and regulatory frameworks continue to be developed, but are subject to varying interpretations and frequent changes that, together with other legal and fiscal impediments, contribute to the challenges faced by entities operating in the Russian Federation.

The conflict in Ukraine and related events has increased the perceived risks of doing business in the Russian Federation. The imposition of economic sanctions on Russian individuals and legal entities by the European Union, the United States of America, Japan, Canada, Australia and others, as well as retaliatory sanctions imposed by the Russian government, has resulted in increased economic uncertainty including more volatile equity markets, a depreciation of the Russian Rouble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. In particular, some Russian entities may be experiencing difficulties in accessing international equity and debt markets and may become increasingly dependent on Russian state banks to finance their operations. The longer term effects of recently implemented sanctions, as well as the threat of additional future sanctions, are difficult to determine. Management of the Group believes that it takes all the necessary efforts to support the economic stability of the Group in the current environment.

The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and financial position of the Group. The future business environment may differ from management's assessment.

2 Basis of preparation

Statement of compliance

The accompanying consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss and available-for-sale securities are stated at fair value and buildings are stated at revalued amounts.

Functional and presentation currency

The functional currency of the Bank and the majority of its subsidiaries except for CBM Ireland Leasing Limited, whose functional currency is USD, is the Russian Rouble (RUB) as, being the national currency of the Russian Federation, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The RUB is also the presentation currency for the purposes of these consolidated financial statements.

Financial information presented in RUB is rounded to the nearest million.

(in millions of Russian Roubles unless otherwise stated)

Foreign currencies, particularly USD and euro, play significant role in determination of economic parameters for many business operations conducted in the Russian Federation. The table below sets out exchange rates for USD and euro against RUB, defined by the CBR:

	31 December 2017	31 December 2016
USD	57.6002	60.6569
EUR	68.8668	63.8111

Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in note 13 in respect of loan impairment estimates, in note 14 in respect of buildings revaluation, in note 31 in respect of estimates of fair values of financial assets and liabilities.

Changes in accounting policies and presentation

The Group has adopted the following amendments to standards with a date of initial application of 1 January 2017:

- *Disclosure Initiative (Amendments to IAS 7).* IAS 7 *Statement of Cash Flows* has been amended as part of the IASB's broader disclosure initiative to improve presentation and disclosure in financial statements. The amendment requires disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. One way to meet this new disclosure requirement is to provide a reconciliation between the opening and closing balances for liabilities arising from financing activities. However, the objective could also be achieved in other ways.
- *Recognition of Deferred Tax Asset for Unrealised Losses (Amendments to IAS 12).* The amendments to IAS 12 *Income Taxes* clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. Therefore, assuming that the tax base remains at the original cost of the debt instrument, there is a temporary difference. The amendments show that the entity can recognise a deferred tax asset if the future bottom line of its tax return is expected to be a loss if certain conditions are met.
- *Annual Improvements to IFRSs 2014–2016 Cycle – various standards (Amendments to IFRS 12).* Amendments to IFRS 12 Disclosure of Interests in Other Entities clarify that the disclosure requirements for interests in other entities also apply to interests that are classified as held for sale or distribution.

3 Significant accounting policies

The following significant accounting policies are applied in the preparation of the consolidated financial statements. The accounting policies are consistently applied by the Group entities to all periods presented in these consolidated financial statements, except as explained in note 2, which addresses changes in accounting policies.

Basis of consolidation

Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the acquisition date as the fair value of the consideration transferred (including the fair value of any previously-held equity interest in the acquiree if the business combination is achieved in stages) and the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

The Group elects on transaction-by-transaction basis whether to measure non-controlling interests at fair value, or at their proportionate share of the recognized amount of the identifiable net assets of the acquiree, at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Subsidiaries

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In particular, the Group consolidates investees that it controls on the basis of de facto circumstances, including cases when protective rights arising from collateral agreements on lending transactions become significant. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Structured entities

A structured entity is an entity designed so that its activities are not governed by way of voting rights. In assessing whether the Group has power over such investees in which it has an interest, the Group considers factors such as the purpose and design of the investee; its practical ability to direct the relevant activities of the investee; the nature of its relationship with the investee; and the size of its exposure to the variability of returns of the investee.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the enterprise. Unrealised gains resulting from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

Goodwill

Goodwill arises on acquisitions of subsidiaries.

Goodwill is allocated to cash-generating units for impairment testing purposes and is stated at cost less impairment losses.

Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity sold.

Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments unless the difference is due to impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss; a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or qualifying cash flow hedges to the extent that the hedge is effective, which are recognised in other comprehensive income.

Inflation accounting

The Russian Federation ceased to be hyperinflationary with effect from 1 January 2003 and accordingly no adjustments for hyperinflation are made for periods subsequent to this date. The hyperinflation-adjusted carrying amounts of assets, liabilities and equity items as at 31 December 2002 became their carrying amounts as at 1 January 2003 for the purpose of subsequent accounting.

Cash and cash equivalents

The Group includes cash and nostro accounts with the Central bank of the Russian Federation and deposits in credit and other financial institutions with initial maturity of less than one month in cash and cash equivalents. The minimum reserve deposit with the Central bank of the Russian Federation is not considered to be a cash equivalent due to restrictions on its withdrawability. Cash and cash equivalents are carried at amotised cost in the consolidated statement of financial position.

Financial instruments

Classification

Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking
- derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments) or,
- upon initial recognition, designated by the Group as at fair value through profit or loss.

The Group may designate financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or,
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as liabilities.

Management determines the appropriate classification of financial instruments in this category at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loan and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the Group has an intention and ability to hold it for the foreseeble future or until maturity. Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group:

- intends to sell immediately or in the near term
- upon initial recognition designates as at fair value through profit or loss
- upon initial recognition designates as available-for-sale or,
- may not recover substantially all of its initial investment, other than because of credit deterioration.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than those that:

- the Group upon initial recognition designates as at fair value through profit or loss
- the Group designates as available-for-sale or,
- meet the definition of loans and receivables.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

Recognition

Financial assets and liabilities are recognized in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

Measurement

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- loans and receivables which are measured at amortized cost using the effective interest method
- held-to-maturity investments which are measured at amortized cost using the effective interest method
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value can not be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortized cost.

Amortized cost

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

Fair value measurement principles

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 in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Group uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in these circumstances.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument, but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognized as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognized in profit or loss
- a gain or loss on an available-for-sale financial asset is recognized as other comprehensive income in equity (except for impairment losses and foreign exchange gains and losses on debt financial instruments available-for-sale) until the asset is derecognized, at which time the cumulative gain or loss previously recognized in equity is recognized in profit or loss. Interest in relation to an available-for-sale financial asset is recognized in profit or loss using the effective interest method.

For financial assets and liabilities carried at amortized cost, a gain or loss is recognized in profit or loss when the financial asset or liability is derecognized or impaired, and through the amortization process.

Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognized as a separate asset or liability in the consolidated statement of financial position. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

The Group writes off assets deemed to be uncollectible.

Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase (repo) agreements are accounted for as secured financing transactions, with the securities retained in the consolidated statement of financial position and the counterparty liability included in amounts payable under repo transactions within deposits by the Central bank of the Russian Federation and deposits by credit institutions. The difference between the sale and repurchase prices represents interest expense and is recognized in the profit or loss over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell (reverse repo) are recorded as amounts receivable under reverse repo transactions within cash and cash equivalents and deposits in credit and other financial institutions. The difference between the purchase and resale prices represents interest income and is recognized in profit or loss over the term of the repo agreement using the effective interest method.

If assets purchased under an agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

Securitisation

For securitised financial assets, the Group considers both the degree of transfer of risks and rewards on assets transferred to another entity and the degree of control exercised by the Group over the other entity.

When the Group, in substance, controls the entity to which financial assets are transferred, the entity is included in these consolidated financial statements and the transferred assets are recognised in the consolidated statement of financial position.

When the Group transfers financial assets to another entity, but retains substantially all the risks and rewards related to the transferred assets, the transferred assets are recognised in the consolidated statement of financial position.

When the Group transfers substantially all the risks and rewards related to the transferred assets to an entity that it does not control, the assets are derecognised from the consolidated statement of financial position.

If the Group neither transfers nor retains substantially all the risks and rewards related to the transferred assets, the assets are derecognised if the Group has not retained control over the assets.

Offsetting

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

Leases

Finance leases

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases.

The inception of the lease is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease. At the inception of the lease the amounts to be recognized at the commencement of the lease term are determined.

The commencement of the lease term is the date from which the lessee is entitled to exercise its right to use the leased asset. The commencement of the lease is considered to be the date of the lease agreement, or commitment if earlier. For purposes of this definition, a commitment should be in writing, signed by the parties with interest in the transaction, and should specifically set forth the principal terms of the transaction. However, if the property covered by the lease has yet to be constructed, installed or has not been acquired by the Group at the date of the lease agreement or commitment, the commencement of the lease is deemed to be the date when construction and installation of the property is completed or the property is acquired by the Group.

On commencement of the lease term, when the Group enters into a finance lease as a lessor, the present value of the lease payments ("net investment in leases") is recorded as part of loans to customers. The difference between the gross receivable and the present value of the receivable is unearned finance income. Finance income is recognized over the term of the lease using the effective interest method, which reflects a constant periodic rate of return.

Any advance payments made by the lessee prior to commencement of the lease are recorded as a reduction in the net investment in the lease.

Operating leases

Group as lessor

The Group recognizes assets subject to operating leases in the consolidated statement of financial position according to the nature of the asset. Lease income from operating lease is recognized in profit or loss on a straight-line basis over the lease term.

Group as lessee

Where the Group is the lessee, the total payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

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

Property and equipment

Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses, except for buildings, which are stated at revalued amounts as described below.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Equipment acquired by way of finance lease is stated at the amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Revaluation

Buildings are subject to revaluation on a regular basis. The frequency of revaluation depends on the movements in the fair values of the buildings being revalued. A revaluation increase on a building is recognized as other comprehensive income except to the extent that it reverses a previous revaluation decrease recognized in profit or loss, in which case it is recognized in profit or loss. A revaluation decrease on a building is recognized in profit or loss except to the extent that it reverses a previous revaluation increase recognized as other comprehensive income directly in equity, in which case it is recognized as other comprehensive income.

Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

	Years
Buildings	50
Furniture and other property	4-6
Computers and office equipment	4
Vehicles	5
Aircrafts	20-30

When a building is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

The Group has adopted a component based depreciation accounting model for certain groups of its assets (such as aircrafts). Under this approach, depreciation of certain parts of the relevant assets with a cost that is significant in relation to the total cost of such assets is calculated separately. Useful life of these parts may differ from the overall useful life of the relevant assets. The Group estimates depreciation of certain components based on their actual utilisation (not useful life) whenever this depreciation method allows for a more accurate estimate of the pattern of consumption of the future economic benefits embodied in such components. The Group reviews its assumptions on useful life and/or utilisation on a regular basis.

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

Intangible assets

Intangible assets, which are acquired by the Group, are stated at cost less accumulated amortisation and impairment losses.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets, typically between 1 and 5 years.

Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in normal course of business, or for the use in production or supply of goods or services or for administrative purposes. Investment property is measured at fair value with any change recognised in profit or loss.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter generally, the assets, or disposal groups, are measured at the lower of their carrying amount and fair value less cost to sell.

Impairment

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the Group determines the amount of any impairment loss.

A financial asset or group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset (a loss event) and that event (or events) has had an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

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

In addition, for an investment in an equity security available-for-sale a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Financial assets carried at amortized cost

Financial assets carried at amortized cost consist principally of loans and other receivables (loans and receivables). The Group reviews its loans and receivables to assess impairment on a regular basis.

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

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

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

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

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The Group writes off a loan balance (and any related allowances for loan losses) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

Financial assets carried at cost

Financial assets carried at cost include unquoted equity instruments included in available-for-sale securities that are not carried at fair value because their fair value cannot be reliably measured. If there is objective evidence that such investments are impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of these investments are recognized in the profit or loss and cannot be reversed.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognized by transferring the cumulative loss that is recognized in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognized in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

For an investment in an equity security available-for-sale, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

Non financial assets

Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognized when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognized in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is only reversed to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognized. An impairment loss in respect of goodwill is not reversed.

Provisions

A provision is recognized in the consolidated statement of financial position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognized when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

Credit related commitments

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

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

A financial guarantee liability is recognized initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognized less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognized when losses are considered probable and can be measured reliably. Financial guarantee liabilities and allowance for credit related commitments are included in other liabilities.

Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

Repurchase of share capital

When share capital recognized as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognized as a decrease in equity.

Dividends

The ability of the Bank to declare and pay dividends is subject to the rules and regulations of the Russian legislation. Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

Perpetual instruments

Perpetual non-redeemable debt instruments issued by the Group which carry no mandatory interest payments are classified as equity.

Taxation

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

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Income and expense recognition

Interest income and expense are recognized in profit or loss using the effective interest method.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related direct costs, are deferred and amortized to the interest income over the estimated life of the financial instrument using the effective interest method.

Other fees, commissions and other income and expense items are recognized in profit or loss when the corresponding service has been provided.

The Bank acts as an agent for insurance providers offering their insurance products to consumer loan borrowers. Commission income from insurance represents commissions for such agency services received by the Bank from such partners. It is not considered to be integral to the overall profitability of consumer loans because it is determined and recognized based on the Bank’s contractual arrangements with the insurance provider rather than with the borrower. The Bank does not participate in the insurance risk, which is entirely borne by the partner; commission income from insurance is recognized in profit or loss when the Bank provides the agency service to the insurance company. The borrowers have a choice whether to purchase the insurance policy. A consumer loan customer’s decision whether or not to purchase an insurance policy does not effect the stated interest rate offered to that customer.

Dividend income is recognized in profit or loss on the date that the dividend is declared.

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment, and assess its performance, and for which discrete financial information is available.

New standards and interpretations not yet adopted

The following new standards, amendments to standards, and interpretations are not yet effective as at 31 December 2017, and are not applied in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective.

(a) IFRS 9 Financial instruments

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. It replaces IAS 39 *Financial Instruments: Recognition and Measurement*.

The Group did not apply IFRS 9 in advance in its consolidated financial statements for the year ended on 31 December 2017 and plans to disclose the resulting impact after its statements for the first quarter of 2018 have been prepared.

The evaluation of the new standard's impact has not yet been completed, because not all transition work has been finalized by the Group. Thus, the effect of the adoption of IFRS 9 on the opening balance of the Group's equity is not disclosed. The Group has revised and improved its accounting and internal control processes, adopted a new approach to classification and developed measurement models for expected credit losses. The Group has designed a procedure to test whether the contractual cash flows are solely principal and interest payments (SPPI criterion).

i. Classification – Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 includes three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). It eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

Business model assessment

The Group will make an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group will consider the contractual terms of the instrument. This will include assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

Impact assessment

The standard will affect the classification and measurement of financial assets held as at 1 January 2018 as follows.

Loans and advances to banks and to customers that are classified as loans and receivables and measured at amortised cost under IAS 39 will in general also be measured at amortised cost under IFRS 9.

Debt investment securities that are classified as available-for-sale under IAS 39 may, under IFRS 9, be measured at amortised cost, FVOCI or FVTPL, depending on the particular circumstances.

ii. Impairment – Financial assets, loan commitments and financial guarantee contracts

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgement over how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model applies to the following financial instruments that are not measured at FVTPL:

financial assets that are debt instruments;
lease receivables; and
loan commitments and financial guarantee contracts issued (previously, impairment was measured under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*).

Under IFRS 9, no impairment loss is recognised on equity investments.

IFRS 9 requires a loss allowance to be recognised at an amount equal to either 12-month ECLs or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date.

Definition of default

Under IFRS 9, the Group will consider a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the borrower is more than 90 days past due on any material credit obligation to the Group. Overdrafts are considered past due once the customer has breached an advised limit or been advised of a limit that is smaller than the current amount outstanding.
- In assessing whether a borrower is in default, the Group will consider indicators that are:
- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment of another obligation of the same issuer to the Group; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Significant increase in credit risk

Under IFRS 9, when determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, the Group will consider reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Group's historical experience, expert credit assessment and forward-looking information.

The Group will primarily identify whether a significant increase in credit risk has occurred for an exposure by comparing:

the remaining lifetime probability of default (PD) as at the reporting date; with

the remaining lifetime PD for this point in time that was estimated on initial recognition of the exposure.

Assessing whether credit risk has increased significantly since initial recognition of a financial instrument requires identifying the date of initial recognition of the instrument. For certain revolving facilities (e.g. credit cards and overdrafts), the date when the facility was first entered into could be a long time ago. Modifying the contractual terms of a financial instrument may also affect this assessment, which is discussed below.

Credit risk grades

The Group will allocate each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The Group will use these grades in identifying significant increases in credit risk under IFRS 9. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default. These factors may vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates – e.g. the difference in the risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure will be allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures will be subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

Inputs into measurement of ECLs

The key inputs into the measurement of ECLs will be the term structures of the following variables:

PD;
loss given default (LGD); and
exposure at default (EAD).

These parameters will be derived from internally developed statistical models and other historical data that leverage regulatory models.

Impact assessment

The most significant impact on the Group's financial statements from the implementation of IFRS 9 is expected to result from the new impairment requirements. Impairment losses will increase and become more volatile for financial instruments in the scope of the IFRS 9 impairment model.

iii. Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

- The Group will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognised in retained earnings and reserves as at 1 January 2018.
- The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application.
- The determination of the business model within which a financial asset is held.
  - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
  - The designation of certain investments in equity instruments not held for trading as at FVOCI.

  - For a financial liability designated as at FVTPL, the determination of whether presenting the effects of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.
- If a debt investment security has low credit risk at 1 January 2018, then the Group will determine that the credit risk on the asset has not increased significantly since initial recognition.

(b) IFRS 15 Revenue from Contracts with Customers

IFRS 15 *Revenue from Contracts with Customers* establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*. The core principle of the new standard is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard results in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Group does not intend to adopt this standard early. Given the nature of the Group's operations, this standard is not expected to have significant impact on the Group's financial statements.

(c) IFRS 16 Leases

IFRS 16 *Leases* replaces the existing lease accounting guidance in IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. It eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, early adoption is permitted if IFRS 15 *Revenue from Contracts with Customers* is also adopted. The Group does not intend to adopt this standard early. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16.

(d) Other standards

Other amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements.

(in millions of Russian Roubles unless otherwise stated)

4 Net interest income

	2017	2016
Interest income		
Loans to customers	82 324	81 818
Deposits in credit and other financial institutions and the Central bank of the Russian Federation	35 794	19 450
Financial instruments at fair value through profit or loss and available-for-sale securities	8 841	12 130
	126 959	**113 398**
Interest expense		
Due to customers	(42 710)	(53 928)
Deposits by credit institutions and the Central bank of the Russian Federation	(27 757)	(8 398)
Debt securities issued	(11 212)	(10 773)
	(81 679)	**(73 099)**
Net interest income	**45 280**	**40 299**

5 Net fee and commission income

	2017	2016
Fee and commission income		
Plastic cards	2 661	2 384
Settlements and wire transfers	2 298	1 755
Guarantees and letters of credit	2 246	2 009
Other cash operations	2 060	1 655
Cash handling	2 031	2 589
Insurance contracts processing	1 952	1 932
Currency exchange and brokerage commission	1 340	473
Opening and maintenance of bank accounts	537	446
Other	385	151
	15 510	**13 394**
Fee and commission expense		
Settlements, wire transfers and plastic cards	(2 550)	(2 040)
Other	(452)	(207)
	(3 002)	**(2 247)**
Net fee and commission income	**12 508**	**11 147**

(in millions of Russian Roubles unless otherwise stated)

6 Salaries, employment benefits and administrative expenses

	2017	2016
Salaries	7 642	6 183
Social security costs	1 874	1 517
Salaries and employment benefits	**9 516**	**7 700**
Advertising and business development	1 155	907
Rent expenses	1 035	1 121
Property maintenance	707	660
Operating taxes	666	586
Security	577	619
Legal and consulting services	222	182
Communications	200	185
Write-off of low-value fixed assets	190	336
Computer maintenance and software expenses	179	164
Property insurance	175	183
Transport	144	123
Loss on revaluation of buildings	82	69
Other	45	125
Administrative expenses	**5 377**	**5 260**

The Group does not have pension arrangements separate from the State pension system of the Russian Federation. The Russian Federation system requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged to profit or loss in the period the related compensation is earned by the employee.

7 Provision for impairment of other assets and credit related commitments

	2017	2016
Provision for impairment of other assets	128	507
Provision for impairment of credit related commitments	136	271
Other provisions	**264**	**778**

(in millions of Russian Roubles unless otherwise stated)

8 Income tax

	2017	2016
Current tax charge	2 891	5 096
Deferred taxation	3 223	(2 235)
Income tax expense	**6 114**	**2 861**

Russian legal entities must report taxable income and remit income taxes thereon to the appropriate authorities. The statutory income tax rate for the Bank is 20% in 2017 and 2016.

The effective income tax rate differs from the statutory income tax rate. A reconciliation of income taxes based on the statutory rate with the actual income tax expense is presented below:

	2017	%	2016	%
Income before tax	26 817		13 735	
Income tax using the applicable tax rate	5 363	20.0%	2 747	20.0%
Income taxed at lower rates	(99)	(0.4%)	(28)	(0.2%)
Net non-deductible costs	850	3.2%	142	1.0%
Income tax expense	**6 114**	**22.8%**	**2 861**	**20.8%**

Movements in temporary differences during the years ended 31 December 2017 and 2016 are presented as follows.

	Balance 1 January 2017	Recognized in profit or loss	Recognized in other comprehensive income and equity	Recognized directly in equity	Balance 31 December 2017
Deposits in credit and other financial institutions	-	12	-	-	12
Financial instruments at fair value through profit or loss	207	8 501	-	-	8 708
Available-for-sale securities	(1 655)	710	(14)	-	(959)
Loans to customers	2 678	1 096	-	-	3 774
Property and equipment	233	50	(26)	-	257
Other assets	(445)	52	-	-	(393)
Deposits by credit institutions	-	-	-	-	-
Due to customers	48	(7 334)	-	-	(7 286)
Debt securities issued	25	208	-	131	364
Currency translation reserve	6	-	(6)	-	-
Other liabilities	(907)	(72)	-	-	(979)
Total net deferred tax liabilities (asset)	**190**	**3 223**	**(46)**	**131**	**3 498**

(in millions of Russian Roubles unless otherwise stated)

	Balance 1 January 2016	Recognized in profit or loss	Recognized in other comprehensive income and equity	Recognized on acquisition of subsidiary	Balance 31 December 2016
Deposits in credit and other financial institutions	2	(2)	-	-	-
Financial instruments at fair value through profit or loss	173	34	-	-	207
Available-for-sale securities	1 953	(3 666)	58	-	(1 655)
Loans to customers	1 255	1 423	-	-	2 678
Property and equipment	317	(64)	(20)	-	233
Other assets	(710)	264	-	1	(445)
Deposits by credit institutions	-	-	-	-	-
Due to customers	12	36	-	-	48
Debt securities issued	37	(12)	-	-	25
Currency translation reserve	-	-	6	-	6
Other liabilities	(659)	(248)	-	-	(907)
Total net deferred tax liabilities (asset)	**2 380**	**(2 235)**	**44**	**1**	**190**

Income tax recognized in other comprehensive income

The tax effects relating to components of other comprehensive income comprise the following:

	2017			2016		
	Amount before tax	Tax benefit / (expense)	Amount net-of-tax	Amount before tax	Tax benefit / (expense)	Amount net-of-tax
Revaluation surplus for buildings	(132)	26	(106)	(102)	20	(82)
Revaluation reserve for available-for-sale securities	(71)	14	(57)	289	(58)	231
Currency translation reserve	(45)	6	(39)	45	(6)	39
Other comprehensive (loss) income	**(248)**	**46**	**(202)**	**232**	**(44)**	**188**

(in millions of Russian Roubles unless otherwise stated)

9 Cash and cash equivalents

	31 December 2017	**31 December 2016**
Cash on hand	19 732	18 763
Correspondent account with the Central bank of the Russian Federation	71 300	22 768
Nostro accounts with other banks		
rated from AA+ to AA-	3 305	1 133
rated from A+ to A-	5 789	3 621
rated from BBB+ to BBB-	3 236	74 357
rated from BB+ to BB-	1 241	873
rated from B+ to B-	11	27
not rated	740	518
Total nostro accounts with other banks	**14 322**	**80 529**
Deposits in credit and other financial institutions with maturity of less than 1 month		
Deposits with the Central bank of the Russian Federation	22 008	-
rated from AA+ to AA-	57	-
rated from A+ to A-	11 741	5 052
rated from BBB+ to BBB-	4 224	9 608
rated from BB+ to BB-	5 104	12 444
rated from B+ to B-	56 434	64 198
not rated	729 111	159 965
Total deposits in credit and other financial institutions with maturity of less than 1 month	**828 679**	**251 267**
Total cash and cash equivalents	**934 033**	**373 327**

Ratings are based on Fitch, Moody’s and Standard & Poor’s rating systems.

No cash and cash equivalents are impaired or past due.

The correspondent account with the Central bank of the Russian Federation represents balances held with the Central bank of the Russian Federation related to settlement activity, and was available for withdrawal at the period end.

As at 31 December 2017, receivables under reverse sale and repurchase agreements included in cash and cash equivalents are RUB 793 501 million (31 December 2016: RUB 228 616 million).

As at 31 December 2017, the fair value of securities that serve as collateral under reverse sale and repurchase agreements is RUB 907 864 million (31 December 2016: RUB 278 955 million).

As at 31 December 2017, deposits in not rated credit and other financial institutions with maturity of less than 1 month include term deposits secured by liquid securities under agreements to resell (reverse repo) in the amount of RUB 729 111 million (31 December 2016: RUB 158 264 million).

As at 31 December 2017, the Group has one counterparty (31 December 2016: three counterparties) whose nostro accounts with other banks and deposits with maturity of less than 1 month exceed 10% of total nostro accounts with other banks and deposits with maturity of less than 1 month from credit and other financial institutions. The gross value of these balances as at 31 December 2017 is RUB 658 115 million (31 December 2016: RUB 256 993 million).

Information about the currency and maturity and effective interest rates of cash and cash equivalents is presented in note 29.

(in millions of Russian Roubles unless otherwise stated)

10 Deposits in credit and other financial institutions

	31 December 2017	31 December 2016
Term deposits		
rated from BB+ to BB-	5 556	1 506
rated from B+ to B-	1 044	167 063
rated from CCC+ to CCC-	-	29 558
not rated	9 769	205 353
Total deposits in credit and other financial institutions	**16 369**	**403 480**

Ratings are based on Fitch, Moody's and Standard & Poor's rating systems.

No deposits in credit and other financial institutions are impaired or past due.

As at 31 December 2017, receivables under reverse sale and repurchase agreements included in deposits in credit and other financial institutions are RUB 8 423 million (31 December 2016: RUB 397 591 million).

As at 31 December 2017, the fair value of securities that serve as collateral under reverse sale and repurchase agreements is RUB 10 488 million (31 December 2016: RUB 483 281 million).

As at 31 December 2017, deposits included in not rated and rated from CCC+ to CCC- credit and other financial institutions are receivables in the amount of RUB 6 319 million (31 December 2016: RUB 232 989 million) secured by liquid securities under agreements to resell (reverse repo).

As at 31 December 2017, the Group has four counterparties (31 December 2016: two counterparties) whose deposit balances exceed 10% of total deposits in credit and other financial institutions. The gross value of these balances as at 31 December 2017 is RUB 15 321 million (31 December 2016: RUB 365 788 million).

Information about the currency and maturity and effective interest rates on deposits in credit and other financial institutions is presented in note 29.

11 Financial instruments at fair value through profit or loss

	31 December 2017	31 December 2016
Held by the Group		
Government and municipal bonds		
Russian Government Federal bonds (OFZ)	16 506	1 047
Russian Government eurobonds	8 049	1 745
Regional authorities and municipal bonds	1 576	4 298
Corporate bonds		
from BBB+ to BBB-	17 226	33 602
from BB+ to BB-	5 507	19 614
from B+ to B-	1 641	8 583
not rated	718	5 926
Equity investments	-	1
Derivative financial instruments	44 296	2 549
Total held by the Group	**95 519**	**77 365**

(in millions of Russian Roubles unless otherwise stated)

	31 December 2017	31 December 2016
Pledged under sale and repurchase agreements		
Government and municipal bonds		
Russian Government eurobonds	16 850	268
Russian Government Federal bonds (OFZ)	840	-
Corporate bonds		
from BBB+ to BBB-	2 138	315
from BB+ to BB-	1 935	5 961
Total pledged under sale and repurchase agreements	**21 763**	**6 544**
Total financial instruments at fair value through profit or loss	**117 282**	**83 909**

Ratings are based on Fitch, Moody's and Standard & Poor's rating systems.

No financial instruments at fair value through profit or loss are past due.

As at 31 December 2017, debt instruments in the amount of RUB 65 352 million (31 December 2016: RUB 64 807 million) are qualified to be pledged against borrowings from the Central bank of the Russian Federation.

12 Available-for-sale securities

	31 December 2017	31 December 2016
Held by the Group		
Corporate bonds		
from BBB+ to BBB-	68	1 538
from BB+ to BB-	6 555	8 590
from B+ to B-	7 810	6 265
not rated	8 495	9 580
Promissory notes		
not rated	225	-
Equity investments	120	112
Total held by the Group	**23 273**	**26 085**
Pledged under sale and repurchase agreements		
Corporate bonds		
from BBB+ to BBB-	858	5 428
from BB+ to BB-	935	14 390
Total pledged under sale and repurchase agreements	**1 793**	**19 818**
Total available-for-sale securities	**25 066**	**45 903**

Ratings are based on Fitch, Moody's and Standard & Poor's rating systems.

No available-for-sale securities are past due.

As at 31 December 2017, debt instruments available-for-sale in the amount of RUB 7 201 million (31 December 2016: RUB 31 536 million) are qualified to be pledged against borrowings from the Central bank of the Russian Federation.

(in millions of Russian Roubles unless otherwise stated)

13 Loans to customers

	31 December 2017	31 December 2016
Loans to corporate clients	731 105	566 168
Impairment allowance	(45 168)	(32 698)
Loans to corporate clients, net	**685 937**	**533 470**
Loans to individuals		
Auto loans	423	1 183
Mortgage loans	20 319	23 861
Credit card loans	3 713	3 783
Other loans to individuals	63 256	71 743
Impairment allowance	(4 972)	(7 505)
Total loans to individuals, net	**82 739**	**93 065**
Gross loans to customers	**818 816**	**666 738**
Impairment allowance	**(50 140)**	**(40 203)**
Net loans to customers	**768 676**	**626 535**

Credit quality of loan portfolio

The following table provides information on credit quality of the loan portfolio as at 31 December 2017 and 31 December 2016:

	31 December 2017	31 December 2016
Loans to customers		
- Not past due	714 669	617 224
- Not past due but impaired	74 992	30 214
- Overdue less than 31 days	4 805	1 857
- Overdue 31-60 days	3 255	1 210
- Overdue 61-90 days	1 334	964
- Overdue 91-180 days	8 905	1 544
- Overdue 181-360 days	5 334	6 213
- Overdue more than 360 days	5 522	7 512
Total gross loans to customers	**818 816**	**666 738**
Impairment allowance	**(50 140)**	**(40 203)**
Total net loans to customers	**768 676**	**626 535**

As at 31 December 2017, the gross amount of overdue loans with payments that are overdue at least one day totals RUB 29 155 million, which represents 3.6% of the gross loan portfolio (31 December 2016: RUB 19 300 million and 2.9% respectively).

Non-performing loans (NPLs), or loans with payments that are overdue over ninety days, amount to RUB 19 761 million or 2.4% of the gross loan portfolio (31 December 2016: RUB 15 269 million or 2.3%, respectively).

As at 31 December 2017, the ratio of total impairment allowance to overdue loans equals 172.0% and the ratio of total impairment allowance to NPLs equals 253.7% (31 December 2016: 208.3% and 263.3%, respectively).

(in millions of Russian Roubles unless otherwise stated)

Movements in the loan impairment allowance for the years ended 31 December 2017 and 31 December 2016 are as follows:

	2017	2016
Balance at the beginning of the period	**40 203**	**36 874**
Net charge	18 597	29 783
Net write-offs	(8 660)	(26 454)
Balance at the end of the period	**50 140**	**40 203**

As at 31 December 2017, net interest accrued on overdue and impaired loans amounts to RUB 4 689 million (31 December 2016: RUB 1 696 million).

Credit quality of loans to corporate clients portfolio

The following table provides information on credit quality of loans to corporate clients as at 31 December 2017 and 31 December 2016:

	31 December 2017	31 December 2016
Loans to corporate clients		
- Not past due	634 100	527 212
- Not past due but impaired	74 992	30 214
- Overdue less than 31 days	3 699	534
- Overdue 31-60 days	2 603	163
- Overdue 61-90 days	863	98
- Overdue 91-180 days	7 898	212
- Overdue 181-360 days	3 095	2 947
- Overdue more than 360 days	3 855	4 788
Total gross loans to corporate clients	**731 105**	**566 168**
Impairment allowance	**(45 168)**	**(32 698)**
Total net loans to corporate clients	**685 937**	**533 470**

As at 31 December 2017, the Group estimates loan impairment for loans to corporate clients based on an analysis of the future cash flows for impaired loans and based on its internal credit rating adjusted for the value of collateral for portfolios of loans for which no indications of impairment have been identified. The key assumptions used in the analysis of future cash flows for impaired loans are based on projected cash flows from operating activities and the assessment of the value of collateral pledged to secure these loans when applicable. To estimate net realizable value of collateral for sale, management generally relies on market prices and professional judgment of internal appraisers, applying discount where appropriate.

Changes in these estimates could affect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus two percent, the impairment allowance as at 31 December 2017 would decrease/increase by RUB 13 719 million (31 December 2016: RUB 10 669 million).

(in millions of Russian Roubles unless otherwise stated)

Analysis of collateral

Corporate loans are secured by the following types of collateral, depending on the type of transaction: real estate and other property, equipment and motor vehicles, inventories, receivables, guarantees and sureties, securities, promissory notes.

The following table provides information on collateral securing loans to corporate customers, net of impairment, by types of collateral as at 31 December 2017 and 31 December 2016:

	31 December 2017	31 December 2016
Real estate and other property	115 225	90 256
Securities	94 073	78 106
Guaranteed deposits	68 896	4 992
Equipment and motor vehicles	30 217	33 036
Goods in turnover	10 132	16 380
Claims for contract receivables	7 086	9 827
Bank's own debt securities	160	1 116
Corporate guarantees and no collateral	360 148	299 757
	685 937	**533 470**

The Group generally does not consider corporate guarantees for impairment assessment purposes.

The amounts in the table above represent the carrying value of the related loan, and do not necessarily represent the fair value of the collateral.

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

For loans secured by multiple types of collateral, collateral that is most relevant for impairment assessment is disclosed. Guarantees and sureties received from individuals, such as shareholders of SME borrowers, are not considered for impairment assessment purposes. Accordingly, such loans and unsecured portions of partially secured exposures are presented as loans without collateral or other credit enhancement.

Management estimates that the impairment allowance for loans to corporate customers would have been approximately RUB 5 129 million higher without any collateral as at 31 December 2017 (31 December 2016: RUB 3 205 million).

Collateral obtained

During the year ended 31 December 2017, the Group obtained certain assets the carrying amount of which as at 31 December 2017 was RUB 82 million by taking possession of collateral for loans to corporate customers (during the year ended 31 December 2016: RUB 115 million). The Group's policy is to sell these assets as soon as it is practicable.

Analysis of movements in the impairment allowance

Movements in the loan impairment allowance for loans to corporate clients for the years ended 31 December 2017 and 31 December 2016 are as follows:

	2017	2016
Balance at the beginning of the period	**32 698**	**27 783**
Net charge	14 847	22 579
Net write-offs	(2 377)	(17 664)
Balance at the end of the period	**45 168**	**32 698**

(in millions of Russian Roubles unless otherwise stated)

Credit quality of loans to individuals

The following table provides information on the credit quality of loans to individuals as at 31 December 2017:

	Auto loans	Mortgage loans	Credit card loans	Other loans	Total
- Not past due	388	18 705	3 479	57 997	80 569
- Overdue less than 31 days	2	185	-	919	1 106
- Overdue 31-60 days	2	75	33	542	652
- Overdue 61-90 days	1	81	18	371	471
- Overdue 91-180 days	9	128	52	818	1 007
- Overdue 181-360 days	12	383	93	1 751	2 239
- Overdue more than 360 days	9	762	38	858	1 667
Gross loans	**423**	**20 319**	**3 713**	**63 256**	**87 711**
Impairment allowance	**(26)**	**(661)**	**(202)**	**(4 083)**	**(4 972)**
Net loans	**397**	**19 658**	**3 511**	**59 173**	**82 739**

The following table provides information on the credit quality of loans to individuals as at 31 December 2016:

	Auto loans	Mortgage loans	Credit card loans	Other loans	Total
- Not past due	1 094	21 603	3 511	63 804	90 012
- Overdue less than 31 days	16	182	-	1 125	1 323
- Overdue 31-60 days	8	44	25	970	1 047
- Overdue 61-90 days	9	54	20	783	866
- Overdue 91-180 days	9	176	54	1 093	1 332
- Overdue 181-360 days	33	415	101	2 717	3 266
- Overdue more than 360 days	14	1 387	72	1 251	2 724
Gross loans	**1 183**	**23 861**	**3 783**	**71 743**	**100 570**
Impairment allowance	**(54)**	**(1 127)**	**(239)**	**(6 085)**	**(7 505)**
Net loans	**1 129**	**22 734**	**3 544**	**65 658**	**93 065**

Management estimates loan impairment based on historical loss experience for these types of loans using historical loss migration patterns for the past twenty four months. The significant assumptions used by management in determining the impairment losses for loans to individuals is that loss migration rates and recovery rates are stable and can be estimated based on the historic loss migration pattern for the past twenty four months.

Changes in these estimates could affect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by three percent, the impairment allowance as at 31 December 2017 would increase/decrease by RUB 2 482 million (31 December 2016: RUB 2 792 million).

Analysis of collateral

Mortgage loans are secured by the underlying housing real estate. Auto loans are secured by the underlying cars. Credit card overdrafts and other loans to individuals are not secured.

For the allowance on a portfolio basis, management does not estimate loan impairment based on a specific analysis of the fair value of collateral but instead applies actual historical loss experience.

(in millions of Russian Roubles unless otherwise stated)

As at 31 December 2017, impaired mortgage loans in the gross amount of RUB 1 614 million are secured by collateral with a fair value of RUB 1 148 million (31 December 2016: RUB 2 259 million and RUB 1 830 million, respectively).

Analysis of movements in the impairment allowance

Movements in the loan impairment allowance by classes of loans to individuals for the year ended 31 December 2017 are as follows:

	Auto loans	Mortgage loans	Credit card loans	Other loans	Total
Balance at the beginning of the period	**54**	**1 127**	**239**	**6 085**	**7 505**
Net (recovery) charge	-	(178)	155	3 773	3 750
Net write-offs	(28)	(288)	(192)	(5 775)	(6 283)
Balance at the end of the period	**26**	**661**	**202**	**4 083**	**4 972**

Movements in the loan impairment allowance by classes of loans to individuals for the year ended 31 December 2016 are as follows:

	Auto loans	Mortgage loans	Credit card loans	Other loans	Total
Balance at the beginning of the period	**114**	**902**	**545**	**7 530**	**9 091**
Net charge	-	801	237	6 166	7 204
Net write-offs	(60)	(576)	(543)	(7 611)	(8 790)
Balance at the end of the period	**54**	**1 127**	**239**	**6 085**	**7 505**

Industry and geographical analysis of the loan portfolio

Loans to customers were issued primarily to customers located within the Russian Federation, who operate in the following economic sectors:

	31 December 2017	31 December 2016
Loans to individuals	87 711	100 570
Crude oil production and trading	182 716	44 201
Petroleum refining / production and trading	132 982	72 484
Residential and commercial construction and development	55 611	55 345
Automotive, motorcycles and spare parts	53 294	49 693
Property rental	47 187	65 680
Food and farm products	40 947	72 252
Metallurgical	35 726	46 230
Pharmaceutical and medical products	32 526	20 145
Services	32 229	33 606
Industrial chemicals	27 949	1 453
Industrial equipment and machinery	25 649	20 221
Industrial and infrastructure construction	15 977	12 855
Construction and decorative materials, furniture	13 697	12 675
Financial companies	8 350	20 881
Consumer electronics, appliances and computers	8 349	7 823
Clothing, shoes, textiles and sporting goods	6 467	8 599
Equipment leasing	5 147	318

(in millions of Russian Roubles unless otherwise stated)

	31 December 2017	31 December 2016
Consumer chemicals, perfumes and hygiene products	2 299	917
Paper, stationery and packaging products	1 718	2 628
Transport infrastructure contractors	1 092	5 042
Government and municipal bodies	320	1 422
Banking	1	10 508
Other	872	1 190
Total gross loans to customers	**818 816**	**666 738**
Impairment allowance	(50 140)	(40 203)
Net loans to customers	**768 676**	**626 535**

Finance lease

Finance lease receivables included in loans to customers are as follows:

	31 December 2017	31 December 2016
Gross investment in finance lease	9 522	9 124
Unearned interest income	(1 972)	(2 053)
Net investment in finance lease before allowance	**7 550**	**7 071**
Impairment allowance	(207)	(275)
Net investment in finance lease	**7 343**	**6 796**

The contractual maturity of the net investment in leases is as follows:

	31 December 2017	31 December 2016
Less than 1 year	3 567	3 208
Between 1 and 5 years	3 676	3 375
More than 5 years	17	21
Overdue	83	192
	7 343	**6 796**

Loan maturities

Information about the currency and maturity and effective interest rates of loans to customers is presented in note 29.

(in millions of Russian Roubles unless otherwise stated)

14 Property and equipment

The movement in property and equipment for the year ended 31 December 2017 is presented in the table below:

	Aircrafts	Buildings	Vehicles	Computers and office equipment	Furniture and other property	Construction in progress	Total
Cost/revalued amount							
At 1 January 2017	**14 978**	**5 007**	**880**	**706**	**2 626**	**63**	**24 260**
Additions	-	851	310	433	378	3	1 975
Property received as a result of termination of lease agreements	-	-	1	-	-	-	1
Reclassification	-	-	-	2	-	(2)	-
Disposals	-	-	(26)	(1)	(23)	-	(50)
Disposal of subsidiary	(14 460)	-	-	-	-	-	(14 460)
Transfers	-	-	(62)	(2)	-	-	(64)
Revaluation	-	(219)	-	-	-	-	(219)
Impairment	-	-	(2)	-	-	-	(2)
Elimination of accumulated depreciation on revalued buildings	-	(115)	-	-	-	-	(115)
Currency exchange differences on translation	(518)	-	-	-	-	-	(518)
At 31 December 2017	**-**	**5 524**	**1 101**	**1 138**	**2 981**	**64**	**10 808**
Accumulated depreciation							
At 1 January 2017	**707**	**-**	**485**	**306**	**1 484**	**-**	**2 982**
Depreciation charge	994	115	179	219	357	-	1 864
Disposals	-	-	(11)	(1)	(17)	-	(29)
Disposal of subsidiary	(1 683)	-	-	-	-	-	(1 683)
Elimination of accumulated depreciation on revalued buildings	-	(115)	-	-	-	-	(115)
Transfers	-	-	(59)	-	-	-	(59)
Currency exchange differences on translation	(18)	-	-	-	-	-	(18)
At 31 December 2017	**-**	**-**	**594**	**524**	**1 824**	**-**	**2 942**
Carrying value							
At 31 December 2017	**-**	**5 524**	**507**	**614**	**1 157**	**64**	**7 866**

(in millions of Russian Roubles unless otherwise stated)

The movement in property and equipment for the year ended 31 December 2016 is presented in the table below:

	Aircrafts	Buildings	Vehicles	Computers and office equipment	Furniture and other property	Construction in progress	Total
Cost/revalued amount							
At 1 January 2016	**-**	**5 280**	**726**	**483**	**2 245**	**52**	**8 786**
Additions	-	71	180	260	426	48	985
Disposals	-	(62)	(25)	(45)	(69)	-	(201)
Transfers	16 587	-	-	8	28	(37)	16 586
Revaluation	-	(166)	-	-	-	-	(166)
Impairment	-	-	(1)	-	(4)	-	(5)
Elimination of accumulated depreciation on revalued buildings	-	(116)	-	-	-	-	(116)
Currency exchange differences on translation	(1 609)	-	-	-	-	-	(1 609)
At 31 December 2016	**14 978**	**5 007**	**880**	**706**	**2 626**	**63**	**24 260**
Accumulated depreciation							
At 1 January 2016	**-**	**-**	**340**	**238**	**1 203**	**-**	**1 781**
Depreciation charge	749	116	166	113	337	-	1 481
Disposals	-	-	(21)	(45)	(56)	-	(122)
Elimination of accumulated depreciation on revalued buildings	-	(116)	-	-	-	-	(116)
Currency exchange differences on translation	(42)	-	-	-	-	-	(42)
At 31 December 2016	**707**	**-**	**485**	**306**	**1 484**	**-**	**2 982**
Carrying value							
At 31 December 2016	**14 271**	**5 007**	**395**	**400**	**1 142**	**63**	**21 278**

Revalued assets

The buildings were independently valued at 31 December 2017. The valuation was carried out by an independent firm of appraisers, who hold a recognized and relevant professional qualification and who have recent experience in valuation of assets of similar location and category.

The appraisals were performed using the income capitalisation and comparative sales and/or offer approaches of valuation. The income capitalisation approach considers income and expense data relating to the property being valued and estimates fair value through a capitalisation process. The market approach is based upon an analysis of the results of comparable sales and/or offers of similar buildings. Final fair value was calculated based on integrated analysis of both approaches. Thus, these buildings were classified to Level 3 of the fair value hierarchy.

(in millions of Russian Roubles unless otherwise stated)

The following key assumptions are used in applying the income capitalisation approach:

- net income for the base year is calculated using information on actual rental rates, possible vacancy losses, operating and maintenance expenses;
- vacancy losses as a percentage of potential gross rent income are estimated in the range of 12.0% to 13.0%;
- buildings maintenance and general administrative expenses are estimated in the range from 17.8% to 18.0% of effective gross rent income;
- capitalisation rate in the range from 10.5% to 12.1% is applied to capitalise net income for the base year.

For the comparative sales and/or offers approach the most significant assumption made is a negotiation discount in the range from 8.0% to 12.0% implicit in advertized market prices.

Changes in these estimates could effect the value of the buildings. For example, to the extent that adjustments differs by plus/minus ten percent, the building valuation as of 31 December 2017 would be RUB 552 million (31 December 2016: RUB 501 million) higher/lower.

The carrying value of buildings as of 31 December 2017, if the buildings would not have been revalued, would be RUB 4 784 million (31 December 2016: RUB 4 040 million).

15 Other assets

	31 December 2017	31 December 2016
Receivables for commissions	702	752
Receivables and settlements with suppliers	664	481
Receivables under cession agreements	517	579
Impairment allowance	(383)	(435)
Total other financial assets	**1 500**	**1 377**
Assets held for sale	2 435	2 448
Current tax assets	2 198	101
Investment property	815	739
Advances issued	720	471
Repossessed collateral	679	138
Intangible assets	484	314
Property held for further leasing	424	-
Deferred expenses	168	138
Other	544	588
Impairment allowance	(233)	(64)
Total other non-financial assets	**8 234**	**4 873**
Total other assets	**9 734**	**6 250**

Included in assets held for sale is real estate in Moscow and Moscow region, obtained by taking control over collateral for impaired loans.

(in millions of Russian Roubles unless otherwise stated)

Analysis of movements in the impairment allowance

Movements in the impairment allowance for the years ended 31 December 2017 and 31 December 2016 are as follows:

	2017	2016
Balance at the beginning of the period	**499**	**161**
Net charge	127	507
Write-offs	(10)	(169)
Balance at the end of the period	**616**	**499**

16 Deposits by the Central bank of the Russian Federation

	31 December 2017	31 December 2016
Payables under repurchase agreements or collateralized loans	-	247 170
Total deposits by the Central bank of the Russian Federation	**-**	**247 170**

As at 31 December 2016, the fair value of securities that serve as collateral under sale and repurchase agreements is RUB 285 678 million.

Information about the currency and maturity and effective interest rates on deposits by the Central bank of the Russian Federation is presented in note 29.

17 Deposits by credit institutions

	31 December 2017	31 December 2016
Payables under repurchase agreements	534 452	247 011
Term deposits	57 252	129 999
Syndicated loans	29 487	-
Current accounts	18 670	3 991
Subordinated debt	-	623
Total deposits by credit institutions	**639 861**	**381 624**

As at 31 December 2017, the fair value of securities that serve as collateral under sale and repurchase agreements is RUB 630 957 million (31 December 2016: RUB 284 635 million).

As at 31 December 2017, the Group has one counterparty (31 December 2016: two counterparties) whose deposits balances exceed 10% of deposits by credit institutions. The gross value of these balances as at 31 December 2017 is RUB 478 354 million (31 December 2016: RUB 329 968 million).

Information about the currency and maturity and effective interest rates on deposits by credit institutions is presented in note 29.

18 Due to customers

	31 December 2017	31 December 2016
Corporate customers		
Term and demand deposits and payables under derivative contracts	482 374	379 563
Current accounts	101 744	41 300
Subordinated debt	39 842	18 273
Payables under repurchase agreements	26 100	-
Term notes	447	1 706
Total corporate customers	**650 507**	**440 842**

(in millions of Russian Roubles unless otherwise stated)

	31 December 2017	31 December 2016
Individuals		
Term and demand deposits	276 292	235 354
Current accounts	14 925	13 300
Total individuals	**291 217**	**248 654**
Total due to customers	**941 724**	**689 496**

As at 31 December 2017, the fair value of securities that serve as collateral under sale and repurchase agreements is RUB 28 549 million.

As at 31 December 2017, the Group has one counterparty (31 December 2016: one counterparty), whose demand and term deposits exceed 10% of total customer accounts. The gross value of these balances as at 31 December 2017 is RUB 396 782 million (31 December 2016: RUB 243 280 million).

Information about the currency and maturity and effective interest rates on due to customers is presented in note 29.

19 Debt securities issued

	31 December 2017	31 December 2016
Promissory notes issued	-	1 145
Total promissory notes issued	-	**1 145**
Bonds	66 649	95 252
Subordinated bonds	49 631	40 806
Total bonds issued	**116 280**	**136 058**
Total debt securities issued	**116 280**	**137 203**

The table below provides a summary of bonds issued as at 31 December 2017 and 31 December 2016:

	Nominal amount of the initial issue RUB'mln / USD'mln	Amount of the issue outstanding					
		31 December 2017	31 December 2016	Issue date	Maturity date	Coupon rate	
USD denominated subordinated Eurobonds issue	600	35 017	-	05.04.2017	05.10.2027	7.50%	*
USD denominated Eurobonds issue	500	24 603	30 478	07.11.2016	07.11.2021	5.88%	*
USD denominated Eurobonds issue	500	20 035	31 278	01.02.2013	01.02.2018	7.70%	*
RUB denominated subordinated Eurobonds issue	5 000	5 059	5 056	26.11.2014	26.05.2025	16.50%	*
RUB denominated bonds issue BO-11	15 000	4 815	13 033	10.07.2014	10.07.2019	9.15%	*
USD denominated subordinated Eurobonds issue	500	4 442	30 639	13.05.2013	13.11.2018	8.70%	*
RUB denominated bonds issue BO-10	5 000	4 105	4 113	10.07.2014	10.07.2019	11.00%	*
RUB denominated bonds issue BO-06	5 000	3 592	5 110	24.10.2013	24.10.2018	10.15%	*
RUB denominated subordinated bonds issue 11	3 000	3 026	3 024	11.12.2012	05.06.2018	12.25%	*

(in millions of Russian Roubles unless otherwise stated)

	Nominal amount of the initial issue RUB'mln / USD'mln	Amount of the issue outstanding		Issue date	Maturity date	Coupon rate	
		31 December 2017	31 December 2016				
RUB denominated bonds issue BO-09	3 000	2 880	2 175	25.03.2015	25.03.2020	10.25%	*
Mortgage-backed bonds	3 328	2 387	3 355	02.12.2016	07.12.2043	10.15%	*
RUB denominated bonds issue BO-07	7 000	2 159	2 178	30.10.2013	30.10.2018	10.30%	*
RUB denominated subordinated bonds issue 12	2 000	2 087	2 087	27.02.2013	22.08.2018	12.25%	*
RUB denominated bonds issue 01	3 000	1 236	2 044	27.10.2016	21.10.2021	12.50%	*
Mortgage-backed bonds	3 702	837	1 488	16.06.2014	07.06.2039	10.65%	*
		116 280	**136 058**				

** Fixed coupon rate*

Bondholders are entitled to demand early redemption of certain bonds at their nominal value.

Coupon payments are made semi-annually or quarterly, and selected coupon rates are subject to change in accordance with terms of the issuance within a predetermined range.

Information about the currency and maturity and effective interest rates on debt securities issued is presented in note 29.

20 Other liabilities

	31 December 2017	31 December 2016
Derivative financial instruments	1 551	1 081
Payables to suppliers and other creditors	640	857
Payable to employees	580	377
Cash collection payables	468	377
Other liabilities	883	651
Total other financial liabilities	**4 122**	**3 343**
Deferred income	2 068	2 981
Allowance for credit related commitments	1 761	1 654
Taxes payable	439	389
Payables to Deposit Insurance Agency	321	259
Current tax liabilities	16	23
Other liabilities	231	236
Total other non-financial liabilities	**4 836**	**5 542**
Total other liabilities	**8 958**	**8 885**

21 Share capital

Share capital consists of ordinary shares and was contributed by the shareholders in Roubles. The shareholders are entitled to dividends and capital distributions. Issued, outstanding and paid share capital at 31 December 2017 comprises 27 079 709 866 shares (31 December 2016: 23 879 709 866 shares) with par value of 1 RUB per share. In addition, at 31 December 2017 the Bank has 9 196 448 142 authorized but unissued ordinary shares with an aggregate nominal value of RUB 9 196 million. The total hyperinflation adjustment related to equity as at 31 December 2002 was RUB 862 million.

(in millions of Russian Roubles unless otherwise stated)

In October 2017 the Bank issued 3 200 000 000 additional ordinary shares with a par value of 1 RUB per share under secondary public offering. The Bank raised RUB 14 400 million during this offering. In December 2017 the CBR registered the Bank`s share capital increase.

In May 2017 the Group issued subordinated perpetual Eurobonds in the amount of USD 700 million at par with a coupon rate of 8.875% per annum. The Group has the right to call the Eurobonds in November 2022 or on any subsequent coupon payment date thereafter at the option of the Group. The coupon is paid on a quarterly basis and the coupon rate is fixed until the first call date after which it is reset every 5 years. The coupon payment is not cumulative and may be cancelled at the discretion of the Group.

As the Group has discretion in relation to coupon and principal repayment, the Group classified subordinated perpetual Eurobonds as an equity instrument in the consolidated statement of financial position. The Central bank of the Russian Federation approved the inclusion of the perpetual Eurobonds in the calculation of statutory capital adequacy ratio. The Eurobonds are Basel-III compliant and eligible for inclusion into the Group’s Additional Tier 1 capital upon receiving approval from the CBR (note 27).

The USD denominated subordinated perpetual Eurobonds are translated to its RUB equivalent at the period-end exchange rate with exchange differences recorded in retained earnings when incurred. Issuance costs are also recorded in retained earnings when incurred.

22 Commitments

The Group has outstanding commitments to extend loans. These commitments take the form of approved loans and credit card limits and overdraft facilities.

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years.

The Group applies the same credit risk management policies and procedures when granting credit commitments, financial guarantees and letters of credit as it does for granting loans to customers.

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognized at the reporting date if counterparties failed completely to perform as contracted.

	31 December 2017	31 December 2016
Guarantees and letters of credit	89 475	101 612
Undrawn loan commitments	25 436	26 677
Other contingent liabilities	17	322
	114 928	**128 611**

The total outstanding contractual commitments above do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

(in millions of Russian Roubles unless otherwise stated)

23 Operating leases

Leases as lessee

Future minimum lease payments on non-cancellable lease agreements are as follows:

	31 December 2017	31 December 2016
Less than 1 year	992	821
Between 1 and 5 years	2 108	1 433
More than 5 years	76	49
	3 176	**2 303**

During the year ended 31 December 2017 RUB 1 035 million was recognised as an expense in profit or loss in respect of operating leases (31 December 2016: RUB 1 121 million).

Leases as lessor

Assets leased out under operating leases are represented by aircrafts, which were sold out in December 2017 (note 33).

Future minimum lease payments on non-cancellable lease agreements are as follows:

	31 December 2017	31 December 2016
Less than 1 year	-	1 616
Between 1 and 5 years	-	6 464
More than 5 years	-	2 144
	-	**10 224**

The present value of minimum lease payments under these arrangements as at 31 December 2016 is RUB 8 654 million.

As at 31 December 2016, there was only one lessee under operating lease agreements.

24 Contingencies

Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its premises and equipment, business interruption, or third-party liability in respect of property or environmental damage arising from accidents on its property or related to operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position.

Litigation

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations.

Taxation contingencies

The taxation system in the Russian Federation continues to evolve and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances, a tax year may remain open for a longer period. Recent events in the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

Starting from 1 January 2012 new transfer pricing rules came into force in Russia. These provide the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controllable transactions if their prices deviate from the market range or profitability range. According to the provisions of transfer pricing rules, the taxpayer should sequentially apply five market price determination methods prescribed by the Tax Code.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible, with the evolution of the interpretation of transfer pricing rules in the Russian Federation and changes in the approach of the Russian tax authorities, that such transfer prices could be challenged. Since the current Russian transfer pricing rules became effective relatively recently, 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.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the financial position, if the authorities were successful in enforcing their interpretations, could be significant.

25 Custody activities

The Group provides custody services to its customers, whereby it holds securities on behalf of customers and receives fee income for providing these services. These securities are not assets of the Group and are not recognized in the consolidated statement of financial position.

(in millions of Russian Roubles unless otherwise stated)

26 Related party transactions

The outstanding balances with related parties and related average interest rates as at 31 December 2017 and 31 December 2016 are as follows:

	31 December 2017		31 December 2016	
	Amount	**Average effective interest rate**	**Amount**	**Average effective interest rate**
Cash and cash equivalents				
Under control of principal beneficiary	4 114	6.2%	-	-
Total cash and cash equivalents	**4 114**		**-**	
Financial instruments at fair value through profit or loss				
Under control of principal beneficiary	1 451	-	-	-
Total financial instruments at fair value through profit or loss	**1 451**		**-**	
Loans to customers				
Under control of principal beneficiary	22 600	12.7%	18 318	14.2%
Management	134	14.5%	70	16.4%
Total loans to customers	**22 734**		**18 388**	
Due to customers				
Term deposits by customers				
Under control of principal beneficiary	2 067	7.3%	241	10.0%
Management	187	5.8%	145	5.0%
Principal beneficiary	174	7.4%	828	9.9%
Parent company	-	-	977	10.1%
Total term deposits by customers	**2 428**		**2 191**	
Current accounts by customers				
Under control of principal beneficiary	3 595		68	
Parent company	1 321		-	
Management	23		64	
Principal beneficiary	2		3	
Total current accounts by customers	**4 941**		**135**	
Total due to customers	**7 369**		**2 326**	
Debt securities issued				
Under control of principal beneficiary	7 942	10.9%	-	-
Total debts securities issued	**7 942**		**-**	
Guarantees issued				
Under control of principal beneficiary	201		343	
Total guarantees	**201**		**343**	

As at 31 December 2017, the company under control of principal beneficiary has an investment in perpetual debt issued in amount of RUB 2 221 million. During the year ended 2017 the company under control of principal beneficiary received coupon payments on perpetual debt issued from the Group in the amount of RUB 103 million.

(in millions of Russian Roubles unless otherwise stated)

As at 31 December 2017, the undrawn loan commitments under credit line agreements for principal beneficiary and for management are RUB 890 million (31 December 2016: RUB 900 million).

Amounts included in profit or loss and other comprehensive income for the years ended 31 December 2017 and 2016 in relation to transactions with related parties are as follows:

	2017	2016
Interest income		
Under control of principal beneficiary	3 590	778
Parent company	277	20
Management	14	9
Total interest income	**3 881**	**807**
Interest expense		
Under control of principal beneficiary	1 008	251
Parent company	44	67
Principal beneficiary	42	20
Management	15	13
Total interest expense	**1 109**	**351**
Commission income		
Under control of principal beneficiary	273	41
Parent company	39	7
Total Commission income	**312**	**48**
Net foreign exchange gains		
Under control of principal beneficiary	608	-
Total net foreign exchange gains	**608**	-

Total remuneration of the Supervisory Board and the Management Board included in employee compensation for the years ended 31 December 2017 and 31 December 2016 (refer to note 6) is as follows:

	2017	2016
Members of the Management Board	453	102
Members of the Supervisory Board	76	78
	529	**180**

27 Capital management

The CBR sets and monitors capital requirements for the Group.

The Group defines as capital those items defined by statutory regulation as capital for banking groups. Since 1 January 2016 the Group calculated amount of capital in accordance with Provision of the CBR dated 3 December 2016 No. 509-P *On Calculation of Amount of Own Funds (Capital), Economic Ratios and Amounts (Limits) of Open Currency Positions of Banking Groups.* As at 31 December 2017 and 2016, minimum levels of basic capital ratio (ratio N20.1), main capital ratio (ratio N20.2), own funds (capital) ratio (ratio N20.0) are 4.5%, 6.0% and 8.0%, accordingly. Since 1 January 2016 the Group should comply with capital buffers: capital conservation buffer, countercycle buffer, and buffer for systematical importance. Management believes that the Group maintains capital adequacy at the level appropriate to the nature and volume of its operations.

(in millions of Russian Roubles unless otherwise stated)

The Group provides the territorial CBR offices that supervise the Bank with information on mandatory ratios in accordance with regulatory requirements. The accounting department controls on a daily basis compliance with capital adequacy ratios.

In case values of capital adequacy ratios become close to limits set by the CBR and the Group's internal policy this information is communicated to the Management Board and the Supervisory Board. The Group is in compliance with the statutory capital ratios as at 31 December 2017 and 31 December 2016.

The capital adequacy ratio of the Group calculated in accordance with the Basel III requirements as adopted in the Russian Federation, based on the IFRS consolidated financial statements as at 31 December 2017 and 31 December 2016 is as follows:

	31 December 2017	31 December 2016
Tier 1 capital		
Share capital and additional paid-in capital	74 189	59 789
Retained earnings	62 104	42 434
Intangible assets	(484)	(314)
Core tier 1	**135 809**	**101 909**
Additional capital		
Perpetual debt issued	40 320	-
Total tier 1 capital	**176 129**	**101 909**
Tier 2 capital		
Revaluation surplus for buildings	582	688
Revaluation reserve for securities available-for-sale	394	451
Subordinated debt		
Subordinated loans	56 055	38 464
Subordinated bonds	41 257	18 294
Total tier 2 capital	**98 288**	**57 897**
Total capital	**274 417**	**159 806**
Risk-weighted assets		
Banking book	943 174	869 092
Trading book	133 987	138 703
Operational risk	97 409	77 593
Total risk weighted assets	**1 174 570**	**1 085 388**
Total tier 1 capital expressed as a percentage of risk-weighted assets (Core tier 1 capital ratio) (%)	**11.6**	**9.4**
Total tier 1 capital expressed as a percentage of risk-weighted assets (tier 1 capital ratio) (%)	**15.0**	**9.4**
Total capital expressed as a percentage of risk-weighted assets (total capital ratio) (%)	**23.4**	**14.7**

In June 2015 the State Corporation "Deposit Insurance Agency" provided a subordinated loan of RUB 20 231 million to the Bank in a form of federal loan bonds (OFZ). The Bank has an obligation to return securities received back to the lender at the maturity of the agreement. The Bank pays charges equal to coupons on the bonds transferred plus a fixed margin. The contract also includes certain restrictions on ability of the Bank to sell or pledge securities received. The arrangement is a securities lending transaction. The Group does not recognize securities received and a subordinated obligation to return them to the lender in the consolidated statement of financial position of the Group. The obligation to return securities received to the State Corporation "Deposit Insurance Agency" is subordinated to other ordinary obligations of the Group, and the terms of the loan satisfy the criteria for inclusion of the loan into the regulatory capital of the Bank in accordance with Russian banking legislation. As such, the Bank includes the amount of the subordinated loan described above into its Tier 2 capital for the purpose of statutory regulatory capital and capital calculated for capital management purposes in accordance with Basel III.

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees.

28 Analysis by segment

The Group has four reportable segments, as described below, which are strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Chairman of the Management Board reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the reportable segments:

- Corporate business comprises corporate lending, overdraft lending, factoring, financial and operating leasing, letters of credit, guarantees, corporate deposit services, settlements and money transfers
- Retail banking comprises retail demand and term deposit services; retail lending, including other loans to individuals, car loans and mortgages, private banking services; banking card products, settlements and money transfers
- Treasury comprises interbank lending and borrowings from banks, securities trading and brokerage in securities, repo transactions, foreign exchange services, issuance of domestic bonds and promissory notes
- Cash operations comprises all operations connected with cash, cash handling, calculation and transportation.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, which is calculated based on consolidated financial information prepared in accordance with IFRS, as included in the internal management reports that are reviewed by the Chairman of the Management Board. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to others who operate within these industries. Inter-segment pricing is determined on an arm's length basis.

The segment breakdown of assets and liabilities is set out below:

(in millions of Russian Roubles unless otherwise stated)

	31 December 2017	31 December 2016
ASSETS		
Corporate business	695 723	552 400
Retail banking	86 294	95 693
Treasury	1 071 712	887 856
Cash operations	24 863	18 763
Unallocated assets	9 599	13 257
Total assets	**1 888 191**	**1 567 969**
LIABILITIES		
Corporate business	653 110	440 604
Retail banking	294 736	248 654
Treasury	748 892	763 107
Cash operations	5 525	3 289
Unallocated liabilities	8 339	8 914
Total liabilities	**1 710 602**	**1 464 568**

Segment information for the main reportable segments for the year ended 31 December 2017 is set below:

	Corporate business	Retail banking	Treasury	Cash operations	Unallocated	Total
External interest income	66 283	16 095	44 523	58	-	126 959
Fee and commission income	4 288	6 067	1 027	4 128	-	15 510
Net gain on securities	-	-	1 114	-	-	1 114
Net foreign exchange gains	-	-	2 701	-	-	2 701
Other operating income (expenses), net	3 449	88	(1 382)	(38)	-	2 117
(Expenses) revenue from other segments	(10 779)	11 482	(1 499)	796	-	-
Revenue	**63 241**	**33 732**	**46 484**	**4 944**	**-**	**148 401**
Impairment losses on loans	(14 847)	(3 750)	-	-	-	(18 597)
Interest expense	(23 490)	(19 843)	(38 346)	-	-	(81 679)
Fee and commission expense	(13)	(2 508)	(459)	(22)	-	(3 002)
General administrative and other expenses	(2 784)	(5 596)	(432)	(4 404)	(5 090)	(18 306)
Expense	**(41 135)**	**(31 696)**	**(39 237)**	**(4 426)**	**(5 090)**	**(121 584)**
Segment result	**22 106**	**2 036**	**7 247**	**518**	**(5 090)**	**26 817**

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

(in millions of Russian Roubles unless otherwise stated)

	Corporate business	Retail banking	Treasury	Cash operations	Unallocated	Total
External interest income	63 182	18 636	31 580	-	-	113 398
Fee and commission income	3 729	5 203	218	4 244	-	13 394
Net gain on securities	-	-	1 443	-	-	1 443
Net foreign exchange gains	997	119	4 934	15	-	6 065
Other operating income, net	1 097	(88)	(256)	(50)	-	703
Revenue (expenses) from other segments	5 118	9 275	(14 711)	318	-	-
Revenue	**74 123**	**33 145**	**23 208**	**4 527**	**-**	**135 003**
Impairment losses on loans	(22 579)	(7 204)	-	-	-	(29 783)
Interest expense	(35 856)	(18 072)	(19 171)	-	-	(73 099)
Fee and commission expense	(1 927)	(167)	(121)	(32)	-	(2 247)
General administrative and other expenses	(4 975)	(4 812)	(421)	(1 889)	(4 042)	(16 139)
Expense	**(65 337)**	**(30 255)**	**(19 713)**	**(1 921)**	**(4 042)**	**(121 268)**
Segment result	**8 786**	**2 890**	**3 495**	**2 606**	**(4 042)**	**13 735**

Information about major customers and geographical areas

The majority of revenues from external customers relate to residents of the Russian Federation. There are no external customers (groups of related customers) with individual income from operations which exceed 10% of total income from operations. The majority of non-current assets are located in the Russian Federation.

29 Risk management, corporate governance and internal control

Corporate governance framework

The Bank is established as an public joint-stock company in accordance with Russian law. The supreme governing body of the Bank is the general shareholders' meeting that is called for annual or extraordinary meetings. The general shareholders' meeting makes strategic decisions on the Bank's operations.

The general shareholders' meeting elects the Supervisory Board. The Supervisory Board is responsible for overall governance of the Bank's activities.

Russian legislation and the charter of the Bank establish decisions that are exclusively approved by the general shareholders' meeting and that are approved by the Supervisory Board.

As at 31 December 2017, the Supervisory Board includes:

- William F. Owens – Chairman

Members:

- Roman I. Avdeev
- Andrew S. Gazitua
- Thomas G. Grasse
- Vladimir A. Chubar
- Sergey Y. Menzhinskiy
- Alexey A. Stepanenko
- Lord Peter H. Dursbery

- Andreas Klingen
- Ilkka S. Salonen.

During the year ended 31 December 2017 the following changes occurred in the composition of the Supervisory Board:

- Mikhail E. Kuznetsov – resigned
- Marina M. Nastashkina – resigned
- Genadi Lewinski – resigned
- Sergey Y. Menzhinskiy – new member
- Alexey A. Stepanenko – new member
- Lord Peter H. Dursbery – new member.

General activities of the Bank are managed by the sole executive body of the Bank (Chairman of the Management Board) and collective executive body of the Bank (Management Board). The Supervisory Board meeting elects the Chairman of the Management Board. The executive bodies are responsible for implementation of decisions of the general shareholders' meeting and the Supervisory Board. Executive bodies report to the Supervisory Board and to the general shareholders' meeting.

As at 31 December 2017, the Management Board includes:

- Vladimir A. Chubar – Chairman of the Management Board
- Dmitry A. Eremin – First Deputy Chairman of the Management Board
- Alexey V. Kosyakov – Deputy Chairman of the Management Board
- Alexey A. Stepanenko – Deputy Chairman of the Management Board
- Andrey A. Kryukov – Deputy Chairman of the Management Board
- Yury A. Ubeev – Senior Vice President
- Svetlana V. Sass – Chief Accountant, Member of the Management Board
- Elena V. Shved – Director of the Finance Department, Member of the Management Board
- Anton O. Viritchev – Head of the Risk Management, Member of the Management Board
- Oleg A. Borunov – Deputy Chairman of the Management Board
- Alexander N. Kaznacheev – Deputy Chairman of the Management Board

During the year ended 31 December 2017 the following changes occurred in the composition of the Management Board:

- Oleg A. Borunov – new member
- Alexander N. Kaznacheev – new member
- Daria A. Galkina – resigned

Internal control policies and procedures

The Supervisory Board and the Management Board have responsibility for the development, implementation and maintenance of internal controls in the Bank that are commensurate with the scale and nature of operations.

The purpose of internal controls is to ensure:

- proper and comprehensive risk assessment and management;
- proper business and accounting and financial reporting functions, including proper authorization, processing and recording of transactions;
- completeness, accuracy and timeliness of accounting records, managerial information, regulatory reports, etc.;
- reliability of IT-systems, data and systems integrity and protection;

- prevention of fraudulent or illegal activities, including misappropriation of assets;
- compliance with laws and regulations.

Management is responsible for identifying and assessing risks, designing controls and monitoring their effectiveness. Management monitors the effectiveness of internal controls and periodically implements additional controls or modifies existing controls as considered necessary.

The Group developed a system of standards, policies and procedures to ensure effective operations and compliance with relevant legal and regulatory requirements, including the following areas:

- requirements for appropriate segregation of duties, including the independent authorization of transactions
- requirements for the recording, reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentating of controls and procedures
- requirements for the periodic assessment of operational risks, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards, and
- risk mitigation, including insurance where this is effective.

In 2014 new requirements for the organisation of internal control system in credit organisations came into force. The new version of Regulation of the Central bank of Russian Federation dated 16 December 2003 No. 242-P *On the Organisation of Internal Control in Credit Organisations and Banking Groups* sets out the specific requirements for the internal audit service and the internal control service (the compliance service).

The main functions of the Internal Audit Service include the following:

- audit and efficiency assessment of the system of internal control as a whole, fulfillment of the decisions of key management structures
- audit of efficiency of methodology of assessment of banking risks and risk management procedures, regulated by internal documents in the Bank (methods, programmes, rules and procedures for banking operations and transactions, and for the management of banking risks)
- audit of reliability of internal control system over automated information systems
- audit and testing of fairness, completeness and timeliness of accounting and reporting function and the reliability (including the trustworthiness, fullness and objectivity) of the collection and submission of financial information
- audit of applicable methods of safekeeping of the Bank’s property
- assessment of economic reasonability and efficiency of operations and other deals
- audit of internal control processes and procedures
- audit of the internal control service and the risk management service.

The Internal Control Service conducts compliance activities focused primarily on regulatory risks faced by the Group.

The main functions of the Internal Control (Compliance) Service include the following:

- identification of compliance risks and regulatory risks
- monitoring of events related to regulatory risk, including probability of occurrence and quantitative assessment of its' consequences
- monitoring of regulatory risk
- preparation of recommendations on regulatory risk management
- coordination and participation in design of measures to decrease regulatory risk
- monitoring of efficiency of regulatory risk management
- participation in preparation of internal documents on regulatory risk management, anti-corruption, compliance with corporate behaviour rules, code of professional ethics and minimisation of conflicts of interest
- analysis of dynamics of clients' complaints
- analysis of economic reasonableness of agreements with suppliers
- participation in interaction with authorities, self-organized organisations, associations and financial market participants.

Compliance with Group standards is supported by a program of periodic reviews undertaken by the Internal Audit Service. The Internal Audit Service is independent from management and reports directly to the Supervisory Board. The results of the Internal Audit Service reviews are discussed with relevant business process managers, with summaries submitted to the Audit Committee and Supervisory Board and senior management of the Group.

Russian legislation, including Federal Law dated 2 December 1990 No. 395-1 *On Banks and Banking Activity,* Direction of the CBR dated 1 April 2014 No. 3223-U *On Requirement to Head of Risk Management Service, Head of Internal Control Service, Head of Internal Audit Service of the Credit Organisation,* establish the professional qualifications, business reputation and other requirements for members of the Supervisory Board, Management Board, Heads of the Internal Audit Service, Internal Control Service and Risk Management Service and other key management personnel. All members of the Bank's Risks Division meet these requirements.

Management believes that the Bank complies with the CBR requirements related to risk management and internal control systems, including requirements related to the Internal Audit and Control function, and that risk management and internal control systems are appropriate for the scale, nature and complexity of operations.

Risk management policies and procedures

Management of risk is fundamental to the business of banking and forms an essential element of the Group's operations. The major (significant) risks faced by the Group are those related to market risk, credit risk, liquidity risk, and operational, legal and reputational risks.

Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Group. The Group has policies and procedures for the management of credit exposures (both for recognized and unrecognized exposures), including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors credit risk. The credit policy is reviewed and approved by the Management Board.

(in millions of Russian Roubles unless otherwise stated)

The credit policy establishes:

- procedures for review and approval of credit applications
- methodology for the credit assessment of borrowers (corporate and individuals)
- methodology for the credit assessment of counterparties, issuers and insurance companies
- methodology for the evaluation of collateral
- credit documentation requirements
- procedures for the ongoing monitoring of loans and other credit exposures.

Retail credit applications are reviewed by the Retail Lending Division through the use of scoring models and procedures to evaluate borrowers' credit worthiness developed together with the Risk Division.

Apart from individual customer analysis, the credit portfolio is assessed by the Risk Division with regard to credit concentration and market risks.

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

The maximum exposure to credit risk in relation to assets recognized at 31 December 2017 and 31 December 2016 is as follows:

	31 December 2017	31 December 2016
ASSETS		
Cash and cash equivalents excluding cash on hand	914 301	354 564
Obligatory reserves with the Central bank of the Russian Federation	8 884	7 287
Deposits in credit and other financial institutions	16 369	403 480
Financial instruments at fair value through profit or loss	117 282	83 909
Available-for-sale securities	24 946	45 791
Loans to customers	768 676	626 535
Other financial assets	1 500	1 377
Total maximum exposure to credit risk on statement of financial position	**1 851 958**	**1 522 943**

For the analysis of concentration of credit risk in respect of loans to customers refer to note 13.

The maximum exposure to credit risk in relation to guarantees and commitments at the reporting date is presented in note 22.

Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, can be covered by the funds deposited by customers and therefore bear limited credit risk.

With respect to undrawn loan commitments the Group is potentially exposed to loss in an amount equal to the total amount of such commitments. However, the likely amount of loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

In accordance with the requirements of the CBR, the Bank also calculates on a daily basis mandatory maximum risk exposure ratio per borrower or group of related borrowers (N6), which regulates the Bank's credit risk in respect of a borrower or group of related borrowers and sets the maximum ratio of the total liabilities of a borrower (borrowers within a group of related borrowers) owed to the Bank, to the Bank's own funds (capital). As at 31 December 2017 and 31 December 2016, the maximum level of N6 ratio set by the CBR was 25%. The N6 ratio calculated by the Bank was in compliance with limits set by the CBR as at 31 December 2017 and 31 December 2016.

The Bank's management is responsible for the compliance of the banking group, wherein the Bank is the parent credit institution, with the requirements of the CBR in respect of mandatory ratios, including the banking group's maximum risk exposure ratio per borrower or group of related borrowers (N21); the banking group's maximum risk exposure to large credit risks ratio (N22).

N21 ratio regulates the credit risk of the banking group, wherein the Bank is the parent credit institution, in respect of a borrower or group of related borrowers and sets the maximum ratio of the banking group's total credit claims (excluding unconsolidated participants of the banking group) to the borrower or group of related borrowers to the banking group's own funds (capital).

N22 ratio regulates the total exposure to large credit risks of the banking group, wherein the Bank is the parent credit institution, and sets the maximum ratio of the banking group's total exposure to large credit risks (excluding unconsolidated participants of the banking group) to the banking group's own funds (capital).

The structure of the banking group, wherein the Bank is the parent credit institution, is determined in accordance with the requirements of the Provision of the CBR dated 3 December 2016 No. 509-P *Calculation of Own Funds (Capital), Mandatory Ratios and Open Currency Position Limits for Banking Groups* and may differ from the Group structure determined in accordance with IFRS requirements.

The Bank was in compliance with the mandatory ratios in respect of the banking group's credit risk as at 31 December 2017 and 31 December 2016.

Offsetting financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Group's consolidated statement of financial position or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

Similar agreements include derivative clearing agreements, global master repurchase agreements. Similar financial instruments include derivatives, sales and repurchase agreements, and reverse sale and repurchase agreements.

The Group's derivative transactions that are not transacted on an exchange are entered into under International Derivative Swaps and Dealers Association (ISDA) Master Netting Agreements. In general, under such agreements the amounts owed by each counterparty that are due on a single day in respect of transactions outstanding in the same currency under the agreement are aggregated into a single net amount payable by one party to the other. In certain circumstances, for example when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed, and only a single net amount is due or payable in settlement transactions.

Sale and repurchase, reverse sale and repurchase transactions are covered by master agreements with netting terms similar to those of ISDA Master Netting Agreements.

These ISDA and similar master netting arrangements do not meet the offsetting criteria in the consolidated statement of financial position. This is because they create a right of set-off of recognized amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Group or the counterparties. In addition, the Group and its counterparties do not intend to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

(in millions of Russian Roubles unless otherwise stated)

The Group receives and accepts collateral in the form of cash and marketable securities in respect of sale and repurchase, and reverse sale and repurchase agreements.

Such collateral is subject to the standard industry terms of the ISDA Credit Support Annex. This means that securities received/given as collateral can be pledged or sold during the term of the transaction, but must be returned on maturity of the transaction. The terms also give each counterparty the right to terminate the related transactions upon the counterparty's failure to post collateral.

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2017:

				Related amounts subject to offset under specific conditions		
Types of financial assets/liabilities	**Gross amounts of recognized financial assets/liabilities**	**Gross amount of recognized financial liabilities/assets offset in the consolidated statement of financial position**	**Net amount of financial assets/liabilities presented in the consolidated statement of financial position**	**Financial instruments**	**Cash collateral received**	**Net amount**
Reverse sale and repurchase	801 924	-	801 924	801 924	-	-
Total financial assets	**801 924**	-	**801 924**	**801 924**	-	-
Sale and repurchase	560 552	-	560 552	560 552	-	-
Total financial liabilities	**560 552**	-	**560 552**	**560 552**	-	-

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2016:

				Related amounts subject to offset under specific conditions		
Types of financial assets/liabilities	**Gross amounts of recognized financial assets/liabilities**	**Gross amount of recognized financial liabilities/assets offset in the consolidated statement of financial position**	**Net amount of financial assets/liabilities presented in the consolidated statement of financial position**	**Financial instruments**	**Cash collateral received**	**Net amount**
Reverse sale and repurchase	626 207	-	626 207	626 207	-	-
Total financial assets	**626 207**	**-**	**626 207**	**626 207**	-	-
Sale and repurchase	494 181	-	494 181	494 181	-	-
Total financial liabilities	**494 181**	**-**	**494 181**	**494 181**	-	-

(in millions of Russian Roubles unless otherwise stated)

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the consolidated statement of financial position that are disclosed in the above tables are measured in the consolidated statement of financial position on the following basis:

- assets and liabilities resulting from sale and repurchase agreements, reverse sale and repurchase agreements – amortized cost.

The table below reconciles the "Net amounts of financial assets and financial liabilities presented in the consolidated statement of financial position", as set out above, to the line items presented in the consolidated statement of financial position as at 31 December 2017.

Types of financial assets/liabilities	Net amount	Line item in the consolidated statement of financial position	Carrying amount in the consolidated statement of financial position	Financial assets/liabilities not in the scope of offsetting disclosure	Note
Reverse sale and repurchase agreements	793 501	Cash and cash equivalents	934 033	140 532	9
	8 423	Deposits in credit and other financial institutions	16 369	7 946	10
Sale and repurchase agreements	534 452	Deposits by credit institutions	639 861	105 409	17
	26 100	Due to customers	941 724	915 624	18

The table below reconciles the "Net amounts of financial assets and financial liabilities presented in the consolidated statement of financial position", as set out above, to the line items presented in the consolidated statement of financial position as at 31 December 2016.

Types of financial assets/liabilities	Net amount	Line item in the consolidated statement of financial position	Carrying amount in the consolidated statement of financial position	Financial assets/liabilities not in the scope of offsetting disclosure	Note
Reverse sale and repurchase agreements	228 616	Cash and cash equivalents	373 327	144 711	9
	397 591	Deposits in credit and other financial institutions	403 480	5 889	10
Sale and repurchase agreements	247 170	Deposits by the Central bank of the Russian Federation	247 170	-	16
	247 011	Deposits by credit institutions	381 624	134 613	17

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The Group is exposed to several types of operational risk, including unauthorized transactions by employees, operational errors by employees such as clerical or record keeping errors, errors resulting from faulty computer or telecommunications systems and the risk that the Group will be used for money laundering and financing of terrorist activities.

The Group's Operational Risk Management Policy is based on Russian statutory requirements, recommendations of the CBR and the Basel Committee on Banking Supervision, and internationally recognized principles. The Group gathers data on operational risk occurrences and monitors key risk indicators, and organizational units carry out self-assessment of risk and subsequently provide operational risk mapping across the Group.

(in millions of Russian Roubles unless otherwise stated)

The Group also seeks to manage its operational risks by recruiting qualified staff, provides training, regularly updating operational procedures, monitoring the security of its IT systems and ensuring that its infrastructure systems are robust.

The Group established an Operational Risk Unit as a part of the Internal Control Division. The Operational Risk Unit determines policies and procedures in the area of operational risks.

The Operational Risk Unit collects information in relation to the circumstances leading to losses and uses this information for necessary corrections of processes and control tools. The Operational Risk Unit reports to the Head of the Internal Control Service on important developments and issues. The Head of the Internal Control Service reports directly to the Chairman of the Management Board.

Liquidity risk

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources from overnight deposits, current deposits, maturing deposits, loan draw downs and guarantees. The Group maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due.

The Asset and Liability Management Committee (ALCO) sets limits on the minimum proportion of maturing funds available to cover such cash outflows and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The Group calculates liquidity ratios on a daily basis in accordance with the requirements of the CBR. These ratios are:

i) instant liquidity ratio (N2), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand;

ii) current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days;

iii) long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after one year to regulatory capital and liabilities maturing after one year.

The Group was in compliance with these ratios as at 31 December 2017 and 31 December 2016.

The following tables as at 31 December 2017 and 31 December 2016 show the undiscounted cash flows from financial liabilities on the basis of their contractual maturity. Debt securities issued are shown in accordance with their early redemption dates. These expected cash flows can vary significantly from the actual future cash flows. Foreign currency payments are translated using the spot exchange rate at the reporting date.

31 December 2017	Less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Total	Carrying value
LIABILITIES						
Deposits by credit institutions	472 414	151 178	17 896	2 096	**643 584**	**639 861**
Due to customers	221 775	444 686	104 270	295 386	**1 066 117**	**941 724**
Debt securities issued	4 333	26 068	15 297	92 060	**137 758**	**116 280**
Other financial liabilities	2 127	754	443	798	**4 122**	**4 122**
Total contractual future payments for financial obligations	**700 649**	**622 686**	**137 906**	**390 340**	**1 851 581**	**1 701 987**
Guarantees and letters of credit	89 475	-	-	-	**89 475**	
Credit related commitments	25 436	-	-	-	**25 436**	

(in millions of Russian Roubles unless otherwise stated)

31 December 2016	Less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Total	Carrying value
LIABILITIES						
Deposits by the CBR	247 639	-	-	-	**247 639**	**247 170**
Deposits by credit institutions	184 375	189 552	4 384	7 967	**386 278**	**381 624**
Due to customers	253 434	190 486	206 625	67 406	**717 951**	**689 496**
Debt securities issued	-	10 905	18 039	142 494	**171 438**	**137 203**
Other financial liabilities	589	1 713	661	380	**3 343**	**3 343**
Total contractual future payments for financial obligations	**686 037**	**392 656**	**229 709**	**218 247**	**1 526 649**	**1 458 836**
Guarantees and letters of credit	101 612	-	-	-	**101 612**	
Credit related commitments	26 677	-	-	-	**26 677**	

In accordance with Russian legislation, individuals can withdraw their term deposits at any time, losing in most of the cases the accrued interest. Management believes term deposits from individuals to be a stable source of funding based on the past experience, thus classifying them in accordance with their stated maturity dates. The amount of such deposits, by each time band, is as follows:

	31 December 2017	31 December 2016
Demand and less than 1 month	28 981	24 513
From 1 to 6 months	155 342	123 261
From 6 to 12 months	88 719	73 021
More than 1 year	3 250	14 559
	276 292	**235 354**

In accordance with terms of issuance of bonds the holders are entitled to demand early redemption of bonds at their nominal value at certain dates. Management believes based on the past experience that it can manage amounts that are claimed for early redemption by changing coupon rates on bonds, thus classifying bonds in accordance with their stated final maturity dates. Maturity based on early redemption dates as at 31 December 2017 and 31 December 2016 is shown in the tables below:

31 December 2017	Less than 1 month	1 to 6 months	6 months to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total
Debt securities issued	4 105	23 060	12 280	12 753	60 856	3 226	**116 280**

31 December 2016	Less than 1 month	1 to 6 months	6 months to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total
Debt securities issued	-	7 284	13 033	73 319	37 578	4 844	**136 058**

The following tables provide an analysis, by expected maturities, of amounts recognised in the consolidated statement of financial position.

Securities included in financial instruments at fair value through profit or loss and available-for-sale securities that qualify as collateral for borrowing from the Central bank of the Russian Federation are shown in the category “Less than 1 month” as management believes they are liquid assets which can be sold quickly or pledged into a repo transaction in response to liquidity needs, if necessary. Liquid securities included in the Lombard list of the Central bank of the Russian Federation pledged as collateral are presented in accordance with maturity of related repo transactions.

(in millions of Russian Roubles unless otherwise stated)

As at 31 December 2017 and 31 December 2016 the contractual maturities of all instruments included in financial instruments at fair value through profit or loss and available-for-sale securities were as follows:

31 December 2017	**Less than 1 month**	**1 to 6 months**	**6 months to 1 year**	**1 to 3 years**	**3 to 5 years**	**Over 5 years**	**No maturity**	**Total**
Financial instrument at fair value through profit or loss	4 589	5 738	10 632	4 051	53 672	38 600	-	**117 282**
Available-for-sale securities	2 354	6 927	1 510	4 195	9 408	552	120	**25 066**

31 December 2016	**Less than 1 month**	**1 to 6 months**	**6 months to 1 year**	**1 to 3 years**	**3 to 5 years**	**Over 5 years**	**No maturity**	**Total**
Financial instrument at fair value through profit or loss	17 450	20 535	6 959	20 721	13 514	4 729	1	**83 909**
Available-for-sale securities	1 477	6 588	9 657	19 275	6 426	2 368	112	**45 903**

(in millions of Russian Roubles unless otherwise stated)

31 December 2017	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 months to 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Over 5 years	No maturity	Overdue	Total
ASSETS												
Cash and cash equivalents	934 033	-	-	-	-	-	-	-	-	-	-	**934 033**
Obligatory reserves with the CBR	-	-	-	-	-	-	-	-	-	8 884	-	**8 884**
Deposits in credit and other financial institutions	4	4 450	6 340	2 125	-	3 450	-	-	-	-	-	**16 369**
Financial instruments at fair value through profit or loss	77 040	1 772	2 044	-	-	-	-	36 426	-	-	-	**117 282**
Available-for-sale securities	7 546	20	5 388	-	914	1 911	284	8 331	552	120	-	**25 066**
Loans to customers	123 170	80 102	51 699	53 163	34 946	66 640	102 236	203 359	42 167	-	11 194	**768 676**
Property and equipment	-	-	-	-	-	-	-	-	-	7 866	-	**7 866**
Deferred tax assets	-	-	-	-	-	-	-	-	-	281	-	**281**
Other assets	350	1 124	850	524	320	235	2 201	282	-	3 848	-	**9 734**
	1 142 143	**87 468**	**66 321**	**55 812**	**36 180**	**72 236**	**104 721**	**248 398**	**42 719**	**20 999**	**11 194**	**1 888 191**
LIABILITIES												
Deposits by credit institutions	471 111	111 281	38 298	95	17 327	138	303	1 197	111	-	-	**639 861**
Due to customers	221 490	143 702	294 734	58 795	40 854	17 784	455	120 191	43 719	-	-	**941 724**
Debt securities issued	-	20 033	3 026	2 087	10 193	8 920	2 880	25 838	43 303	-	-	**116 280**
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	3 779	-	**3 779**
Other liabilities	2 687	1 125	694	808	608	361	238	-	2 437	-	-	**8 958**
	695 288	**276 141**	**336 752**	**61 785**	**68 982**	**27 203**	**3 876**	**147 226**	**89 570**	**3 779**	**-**	**1 710 602**
Net position	**446 855**	**(188 673)**	**(270 431)**	**(5 973)**	**(32 802)**	**45 033**	**100 845**	**101 172**	**(46 851)**	**17 220**	**11 194**	**177 589**
Cumulative position	**446 855**	**258 182**	**(12 249)**	**(18 222)**	**(51 024)**	**(5 991)**	**94 854**	**196 026**	**149 175**	**166 395**	**177 589**	

Management of the Group in its liquidity forecasts estimates that the liquidity gaps in the table above will be sufficiently covered by planned prolongations and planned funding raised from usual sources of financing and by ability to sell quickly or pledge into a repo transaction securities received under reverse repurchase agreements, which are liquid assets, as well as by the undrawn credit line facilities from the CBR and other financial institutions.

(in millions of Russian Roubles unless otherwise stated)

31 December 2016	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 months to 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Over 5 years	No maturity	Overdue	Total
ASSETS												
Cash and cash equivalents	373 327	-	-	-	-	-	-	-	-	-	-	**373 327**
Obligatory reserves with the CBR	-	-	-	-	-	-	-	-	-	7 287	-	**7 287**
Deposits in credit and other financial institutions	-	275 110	162	40 773	87 435	-	-	-	-	-	-	**403 480**
Financial instruments at fair value through profit or loss	82 111	1 663	135	-	-	-	-	-	-	-	-	**83 909**
Available-for-sale securities	32 801	120	80	-	-	7 398	1 441	1 826	2 125	112	-	**45 903**
Loans to customers	85 362	42 819	86 461	42 924	39 302	63 244	72 275	118 676	69 160	-	6 312	**626 535**
Property and equipment	-	-	-	-	-	-	-	-	-	21 278	-	**21 278**
Other assets	459	455	598	343	236	49	-	298	-	3 812	-	**6 250**
	574 060	**320 167**	**87 436**	**84 040**	**126 973**	**70 691**	**73 716**	**120 800**	**71 285**	**32 489**	**6 312**	**1 567 969**
LIABILITIES												
Deposits by the CBR	247 170	-	-	-	-	-	-	-	-	-	-	**247 170**
Deposits by credit institutions	183 915	186 529	255	2 329	1 944	4 297	24	1 273	1 058	-	-	**381 624**
Due to customers	252 942	110 591	75 603	42 655	155 775	17 237	12 185	348	22 160	-	-	**689 496**
Debt securities issued	-	1 146	-	-	-	74 315	17 146	34 697	9 899	-	-	**137 203**
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	190	-	**190**
Other liabilities	965	2 423	1 066	812	812	254	250	250	-	2 053	-	**8 885**
	684 992	**300 689**	**76 924**	**45 796**	**158 531**	**96 103**	**29 605**	**36 568**	**33 117**	**2 243**	**-**	**1 464 568**
Net position	**(110 932)**	**19 478**	**10 512**	**38 244**	**(31 558)**	**(25 412)**	**44 111**	**84 232**	**38 168**	**30 246**	**6 312**	**103 401**
Cumulative position	**(110 932)**	**(91 454)**	**(80 942)**	**(42 698)**	**(74 256)**	**(99 668)**	**(55 557)**	**28 675**	**66 843**	**97 089**	**103 401**	

(in millions of Russian Roubles unless otherwise stated)

Market risk

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and equity prices will affect income or the value of portfolios. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate currency and equity financial instruments which are exposed to general and specific market movements and changes in the level of volatility of market prices.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters whilst optimizing the return on risk.

Overall authority for market risk is vested in the ALCO which is chaired by the Chairman of the Management Board. Market risk limits are approved by the ALCO based on recommendations of the Risk Division's Financial Risk Management Department.

The Group manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions and stop-loss limits. Limits and positions are monitored on a regular basis and reviewed and approved by the Management Board and/or the ALCO.

In addition, the Group uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions.

Interest rate risk is also managed by monitoring the interest rate gap and is supplemented by monitoring the sensitivity of net interest margin to various standard and non-standard interest rate scenarios.

Interest rate risk

Interest rate risk is the risk that movements in interest rates will affect income or the value of financial instruments.

The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.

Interest rate risk arises when the actual or forecasted assets of a given maturity period are either greater or less than the actual or forecasted liabilities in that maturity period.

The table below summarizes the exposure to interest rate risks. The table presents the aggregated amounts of financial assets and liabilities at carrying amounts, categorized by the earlier of contractual interest repricing or maturity dates.

	Less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Overdue	Total
31 December 2017						
Interest-bearing assets	954 740	151 441	102 375	500 790	11 194	**1 720 540**
Interest-bearing liabilities	696 705	611 076	129 351	260 733	-	**1 697 865**
Net interest sensitivity gap as at 31 December 2017	**258 035**	**(459 635)**	**(26 976)**	**240 057**	**11 194**	**22 675**
31 December 2016						
Interest-bearing assets	355 557	431 675	227 050	397 675	6 312	**1 418 269**
Interest-bearing liabilities	625 435	381 409	215 737	174 321	-	**1 396 902**
Net interest sensitivity gap as at 31 December 2016	**(269 878)**	**50 266**	**11 313**	**223 354**	**6 312**	**21 367**

(in millions of Russian Roubles unless otherwise stated)

An analysis of sensitivity of profit or loss and equity to changes in market interest rates based on a simplified scenario of a 200 bp symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2017 and 31 December 2016 is as follows:

	2017		2016	
	Profit or loss	**Equity**	**Profit or loss**	**Equity**
200 bp parallel rise	(1 320)	(1 320)	(1 462)	(1 462)
200 bp parallel fall	1 320	1 320	1 462	1 462

An analysis of sensitivity of profit or loss and equity as a result of changes in the fair value of financial instruments at fair value though profit or loss and financial assets available-for-sale due to changes in the interest rates based on positions existing as at 31 December 2017 and 31 December 2016 and a simplified scenario of a 200 bp symmetrical fall or rise in all yield curves is as follows:

	2017		2016	
	Profit or loss	**Equity**	**Profit or loss**	**Equity**
200 bp parallel rise	(5 791)	(6 534)	(2 087)	(3 300)
200 bp parallel fall	5 791	6 534	2 087	3 300

Currency risk

The Group has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency.

An analysis of sensitivity of profit or loss and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2017 and 31 December 2016 and a simplified scenario of a 20% change in USD to RUB exchange rates is as follows:

	2017		2016	
	Profit or loss	**Equity**	**Profit or loss**	**Equity**
20% appreciation of USD against RUB	9 300	9 300	(431)	(431)
20% depreciation of USD against RUB	(9 300)	(9 300)	431	431

Equity price risk

Price risk is the risk that the value of an equity financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Price risk arises when the Group takes a long or short position in an equity financial instrument.

Equity price risk is not significant.

(in millions of Russian Roubles unless otherwise stated)

Interest rate analysis

The interest rate policy is reviewed and approved by the ALCO. The average effective interest rates for interest bearing financial instruments are as follows:

	2017			2016		
	USD	**RUB**	**Other foreign currencies**	**USD**	**RUB**	**Other foreign currencies**
Interest bearing assets						
Cash and cash equivalents	4.1%	8.1%	-	3.3%	11.8%	2.3%
Deposits in credit and other financial institutions	5.3%	10.7%	2.7%	3.7%	11.1%	4.7%
Financial instruments at fair value through profit or loss						
– government and municipal bonds	3.5%	8.2%	-	4.4%	9.8%	-
– corporate bonds	4.0%	9.4%	2.0%	4.0%	9.5%	3.1%
Available-for-sale securities						
– corporate bonds	5.6%	9.6%	2.2%	3.1%	10.3%	-
– promissory notes	-	-	-	-	-	-
Loans to customers	5.9%	12.5%	3.6%	6.3%	15.0%	6.5%
Interest bearing liabilities						
Deposits by the CBR	-	-	-	3.1%	11.0%	-
Deposits by credit institutions						
– term deposits	3.2%	8.4%	1.5%	2.1%	10.4%	0.8%
– subordinated debt	-	-	-	7.7%	-	-
– syndicated debt	3.8%	-	1.5%	-	-	-
Due to customers						
– term deposits	2.4%	8.0%	1.7%	2.1%	9.7%	1.7%
– subordinated debt	4.9%	8.8%	-	4.9%	-	-
Debt securities issued	7.1%	11.6%	-	7.4%	12.2%	1.1%

Currency analysis

The Group is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Group sets limits on the level of exposure by currencies. These limits also comply with the minimum requirements of the Central bank of the Russian Federation. The exposure of assets and liabilities to foreign currency exchange rate risk is as follows:

31 December 2017	**USD**	**RUB**	**Other currencies**	**Total**
ASSETS				
Cash and cash equivalents	88 360	842 430	3 243	**934 033**
Obligatory reserves with the CBR	-	8 884	-	**8 884**
Deposits in credit and other financial institutions	82	8 427	7 860	**16 369**

(in millions of Russian Roubles unless otherwise stated)

31 December 2017	**USD**	**RUB**	**Other currencies**	**Total**
Financial instruments at fair value through profit or loss	51 773	27 487	38 022	**117 282**
Available-for-sale securities	5 460	19 053	553	**25 066**
Loans to customers	137 255	485 778	145 643	**768 676**
Property and equipment	-	7 866	-	**7 866**
Deferred tax assets	-	281	-	**281**
Other assets	126	9 223	385	**9 734**
	283 056	**1 409 429**	**195 706**	**1 888 191**
LIABILITIES				
Deposits by credit institutions	260 676	364 332	14 853	**639 861**
Due to customers	192 397	491 214	258 113	**941 724**
Debt securities issued	84 096	32 184	-	**116 280**
Deferred tax liabilities	-	3 779	-	**3 779**
Other liabilities	1 276	6 947	735	**8 958**
	538 445	**898 456**	**273 701**	**1 710 602**
Net position before hedging	**(255 389)**	**510 973**	**(77 995)**	**177 589**
Derivative financial instruments	313 514	(390 663)	77 149	-
Net position	**58 125**	**120 310**	**(846)**	**177 589**

As at 31 December 2017 the Group's significant open currency position in USD is due to the fact that perpetual debt issued in USD is reflected in equity and is not included in the table above.

31 December 2016	**USD**	**RUB**	**Other currencies**	**Total**
ASSETS				
Cash and cash equivalents	261 478	102 869	8 980	**373 327**
Obligatory reserves with the CBR	-	7 287	-	**7 287**
Deposits in credit and other financial institutions	267 559	132 133	3 788	**403 480**
Financial instruments at fair value through profit or loss	42 132	41 514	263	**83 909**
Available-for-sale securities	25 208	20 695	-	**45 903**
Loans to customers	146 123	468 413	11 999	**626 535**
Property and equipment	14 271	7 007	-	**21 278**
Other assets	271	5 928	51	**6 250**
	757 042	**785 846**	**25 081**	**1 567 969**
LIABILITIES				
Deposits by the CBR	184 150	63 020	-	**247 170**
Deposits by credit institutions	90 319	283 680	7 625	**381 624**
Due to customers	251 021	425 731	12 744	**689 496**
Debt securities issued	92 395	43 662	1 146	**137 203**
Deferred tax liabilities	-	190	-	**190**
Other liabilities	1 628	7 204	53	**8 885**
	619 513	**823 487**	**21 568**	**1 464 568**
Net position before hedging	**137 529**	**(37 641)**	**3 513**	**103 401**
Derivative financial instruments	(140 222)	145 636	(5 414)	-
Net position	**(2 693)**	**107 995**	**(1 901)**	**103 401**

(in millions of Russian Roubles unless otherwise stated)

Geographical risk

The geographical risk is the risk due to political, economic or social instability in the respective country.

The geographical concentration of major financial assets and liabilities as at 31 December 2017 and 31 December 2016 is disclosed in the table below:

31 December 2017	**Russia**	**OECD**	**Other non-OECD**	**Total**
ASSETS				
Cash and cash equivalents	901 552	22 395	10 086	**934 033**
Obligatory reserves with the CBR	8 884	-	-	**8 884**
Deposits in credit and other financial institutions	6 323	3 450	6 596	**16 369**
Financial instruments at fair value through profit or loss	65 744	50 537	1 001	**117 282**
Available-for-sale securities	18 680	5 666	720	**25 066**
Loans to customers	640 752	80 744	47 180	**768 676**
	1 641 935	**162 792**	**65 583**	**1 870 310**
LIABILITIES				
Deposits by credit institutions	612 513	21 404	5 944	**639 861**
Due to customers	924 678	12 139	4 907	**941 724**
Debt securities issued	27 125	89 155	-	**116 280**
	1 564 316	**122 698**	**10 851**	**1 697 865**
Net position	**77 619**	**40 094**	**54 732**	**172 445**

31 December 2016	**Russia**	**OECD**	**Other non-OECD**	**Total**
ASSETS				
Cash and cash equivalents	357 177	7 407	8 743	**373 327**
Obligatory reserves with the CBR	7 287	-	-	**7 287**
Deposits in credit and other financial institutions	397 310	1 919	4 251	**403 480**
Financial instruments at fair value through profit or loss	64 214	17 967	1 728	**83 909**
Available-for-sale securities	18 968	26 935	-	**45 903**
Loans to customers	505 266	50 452	70 817	**626 535**
	1 350 222	**104 680**	**85 539**	**1 540 441**
LIABILITIES				
Deposits by the CBR	247 170	-	-	**247 170**
Deposits by credit institutions	360 064	10 612	10 949	**381 625**
Due to customers	680 154	7 258	2 084	**689 496**
Debt securities issued	39 752	97 451	-	**137 203**
	1 327 140	**115 321**	**13 033**	**1 455 494**
Net position	**23 082**	**(10 641)**	**72 506**	**84 947**

The majority of non-financial assets and liabilities is located in Russia.

(in millions of Russian Roubles unless otherwise stated)

30 Transfers of financial assets

Transferred financial assets that are not derecognized in their entirety

	Financial assets at fair value through profit or loss	Financial assets available for sale
2017		
Carrying amount of assets	21 763	1 793
Carrying amount of associated liabilities	18 204	1 448
2016		
Carrying amount of assets	6 544	19 818
Carrying amount of associated liabilities	5 927	17 378

Securities

The Group has transactions to sell securities under agreements to repurchase and to purchase securities under agreements to resell. Sale and repurchase agreements are transactions in which the Group sells a security and simultaneously agrees to repurchase it (or an asset that is substantially the same) at a fixed price on a future date. A part of securities that serve as collateral under reverse repurchase agreements has been pledged under sale and repurchase agreements by the Group. The securities sold under agreements to repurchase are transferred to a third party and the Group receives cash in exchange. These financial assets may be repledged or resold by counterparties in the absence of any default by the Group, but the counterparty has an obligation to return the securities when the contract matures. The Group has determined that it retains substantially all the risks and rewards related to these securities and therefore has not derecognized them. These securities are presented as “pledged under sale and repurchase agreements” in notes 11 and 12. The cash received is recognized as a financial liability for the obligation to repay the purchase price for this collateral, and is included in deposits by the Central bank of the Russian Federation, deposits by credit institutions and due to customers (note 16, 17 and 18). Because the Group sells the contractual rights to the cash flows of the securities, it cannot use the transferred assets during the term of the agreement.

These transactions are conducted under terms that are usual and customary to standard lending activities, as well as the requirements determined by exchanges where the Group acts as intermediary.

(in millions of Russian Roubles unless otherwise stated)

31 Financial assets and liabilities: fair values and accounting classifications

Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2017:

	Fair value through profit or loss	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	934 033	-	-	934 033	934 033
Obligatory reserves with the CBR	-	8 884	-	-	8 884	8 884
Deposits in credit and other financial institutions	-	16 369	-	-	16 369	16 369
Financial instruments at fair value through profit or loss	117 282	-	-	-	117 282	117 282
Available-for-sale securities	-	-	25 066	-	25 066	25 066
Loans to customers	-	768 676	-	-	768 676	770 867
Other financial assets	-	1 500	-	-	1 500	1 500
	117 282	**1 729 462**	**25 066**	**-**	**1 871 810**	**1 874 001**
Deposits by credit institutions	-	-	-	639 861	639 861	639 861
Due to customers	36 426	-	-	905 298	941 724	949 607
Debt securities issued	-	-	-	116 280	116 280	115 056
Other financial liabilities	1 551	-	-	2 571	4 122	4 122
	37 977	**-**	**-**	**1 664 010**	**1 701 987**	**1 708 646**

The main assumptions used by management to estimate the fair values of financial instruments as at 31 December 2017 are:

- discount rates from 9.0% to 15.4% (roubles) and from 3.2% to 8.3% (foreign currency) are used for discounting future cash flows from corporate loans;
- discount rates from 10.9% to 26.4% (roubles) and from 9.0% to 10.9% (foreign currency) are used for discounting future cash flows from loans to individuals;
- discount rates from 5.2% to 8.9% (roubles) and from 0.1% to 2.7% (foreign currency) are used for discounting future cash flows from corporate deposits;
- discount rates from 5.5% to 8.5% (roubles) and from 0.9% to 1.4% (foreign currency) are used for discounting future cash flows from retail deposits.

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2016:

	Held for trading	Loans and receivables	Available-for-sale	Other amortised	Total carrying amount	Fair value
Cash and cash equivalents	-	373 327	-	-	373 327	373 327
Obligatory reserves with the CBR	-	7 287	-	-	7 287	7 287
Deposits in credit and other financial institutions	-	403 480	-	-	403 480	403 480
Financial instruments at fair value through profit or loss	83 909	-	-	-	83 909	83 909
Available-for-sale financial assets	-	-	45 903	-	45 903	45 792

(in millions of Russian Roubles unless otherwise stated)

	Held for trading	Loans and receivables	Available-for-sale	Other amortised	Total carrying amount	Fair value
Loans to customers	-	626 535	-	-	626 535	628 248
Other financial assets	-	1 377	-	-	1 377	1 377
	83 909	**1 412 006**	**45 903**	**-**	**1 541 818**	**1 543 420**
Deposits by the CBR	-	-	-	247 170	247 170	247 170
Deposits by credit institutions	-	-	-	381 624	381 624	381 624
Due to customers	-	-	-	689 496	689 496	694 976
Debt securities issued	-	-	-	137 203	137 203	139 661
Other financial liabilities	1 081	-	-	2 262	3 343	3 343
	1 081	**-**	**-**	**1 457 755**	**1 458 836**	**1 466 774**

The main assumptions used by management to estimate the fair values of financial instruments as at 31 December 2016 are:

- discount rates from 9.5% to 18.1% (roubles) and from 3.5% to 10.0% (foreign currency) are used for discounting future cash flows from corporate loans;
- discount rates from 13.6% to 28.0% (roubles) and from 10.1% to 12.5% (foreign currency) are used for discounting future cash flows from loans to individuals;
- discount rates from 5.5% to 10.5% (roubles) and from 0.1% to 2.7% (foreign currency) are used for discounting future cash flows from corporate deposits;
- discount rates from 8.1% to 9.8% (roubles) and from 0.6% to 1.6% (foreign currency) are used for discounting future cash flows from retail deposits.

The estimates of fair value are intended to approximate the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realizable in an immediate sale of the assets or transfer of liabilities.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using other valuation techniques.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market-observable prices exist, Monte Carlo and polynomial-option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The Group uses widely recognized valuation models to determine the fair value of common and more simple financial instruments, such as interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives, and simple over-the-counter derivatives such as interest rate swaps.

There is no active market for loans to customers. The estimation of fair value for loans to customers is based on management's assumptions.

(in millions of Russian Roubles unless otherwise stated)

The fair value of unquoted equity securities available-for-sale with a carrying value of RUB 120 million (31 December 2016: RUB 112 million) cannot be determined.

Fair value hierarchy

The Group measures fair values for financial instruments recorded in the consolidated statement of financial position using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

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

The following tables show an analysis of financial instruments recorded at fair value and financial instruments recorded at amortized cost for which amortized cost does not approximate their carrying amount as at 31 December 2017 and 31 December 2016:

31 December 2017	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial instruments at fair value through profit or loss	72 986	44 296	-	**117 282**
Available-for-sale securities	23 191	1 755	-	**24 946**
Loans to customers	-	-	770 867	**770 867**
Due to customers	-	949 607	-	**949 607**
Debt securities issued	115 056	-	-	**115 056**
Other financial liabilities	-	4 122	-	**4 122**

31 December 2016	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial instruments at fair value through profit or loss	81 360	2 549	-	**83 909**
Available-for-sale securities	45 792	-	-	**45 792**
Loans to customers	-	-	626 248	**626 248**
Due to customers	-	694 976	-	**694 976**
Debt securities issued	138 515	1 146	-	**139 661**
Other financial liabilities	-	3 343	-	**3 343**

During 2017 and 2016 there were no transfers of assets between Level 1 and Level 2.

(in millions of Russian Roubles unless otherwise stated)

32 Earnings per share

Basic earnings per share are calculated by dividing profit for the period by the weighted average number of ordinary shares in issue during the period.

Basic earnings per share are calculated as follows:

	2017	2016
Profit for the year	20 703	10 874
Weighted average number of ordinary shares in issue	24 449 572 880	23 879 709 866
Basic and diluted earnings per share in RUB (per share)	**0.85**	**0.46**

33 Acquisitions and disposals

Disposal of subsidiary

In December 2017, the Group sold a 100% share in its subsidiary CBM Ireland Leasing Limited to a third party for a cash consideration of USD 10 860 thousand. The Group recognized gain from disposal of a subsidiary in the amount of RUB 1 076 million, including foreign exchange difference accumulated in other comprehensive income for the period of holding in the amount of RUB 41 million. Net loss of a subsidiary in the amount of RUB 246 million is contributed in the consolidated statement of profit or loss and other comprehensive income.

The disposal of a subsidiary had the following effect on assets and liabilities at the date of disposal as a result of the deconsolidation:

	Recognized amounts on disposal
ASSETS	
Cash and cash equivalents	901
Property and equipment	12 777
Other assets	39
LIABILITIES	
Loans from credit institutions	13 190
Other liabilities	967
Net identifiable liabilities	**(440)**
Consideration received	636
Cash disposed of	(901)
Net cash outflow	**(265)**

Acquisition of subsidiary

On 18 August 2016 the Group acquired 100% shares in LLC “Bank SKS”, a company specialising on investment banking activities. The purchase consideration was RUB 560 million, which was settled in cash.

(in millions of Russian Roubles unless otherwise stated)

The fair value amounts of assets and liabilities of the acquired subsidiary recognized in the Group's consolidated financial statements were as follows at the date of acquisition:

	Recognized amounts on acquisition
ASSETS	
Cash and cash equivalents	366
Other assets	206
LIABILITIES	
Due to customers	11
Defered tax liabilities	1
Net identifiable assets and liabilities	**560**
Consideration paid	560
Cash acquired	366
Net cash outflow	**(194)**

The amounts of revenue and profit or loss of LLC "Bank SKS" since the acquisition date and for the year ended 31 December 2016 as though the acquisition had been as of the beginning of the reporting year do not have a significant effect on consolidated revenue and profit or loss.

34 Changes in liabilities arising from financing activities

Changes in liabilities arising from financing activities during the years ended 31 December 2017 and 2016 are presented as follows:

	Total amount as at 31.12.2016	**Cash flow changes arising from financing activities**	**Non-cash flow changes arising from financing activities**	**Non-cash flow changes arising from operating activities**		**Total amount as at 31.12.2017**
			The effect of changes in foreign exchange rates	**The effect of changes in foreign exchange rates**	**Changes in the amount of accrued interest**	
Subordinated debt in Deposits by credit institutions	**623**	(582)	(24)	(2)	(15)	**-**
Syndicated loans in Deposits by credit institutions	**-**	28 006	1 232	1	248	**29 487**
Subordinated debt in Due to customers	**18 273**	22 000	(917)	(15)	501	**39 842**
Bonds in Debt securities issued	**95 252**	(25 257)	(2 595)	(5)	(746)	**66 649**
Subordinated bonds in Debt securities issued	**40 806**	10 452	(1 545)	(55)	(27)	**49 631**
Total	**154 954**	**34 619**	**(3 849)**	**(76)**	**(39)**	**185 609**

(in millions of Russian Roubles unless otherwise stated)

	Total amount as at 31.12.2015	Cash flow changes arising from financing activities	Non-cash flow changes arising from financing activities	Non-cash flow changes arising from operating activities		Total amount as at 31.12.2016
			The effect of changes in foreign exchange rates	The effect of changes in foreign exchange rates	Changes in the amount of accrued interest	
Subordinated debt in Deposits by credit institutions	**1 490**	(701)	(150)	-	(16)	**623**
Subordinated debt in Due to customers	**21 885**	-	(3 668)	(22)	78	**18 273**
Bonds in Debt securities issued	**72 385**	29 666	(7 537)	(1)	739	**95 252**
Subordinated bonds in Debt securities issued	**47 725**	-	(6 113)	(131)	(675)	**40 806**
Total	**143 485**	**28 965**	**(17 468)**	**(154)**	**126**	**154 954**

35 Events subsequent to the reporting date

In January 2018 the Group paid out the 7th coupon in amount of RUB 217.79 million or RUB 55.45 per one bond on exchange bonds series BO-10. The issue was placed on 10 July 2014 with a maturity of 5 years. The nominal value of the issue is RUB 5 billion.

In January 2018 the Group paid out the 7th coupon in amount of RUB 382.89 million or RUB 46.13 per one bond on exchange bonds series BO-11. The issue was originally placed on 10 July 2014 in the amount of RUB 5 billion with a maturity of 5 years and additional issue on 24 December 2014 in the amount of RUB 10 billion.

In January 2018 Yury A. Ubeev, previously Member of the Management Board, left the Management Board.

In February 2018 the Group redeemed on schedule its USD 500 million senior Loan Participation Notes with a fixed coupon rate of 7.70% p.a. and paid out the 10th coupon in the amount of USD 19.25 million.

In February 2018 the Group paid out the 4th coupon in the amount of USD 15.53 million on subordinated perpetual eurobonds. The issue was placed in May 2017. The nominal value of the issue is USD 700 million.

In February 2018 the Group placed senior Loan Participation Notes in the total amount of USD 500 million at par with a fixed coupon rate of 5.55% p.a. and maturity of 5 years.

In February 2018 the Group paid out the 10th coupon in the amount of RUB 122.16 million or RUB 61.08 per one bond on domestic bonds series 12. The issue was placed on 27 February 2013 with a maturity of 5.5 years. The nominal value of the issue is RUB 2 billion.

In February 2018 Analytical Credit Rating Agency (ACRA) upgraded CREDIT BANK OF MOSCOW’s national scale credit rating from “A- (RU)” to “A (RU)”, stable outlook.

In February 2018 Dmitry A. Eremin, previously First Deputy Chairman of the Management Board, left the Management Board.

In February 2018 Mikhail V. Polunin became a member of the Management Board and was appointed First Deputy Chairman of the Management Board.

In February 2018 Pavel B. Shevchuk became a member of the Management Board and was appointed First Deputy Chairman of the Management Board.

In March 2018 the Group paid out the 6th coupon in the amount of RUB 149.12 million or RUB 50.83 per one bond on domestic bonds series 09. The issue was placed on 25 March 2015 with a maturity of 5 years. The nominal value of the issue is RUB 3 billion.

Chairman of the Management Board — Vladimir A. Chubar

Chief Accountant — Svetlana V. Sass

28 March 2018