Public joint stock company
Asian-Pacific Bank

Consolidated Financial Statements

as at and for the year ended
31 December 2017

Contents

KPMG

Independent Auditors' Report

To the Shareholders of Public joint stock company Asian-Pacific Bank

Report on the Audit of the Consolidated Financial Statements

Qualified Opinion

We have audited the consolidated financial statements of Public joint stock company Asian-Pacific Bank (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, except for the effects of the matter described in the first paragraph of the *Basis for Qualified Opinion,* except for the possible effects of the matters described in the second and third paragraphs of the *Basis for Qualified Opinion,* except for the omission of the disclosure described in the fourth paragraph of the *Basis for Qualified Opinion* and except for the effects on the corresponding figures as at and for the year ended 31 December 2016 of the matter described in the fifth paragraph of the *Basis for Qualified 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 Qualified Opinion

As at 31 December 2017, the Group has loans issued to related parties included in loans to customers in net carrying amount of RUB 4 707 815 thousand. We do not agree with a number of assumptions used by the Group for impairment assessment purposes of these loans as at 31 December 2017, and in our opinion impairment allowance should be significantly higher as at that date. The effect of the above matter on these consolidated financial statements has not been determined.

As at 31 December 2016, the Group has loans issued to related parties included in loans to customers in net carrying amount of RUB 5 134 109 thousand. We were unable to obtain sufficient and appropriate audit evidence with respect to recoverability of these loans as we were not provided with the related information by the management of the Group. As a result, we were unable to determine whether adjustments might have been found necessary with respect to the above stated caption and related elements of the consolidated financial statements for 2016 and elements of the consolidated statement of profit or loss and other comprehensive income for 2017.

As at 31 December 2017 and 31 December 2016, the Group has funds on accounts in PJSC "M2M Private Bank", which license for banking operations is revoked, included in due from banks in net carrying amount of RUB 500 355 thousand and RUB 3 682 206 thousand, respectively. We were unable to obtain sufficient and appropriate audit evidence with respect to assumptions used by the Group to estimate future cash flows for impairment assessment purposes of the above stated balances in PJSC "M2M Private Bank" as we were not provided with the related information by the management of the Group. As a result, we were unable to determine whether adjustments might have been found necessary with respect to the above stated caption and related elements of the consolidated financial statements for 2017 and 2016.

The Group has not disclosed in these consolidated financial statements the information on significant uncertainty in respect to claims related to operations with promissory notes of related party, which is required by International Financial Reporting Standard IAS 37 *Provisions, Contingent Liabilities and Contingent Assets.* The financial effect of the above matter on these consolidated financial statements has not been determined.

As disclosed in note 1 "Background" to the consolidated financial statements financial results and cash flows of PJSC "M2M Private Bank" from the date that control commenced on 8 July 2016 until the date that control ceased on 9 December 2016 were not included in the consolidated financial statements of the Group for 2016. We were unable to reliably determine the effect of this departure from IFRS on the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity, consolidated statement of cash flows and related elements of the consolidated financial statements for 2016.

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 qualified opinion.

Emphasis of Matter

We draw attention to note 40 "Going concern" to the consolidated financial statements, which describes that from 26 April 2018 the Bank operates under the management of the temporary administration. Our opinion is not modified in respect of this matter.

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.

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.

— The calculation of the mandatory ratios of the Group is performed by the Bank based on figures forming consolidated financial statements prepared in accordance with the requirements of Russian rules for preparation of the consolidated annual financial statements by credit institutions which includes figures of the annual financial statements of the Bank prepared in accordance with the requirements of Russian rules for preparation of the annual financial statements by credit institutions on which we issued modified audit opinion dated 30 March 2018. Due to this fact we were unable to determine whether the Group's mandatory ratios as at 1 January 2018 were within the limits established by the Bank of Russia or not.

  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 Board of Directors, 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 Board of Directors 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 Board of Directors 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:

АКЦИОНЕРНОЕ ОБЩЕСТВО ОГРН 1027700125628 КПМГ KPMG * МОСКВА *

Tatarinova E.V.

JSC "KPMG"

Moscow, Russia

26 June 2018

	Notes	2017 RUB'000	2016 RUB'000
Interest income	4	12 741 445	16 963 737
Interest expense	4	(6 436 456)	(9 108 262)
Net interest income		**6 304 989**	**7 855 475**
Deposit insurance expenses		(1 093 253)	(651 936)
Net interest income after deposit insurance expenses		**5 211 736**	**7 203 539**
Fee and commission income	5	3 620 421	3 354 166
Fee and commission expense		(455 800)	(509 935)
Net fee and commission income		**3 164 621**	**2 844 231**
Net gain on financial instruments at fair value through profit or loss		71 233	32 466
Realised gain on available-for-sale financial assets		261 255	340 858
Loss from equity-accounted investee		(13 087)	(47 847)
Net foreign exchange gain	6	449 285	425 421
Net gain on operations with precious metals	7	217 738	138 279
Other operating income	8	1 001 295	1 094 106
Operating income		**10 364 076**	**12 031 053**
Impairment losses	9	(5 327 488)	(8 153 977)
Personnel expenses	10	(3 824 536)	(3 822 971)
Other general administrative expenses	11	(2 837 760)	(2 426 438)
Loss before income tax		**(1 625 708)**	**(2 372 333)**
Income tax benefit	12	505 514	297 594
Loss for the year		**(1 120 194)**	**(2 074 739)**
Other comprehensive income, net of income tax			
Items that are or may be reclassified subsequently to profit or loss			
Revaluation reserve for available-for-sale financial assets			
- Net change in fair value		316 597	602 447
- Net change in fair value transferred to profit or loss		(221 041)	(509 791)
Total items that are or may be reclassified subsequently to profit or loss		*95 556*	*92 656*
Items that will not be reclassified subsequently to profit or loss			
Revaluation of the buildings		(34 971)	263 509
Total items that will not be reclassified subsequently to profit or loss		*(34 971)*	*263 509*
Other comprehensive income for the year, net of income tax		**60 585**	**356 165**
Total comprehensive loss for the year		**(1 059 609)**	**(1 718 574)**

The consolidated financial statements were approved by the Management Board of the Bank on 26 June 2018 and were signed on its behalf by:

Mr. R.V. Romanenko
Head of Temporary Administration

Ms. Y.E. Komova
Chief Accountant

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

	Notes	2017 RUB'000	2016 RUB'000
ASSETS			
Cash and cash equivalents	13	10 099 024	11 358 076
Obligatory reserves with the Central Bank of the Russian Federation		661 225	808 276
Financial instruments at fair value through profit or loss	14	4 018	105 132
Available-for-sale financial assets	15	15 158 890	17 661 490
including assets pledged under repurchase agreements	*15*	*93 364*	*1 386 954*
Due from banks	16	532 822	3 704 985
Amounts receivable under reverse repurchase agreements	17	2 640 964	-
Loans to customers	18	57 603 789	68 988 405
Net investments in finance leases	19	1 344 986	1 289 913
Investments in associates and other investments	20	108 731	121 818
Held-to-maturity investments	21	2 764 013	3 631 980
including assets pledged under repurchase agreements	*21*	*2 423 085*	*2 586 706*
Deferred tax assets	12	978 682	394 576
Property, equipment, intangible assets and investment property	23	6 892 189	6 636 115
Other assets	24	4 538 166	4 928 455
Total assets		**103 327 499**	**119 629 221**
LIABILITIES			
Financial instruments at fair value through profit or loss	14	876 662	182 650
Deposits and balances from banks	25	1 527 288	2 344 943
Amounts payable under repurchase agreements	26	2 377 631	3 706 180
Current accounts and deposits from customers	27	79 141 900	90 353 494
Debt securities issued	28	1 229 719	1 956 248
Subordinated borrowings	29	3 920 516	4 488 287
Other liabilities	30	1 136 126	2 420 153
Total liabilities		**90 209 842**	**105 451 955**
EQUITY			
Share capital	31	585 414	585 414
Treasury shares		(10 307)	(10 307)
Share premium		1 778 739	1 778 739
Additional paid-in capital		2 200 000	2 200 000
Revaluation reserve for available-for-sale financial assets		189 533	93 977
Revaluation surplus for buildings		1 816 992	1 866 378
Retained earnings		6 557 286	7 663 065
Total equity		**13 117 657**	**14 177 266**
Total liabilities and equity		**103 327 499**	**119 629 221**

Mr. R.V. Romanenko
Head of Temporary Administration

«Азиатско-Тихоокеанский Банк» (публичное акционерное общество) Российская Федерация Амурская область город Благовещенск «Азиатско-Тихоокеанский Банк» (ПАО)

Ms. Y.E. Komova
Chief Accountant

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

	Notes	2017 RUB'000	2016 RUB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		12 639 210	16 420 531
Interest payments		(6 951 782)	(9 702 435)
Fee and commission receipts		3 608 151	3 294 493
Fee and commission payments		(454 666)	(508 999)
Net receipts from financial instruments at fair value through profit or loss and available-for-sale financial assets		327 843	672 020
Net receipts from foreign exchange		495 194	324 674
Other income receipts		1 066 502	1 065 831
Net receipts from operations with precious metals		118 900	124 533
Deposit insurance, personnel and other general administrative expenses paid		(7 282 683)	(5 894 152)
(Increase) decrease in operating assets			
Obligatory reserves with the Central Bank of the Russian Federation		147 051	(169 983)
Financial instruments at fair value through profit or loss		-	337 916
Available-for-sale financial assets		1 424 578	3 120 771
Due from banks		37 198	(5 841 157)
Amounts receivable under reverse repurchase agreements		(2 639 677)	9 614 437
Loans to customers		9 309 277	808 881
Net investments in finance leases		(73 207)	15 495
Other assets		(334 213)	(2 200 199)
Increase (decrease) in operating liabilities			
Financial instruments at fair value through profit or loss		687 556	-
Deposits and balances from banks		(801 047)	(1 312 578)
Amounts payable under repurchase agreements		(1 321 402)	(4 409 251)
Current accounts and deposits from customers		(10 724 107)	(10 858 503)
Promissory notes		(116 217)	(468 472)
Other liabilities		(65 956)	1 155 845
Net cash used in operating activities before income tax paid		**(903 497)**	**(4 410 302)**
Income tax paid		(103 820)	(67 837)
Net cash used in operations		**(1 007 317)**	**(4 478 139)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of held-to-maturity investments		(291 337)	-
Redemption of held-to-maturity investments		1 094 814	3 025 400
Net purchases of property, equipment, intangible assets and investment property		(149 136)	(1 467 591)
Net cash flows from investing activities		**654 341**	**1 557 809**
CASH FLOWS FROM FINANCING ACTIVITIES			
Redemption of bonds		(599 110)	(2 174 685)
Redemption of subordinate loans		(352 249)	-
Net cash flows used in financing activities		**(951 359)**	**(2 174 685)**

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

	Notes	2017 RUB'000	2016 RUB'000
Net decrease in cash and cash equivalents		**(1 304 335)**	**(5 095 015)**
Effect of changes in exchange rates on cash and cash equivalents		45 283	(880 654)
Cash and cash equivalents as at the beginning of the year		11 358 076	17 333 745
Cash and cash equivalents as at the end of the year	13	**10 099 024**	**11 358 076**

Mr. R.V. Romanenko
Head of Temporary Administration

Ms. Y.E. Komova
Chief Accountant

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

RUB'000	Share capital	Treasury shares	Share premium	Additional paid-in capital	Revaluation reserve for available-for-sale financial assets	Revaluation surplus for buildings	Retained earnings	Total equity
Balance as at 1 January 2016	**585 414**	**(10 307)**	**1 778 739**	**2 200 000**	**1 321**	**1 614 979**	**9 725 694**	**15 895 840**
Total comprehensive loss for the year								
Loss for the year	-	-	-	-	-	-	(2 074 739)	(2 074 739)
Other comprehensive income, net of income tax								
Items that are or may be reclassified subsequently to profit or loss								
Net change in fair value of available-for-sale financial assets, net of deferred tax of RUB 150 612 thousand	-	-	-	-	602 447	-	-	602 447
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of deferred tax of RUB 127 448 thousand	-	-	-	-	(509 791)	-	-	(509 791)
Total items that are or may be reclassified subsequently to profit or loss	-	-	-	-	*92 656*	-	-	*92 656*
Items that will not be reclassified to profit or loss								
Revaluation of buildings, net of deferred tax of RUB 65 877 thousand	-	-	-	-	-	263 509	-	263 509
Transfer of revaluation surplus on disposal of buildings previously revalued	-	-	-	-	-	(12 110)	12 110	-
Total items that will not be reclassified to profit or loss	-	-	-	-	-	*251 399*	*12 110*	*263 509*
Total comprehensive loss for the year, net of income tax	**-**	**-**	**-**	**-**	**92 656**	**251 399**	**(2 062 629)**	**(1 718 574)**
Balance as at 31 December 2016	**585 414**	**(10 307)**	**1 778 739**	**2 200 000**	**93 977**	**1 866 378**	**7 663 065**	**14 177 266**

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

RUB'000	Share capital	Treasury shares	Share premium	Additional paid-in capital	Revaluation reserve for available-for-sale financial assets	Revaluation surplus for buildings	Retained earnings	Total equity
Balance as at 1 January 2017	**585 414**	**(10 307)**	**1 778 739**	**2 200 000**	**93 977**	**1 866 378**	**7 663 065**	**14 177 266**
Total comprehensive loss for the year								
Loss for the year	-	-	-	-	-	-	(1 120 194)	(1 120 194)
Other comprehensive income, net of income tax								
Items that are or may be reclassified subsequently to profit or loss								
Net change in fair value of available-for-sale financial assets, net of deferred tax of RUB 79 149 thousand	-	-	-	-	316 597	-	-	316 597
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of deferred tax of RUB 55 260 thousand	-	-	-	-	(221 041)	-	-	(221 041)
Total items that are or may be reclassified subsequently to profit or loss	-	-	-	-	*95 556*	-	-	*95 556*
Items that will not be reclassified to profit or loss								
Revaluation of buildings, net of deferred tax of RUB 8 743 thousand	-	-	-	-	-	(34 971)	-	(34 971)
Transfer of revaluation surplus on disposal of buildings previously revalued	-	-	-	-	-	(14 415)	14 415	-
Total items that will not be reclassified to profit or loss	-	-	-	-	-	*(49 386)*	*14 415*	*(34 971)*
Total comprehensive loss for the year, net of income tax	-	-	-	-	**95 556**	**(49 386)**	**(1 105 779)**	**(1 059 609)**
Balance as at 31 December 2017	**585 414**	**(10 307)**	**1 778 739**	**2 200 000**	**189 533**	**1 816 992**	**6 557 286**	**13 117 657**

Mr. R.V. Romanenko
Head of Temporary Administration

Ms. Y.E. Komova
Chief Accountant

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

1 Background

Organisation and operations

These consolidated financial statements include the financial statements of PJSC Asian-Pacific Bank (the "Bank") and its subsidiaries (together referred to as the Group).

The Bank was established in the Russian Federation as a closed joint stock company in 1992 under the name "Amurpromstroybank" as a successor of Promstroybank of USSR which was founded in 1929. In 2006 the Bank was reorganised from a closed joint stock company to an open joint stock company and renamed to "Asian-Pacific Bank" by decision of the shareholders. On 7 May 2010 LLC "PPFIN REGION", being a common majority shareholder for OJSC "Asian-Pacific Bank", OJSC "Kamchatprombank" and OJSC "Kolyma-Bank", merged the operations of these entities and therefore granted full control over OJSC "Kamchatprombank" and OJSC "Kolyma-Bank" to "Asian-Pacific Bank" (OJSC). In July 2015 the Bank was reorganised from an open joint stock company to a public joint stock company.

The principal activities of the Bank are deposit taking and customer accounts maintenance, lending, issuing guarantees, cash and settlement operations and operations with securities and foreign exchange. The activities of the Bank are regulated by the Central Bank of the Russian Federation (the "CBR"). The Bank has a general banking license, and is a member of the state deposit insurance system in the Russian Federation.

The Bank has 200 (2016: 209) offices from which it conducts business throughout the Russian Federation including a head office, 5 regional branches, 13 additional offices, 181 operational offices. The registered address of the head office is 225, Amurskaya Street, Blagoveschensk, 675000. The majority of the Bank's assets and liabilities is located in the Russian Federation.

As at 31 December 2017 and 31 December 2016, the following shareholders held the issued shares of PJSC Asian-Pacific Bank:

Shareholder	**2017 %**	**2016 %**
LLC "PPFIN Region" (Russian Federation)	59.17	59.17
East Capital Financials Fund AB (Sweden)	17.91	17.91
TECHSUN ENTERPRISES LIMITED (Cyprus)	-	8.41
SHELMER HOLDING LTD (British Virgin Islands)	8.41	-
International Financial Corporation (USA)	6.71	6.71
EPIC VISION LTD (Marshall Islands)	2.64	2.64
LLC "Expo-Leasing" (a 100% owned subsidiary of the Bank)	1.76*	1.76*
Others	3.40	3.40
Total	**100.00**	**100.00**

** Treasury shares*

In connection with the fact, that the shareholder of the Bank "East Capital Financials Fund AB" (Sweden) and the controlling parties of LLC "PPFIN Region" received the order from the CBR to decrease the shares of these parties to no more than 10% of the Bank's shares and until that the voting power of "East Capital Financials Fund AB" and LLC "PPFIN Region" is limited to 10% of Bank's shares at shareholders' general meetings, the factual shares of the Bank are allocated as at 1 January 2018 as follows:

Shareholder	2017 %
LLC “PPFIN Region” (Russian Federation)	8.24
East Capital Financials Fund AB (Sweden)	10.00
SHELMER HOLDING LTD (British Virgin Islands)	31.81
International Financial Corporation (USA)	25.38
EPIC VISION LTD (Marshall Islands)	9.97
LLC “Expo-Leasing”	1.76
Others	12.84
Total	**100.00**

Details of the subsidiaries and associates are as follows:

Name	Country of incorporation	Principal activities	Ownership, % 2017	2016
LLC “Expo-Leasing”	Russian Federation	Leasing	100%	100%
CJSC “Mortgage agent APB”	Russian Federation	Mortgage agent	see below	see below
CJSC “Mortgage agent APB 2”	Russian Federation	Mortgage agent	see below	see below
LLC “Specialized financial company APB 2”	Russian Federation	Asset-backed securitisation	see below	see below
CUIF “Celena”	Russian Federation	Unit investment fund	40.99%	40.99%*
PJSC “M2M Private Bank”	Russian Federation	Banking	100%**	100%**
LLC ”Katerina Park”	Russian Federation	Hotel industry	100%**	100%**
LLC “Pride M”	Russian Federation	Freight services	100%**	100%**

** The company was a subsidiary during 2016.*
*** The Bank does not actually control these companies due to withdrawal of license from PJSC “M2M Private Bank”.*

On 1 October 2010, 100% of the shares of LLC “Expo-Leasing” were acquired by the Bank.

LLC “Expo-Leasing” was registered in 2002 in Russian Federation. Its head office is in Moscow and it has 5 branches (2016: 10 branches) comprising a head office and 4 additional offices.

CJSC “Mortgage agent APB”, CJSC “Mortgage agent APB 2” and LLC “Specialized financial company APB 2” (“MA APB”, “MA APB 2” and “LLC SFC APB 2”) are structured entities established to ensure asset-backed securitisation (refer to note 18). These entities are not owned by the Group. Control arises through the predetermination of the entities’ activities, having rights to obtain the majority of benefits of the structured entities, and retaining the majority of the residual risks related to the entities. All bonds in the amount of RUB 1 390 000 thousand, issued by LLC SFC APB 2, were repurchased by the Bank.

On 4 May 2016, 51.58% of the shares of CUIF “Celena” were received by the Bank as a result of non-performance of repurchase agreement with PJSC ”BaikalBank”. CUIF “Celena” was registered in 2010 in Russian Federation. At the date of acquisition the fund was managed by Finance Trade Asset Management LLC licensed to manage investment funds in 2008. On 30 December 2016, CUIF “Celena” issued 58 533 additional investment units totaling RUB 64 140 thousand which resulted in the decrease of the Bank’s share down to 40.99%. The balances of CUIF “Celena” have not been consolidated over the control period as Management of the Group does not deem the effect to have significant impact on the amounts stated in the consolidated financial statements.

On 8 July 2016, the Group acquired 100% control over PJSC “M2M Private Bank”, previously controlled by the ultimate beneficial owners of the Group. In 2015 the Group in accordance with the PJSC “M2M Private Bank” share purchase agreement terms paid for 100% of shares amounting to RUB 2 300 000 thousand. The Group received 25% of shares on 27 October 2015 and 75% of shares on 8 July 2016 from LLC “Prosop Invest”. PJSC “M2M Private Bank” held 100% interest in the share capitals of LLC “Katerina Park” (starting from 21 December 2015) and LLC “Pride M” (starting from 10 June 2016). On 9 December 2016, the Group lost control over PJSC “M2M Private Bank” and its subsidiaries due to withdrawal of its banking license and imposing of temporary administration. The balances of PJSC “M2M Private Bank” have not been consolidated over the control period as Management of the Group does not deem the effect to have significant impact on the amounts stated in the consolidated financial statements. As at the reporting date, investments in PJSC “M2M Private Bank” are included in “Investments in associates and other investments”.

In 2017 the average number of the Group’s employees was 3 758 (2016: 4 029).

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 risks 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, including banks, 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 implemented sanctions, as well as the threat of additional future sanctions, are difficult to determine. These consolidated financial statements reflect management's assessment of the possible impact of the existing terms of the financial and business operations on the results of the activity and the financial position of the Group. The subsequent development of the conditions for the implementation of financial and business activities may differ from the management's assessment.

2 Basis of the consolidated financial statements 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, available-for-sale financial assets are stated at fair value, and buildings are stated at revalued amounts.

Functional and presentation currency

The functional currency of the Bank and its subsidiaries 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 thousand.

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 ongoing basis. Revisions to accounting estimates are recognised 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 the following notes:

- insurance agent commission – note 3;
- loan impairment estimates - note 18;
- building revaluation estimates - note 23;
- estimates of fair values of financial assets and liabilities - note 39.

Change of accounting policy and the order of information 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.

3 Significant accounting policies

The accounting policies set out below are applied consistently by the Group entities to all periods presented in these consolidated financial statements, except for with certain exceptions specified in Note 2 relating to changes in accounting policies and the presentation of data.

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 as the fair value of the consideration transferred (including the fair value of any previously-held equity interest in the acquiree) and the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as at the acquisition date. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The Group elects on a transaction-by-transaction basis whether to measure non-controlling interests at fair value, or at their proportionate share of the recognised 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. 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.

Acquisitions of entities under common control

Acquisitions of controlling interests in entities that are under the control of the same controlling shareholders as the Group are accounted for from the date of acquisition by the Group. The assets and liabilities acquired are recognised at their previous book values as recognised in the individual financial statements of the acquiree. Any cash paid for the acquisition is debited to equity.

Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group’s share of the total recognised gains and losses of associates on an equity-accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the Group’s share of losses exceeds the Group’s interest (including long-term loans) in the associate, that interest is reduced to nil and recognition of further losses is discontinued, except to the extent that the Group has incurred obligations in respect of the associate.

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 on acquisitions of subsidiaries is included in intangible assets. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

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 relating to the entity sold.

Foreign currency

Transactions in foreign currencies are translated to the functional currency 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. 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.

Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances (nostro accounts) held with the CBR and other banks, highly liquid financial assets with original maturities of less than ninety days and which are free from contractual encumbrances. The mandatory reserve deposits with the CBR are not considered to be a cash equivalent due to restrictions on their withdrawability. Cash and cash equivalents are carried at amortised 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 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 the at fair value through profit or loss category. A financial asset that would have met the definition of loans and receivables may be reclassified out of the at fair value through profit or loss or available-for-sale category if the Group has an intention and ability to hold it for the foreseeable future or until maturity. Other financial instruments may be reclassified out of the 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 recognised 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 amortised cost using the effective interest method;
- held-to-maturity investments that are measured at amortised 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 amortised cost.

Amortised cost

The amortised 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 recognised 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 amortised 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 maximise the use of relevant observable inputs and minimise 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 recognised 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 recognised as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in profit or loss;

- a gain or loss on an available-for-sale financial asset is recognised 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 derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss. Interest in relation to an available-for-sale financial asset is recognised in profit or loss using the effective interest method.

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in profit or loss when the financial asset or liability is derecognised or impaired, and through the amortisation 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 recognised 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.

The Group enters into transactions whereby it transfers assets recognised on its consolidated statement of financial position, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised.

In transactions where the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost.

In transfers where control over the asset is retained, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred assets.

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 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 repurchase agreements. The difference between the sale and repurchase prices represents interest expense and is recognised in profit or loss over the term of the repurchase agreement using the effective interest method.

Securities purchased under agreements to resell are recorded as amounts receivable under reverse repurchase agreements, as appropriate. The difference between the purchase and resale prices represents interest income and is recognised in profit or loss over the term of the reverse repurchase 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 relating 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 relating 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 relating 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 presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. The Group currently has a legally enforceable right to set off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the Group and all counterparties.

Leases

The Group as a lessor initially measures finance leases at an amount equal to the net investment in the lease. Subsequently the recognition of finance income is based on a pattern reflecting a constant periodic rate of return on the Group’s net investment in the finance lease.

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.

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 recognised as other comprehensive income except to the extent that it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in profit or loss. A revaluation decrease on a building is recognised in profit or loss except to the extent that it reverses a previous revaluation increase recognised as other comprehensive income directly in equity, in which case it is recognised in 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:

-	buildings	50 years
-	computers and equipment	5 years
-	fixtures and fittings	5 years
-	vehicles	5 years

Intangible assets

Acquired intangible assets 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. The estimated useful lives are 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.

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 a 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 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 amortised cost

Financial assets carried at amortised cost consist principally of loans and other receivables (loans and receivables), as well as held-to-maturity investments.

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 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 recognised 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 relating to similar borrowers. In such cases, the Group uses its experience and judgement to estimate the amount of any impairment loss.

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

When a loan is uncollectible, 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.

Held-to-maturity investments

As for held-to-maturity investments, the assessment whether objective evidence of impairment exists is conducted based on the same principles, as for loans and receivables. Interest income is accrued on the base of reduced balance value with the interest rate applied for discounting future cash flows with the aim of evaluation of losses for impairment. Interest income is recognised in profit and loss.

Financial assets carried at cost

Financial assets carried at cost include unquoted equity instruments included in available-for-sale financial assets that are not carried at fair value because their fair value can not 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 recognised in profit or loss and cannot be reversed.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by transferring the cumulative loss that is recognised 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 recognised in profit or loss. Changes in impairment allowances attributable to time value are reflected as a component of interest income.

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 recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised 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 goodwill is estimated at each reporting date. 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 recognised 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 recognised in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed 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 recognised. An impairment loss in respect of goodwill is not reversed.

Provisions

A provision is recognised 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 recognised 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 recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised 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 recognised when losses are considered probable and can be measured reliably.

Financial guarantee liabilities and provisions for other credit related commitment are included in other liabilities.

Loan commitments are not recognised, except for the followings:

- loan commitments that the Group designates as financial liabilities at fair value through profit or loss;

- if the Group has a past practice of selling the assets resulting from its loan commitments shortly after origination, then the loan commitments in the same class are treated as derivative instruments

- loan commitments that can be settled net in cash or by delivering or issuing another financial instrument;

- commitments to provide a loan at a below-market interest rate.

Share capital

Ordinary shares

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

Preference share capital

Preference share capital that is non-redeemable and carries no mandatory dividends is classified as equity.

Repurchase of share capital

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

Dividends

The ability of the Group 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.

Taxation

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

Current tax expense is the expected tax payable on the taxable profit 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 recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: 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 parent 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.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. For investment property that is measured at fair value the presumption is that the carrying amount of investment property will be recovered through sale.

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 recognised 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 in the consolidated financial statements

Interest income and expense are recognised 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 transaction costs, are deferred and amortised to 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 recognised in profit or loss when the corresponding service is provided.

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

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

The Group 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 Group from such partners. It is not considered to be integral to the overall profitability of consumer loans because it is determined and recognised based on the Group’s contractual arrangements with the insurance provider rather than with the borrower. The Group does not participate in the insurance risk, which is entirely borne by the partner; commission income from insurance is recognised in profit or loss when the Group 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.

New standards and interpretations not yet adopted

A number of 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. Of these pronouncements, potentially the following will have an impact on the financial position and performance. The Group plans to adopt these pronouncements when they become effective.

IFRS 9 *Financial instruments*

In July 2014, the IASB issued the final version of 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*.

In October 2017, the IASB issued *Prepayment Features with Negative Compensation* (Amendments to IFRS 9). The amendments are effective for annual periods beginning on or after 1 January 2019, with early adoption permitted.

The Group will apply IFRS 9 as issued in July 2014 initially on 1 January 2018 and will early adopt the amendments to IFRS 9 on the same date.

The Group selected the option permitted by the standard not to recalculate comparative data for the previous period. All adjustments to the carrying amount of assets and liabilities as a result of the adoption of IFRS 9 will be reflected as an adjustment of the opening balance of retained earnings as at 1 January 2018.

On the date of signature of these consolidated financial statements the Group has not yet analysed the impact of the new standard on the opening balance of the own equity of the Group as at 1 January 2018. Not all transition work has been finalised:

- IFRS 9 will require the Group to revise its accounting processes and internal controls and these changes are not yet complete;
- the Group has not finalised the testing and assessment of controls over its new IT systems and changes to its governance framework;
- the Group is refining and finalising its models for ECL calculations; and
- the new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until the Group finalises its first financial statements that include the date of initial application.

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.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated at the discretion of the Group as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. In addition, on initial recognition the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset is classified into one of these categories on initial recognition.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of IFRS 9 are not separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

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. The information that will be considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice, including whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

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. In making the assessment, the Group will consider:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets – e.g. non-recourse asset arrangements; and
- features that modify consideration for the time value of money – e.g. periodic reset of interest rates.

All of the Group's retail loans and corporate loans contain prepayment features.

A prepayment feature is consistent with the SPPI criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination of the contract.

In addition, a prepayment feature is treated as consistent with this criterion if a financial asset is acquired or originated at a premium or discount to its contractual par amount, the prepayment amount substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable compensation for early termination), and the fair value of the prepayment feature is insignificant on initial recognition.

Impact assessment

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

- Debt investment securities that are classified as available-for-sale under IAS 39 will be measured at FVOCI under IFRS 9.
- Held-to-maturity investment securities measured at amortised cost under IAS 39 will in general also be measured at amortised cost under IFRS 9.
- 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.

Impairment

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ELC) model. The 'expected credit loss' model applies also to the loan commitments and financial guarantee contracts issued, not measured at FVTPL.

Model of expected credit losses

The adoption of the model of expected credit losses will lead to a change in the existing models and methodology for calculating credit losses by the Group. The loss allowance calculated by the model of expected credit losses represents an amount that reflects the various probabilities, the time value of money, as well as reasonable and verified information, both about past events, and about the current and future economic situation.

The reserves calculated according to the model of expected credit losses will be estimated as follows:

- based on 12-month expected credit losses; or

- on the basis of expected credit losses for the entire life of the financial instrument, if the instrument has a significant increase in credit risk since the initial recognition of the instrument.

The model of expected credit losses divides financial instruments into three stages:

Step 1 includes all non-impaired financial instruments for which there has been no significant increase in credit risk since initial recognition. Step 1 requires recognition of 12-month expected credit loss. In order to determine whether there has been a significant increase in credit risk since the initial recognition, it is necessary to compare the risk of default of a financial instrument at the reporting date with the risk of default on this financial instrument at the time of its initial recognition.

Step 2 includes non-impaired financial instruments, for which a significant increase in credit risk occurred. For Stage 2, the expected credit losses for the entire life of the financial instrument must be recognized. In subsequent reporting periods, the financial instrument can be reclassified to step 1 if the credit quality has improved and there is no significant increase in credit risk. In case of reclassification, 12-month credit losses should be recognized subsequently.

Step 3 includes depreciated financial instruments. In Step 3, the expected credit losses for the entire life of the financial instrument must be recognized. Credit losses represent the present value of the difference between contractual cash flows and cash flows expected to be received. Interest income on such financial instruments will accrue to the carrying amount of the asset less provision for impairment.

In subsequent reporting periods, the financial instrument can be reclassified to step 2 if, at the balance sheet date, the credit quality has improved.

As a result of applying the requirements of IFRS 9, impaired loans recognized in accordance with IAS 39 will be reflected in step 3. Loans without individual signs of impairment under IAS 39 will be reflected in stages 1 and 2 in accordance with IFRS 9.

The Group has developed an evaluation methodology that includes both quantitative and qualitative information to determine a significant increase in credit risk for a particular financial instrument since its initial recognition. This methodology is consistent with the Group's internal credit risk management process. The criteria for determining a significant increase in credit risk will vary depending on the portfolio and will include a "delinquent" in terms of the delay.

Inputs into measurement of ECLs

The key inputs into the measurement of ECLs are likely to be the term structures of the following variables:

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

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

Probability of default (PD) estimates are estimates at a certain date, which will be calculated based on statistical rating models and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models will be based on internally compiled data comprising both quantitative and qualitative factors.

Loss given default (LGD) is the magnitude of the likely loss if there is a default. The Group will estimate LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models will consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, loan-to-value (LTV) ratios are likely to be a key parameter in determining LGD. LGD estimates will be calibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They will be calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

Exposure at default (EAD) represents the expected exposure in the event of a default. The Group will derive the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including amortisation, and prepayments. The EAD of a financial asset will be the gross carrying amount at default. For lending commitments and financial guarantees, the EAD will consider the amount drawn, as well as potential future amounts that may be drawn or repaid under the contract, which will be estimated based on historical observations and forward-looking forecasts.

Forward-looking information

Under IFRS 9, the Group will incorporate forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since initial recognition and its measurement of ECLs.

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value.

Under IFRS 9, when the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- the remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

The Group renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Group's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy.

For financial assets modified as part of the Group's forbearance policy, the estimate of PD will reflect whether the modification has improved or restored the Group's ability to collect interest and principal and the Group's previous experience of similar forbearance action. As part of this process, the Group will evaluate the borrower's payment performance against the modified contractual terms and consider various behavioural indicators.

Generally, forbearance is a qualitative indicator of default and credit impairment and expectations of forbearance are relevant to assessing whether there is a significant increase in credit risk. Following forbearance, a customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be in default/credit-impaired or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECLs.

Classification – Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

Disclosures

IFRS 9 will require extensive new disclosures, in particular about hedge accounting, credit risk and ECLs.

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.

IFRS 15 *Revenue under 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 11 *Construction Contracts*, IAS 18 *Revenue*, and IFRIC 13 *Customer Loyalty Programmes*. The core principle of the new standard is that the entity recognises revenue to depict the transfer of the promised goods or services to customers in an amount that reflects the consideration that entity expects to be entitled in exchange for those goods or services. The new standard provides for detailed disclosure of revenue, includes instructions for accounting of the operations that previously were not considered in full and improves the instructions on accounting for agreements that consist of multiple elements. IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Group has not early adopted the standard. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15.

4 Interest income and expense

	2017 RUB'000	**2016 RUB'000**
Interest income		
Loans to customers	10 992 106	13 774 586
Available-for-sale financial assets	1 129 402	1 676 153
Net investments in finance leases	346 263	272 802
Held-to-maturity investments	227 912	378 277
Due from banks and cash equivalents	45 762	860 497
Financial instruments at fair value through profit or loss	-	1 422
	12 741 445	**16 963 737**
Interest expense		
Current accounts and deposits from customers	5 551 185	7 571 127
Subordinated borrowings	502 596	582 876
Deposits and balances from banks	237 981	714 348
Debt securities issued	144 694	239 911
	6 436 456	**9 108 262**

5 Fee and commission income

	2017 RUB'000	**2016 RUB'000**
Settlement operations	1 582 962	1 681 882
Insurance agent commission	1 125 570	879 335
Consulting and information services agent commission	305 290	140 714
Accounts opening and maintenance	243 823	224 894
Guarantees issuance	82 734	168 072
Other	280 042	249 269
	3 620 421	**3 354 166**

Information on the basis of which insurance agent commission income is recognised in profit or loss is disclosed in note 3.

6 Net foreign exchange gain

	2017 RUB'000	**2016 RUB'000**
Gain on derivatives and spot transactions (except swaps)	341 117	750 267
Loss on swap operations	(222 008)	(260 476)
Gain (loss) from revaluation of financial assets and liabilities	330 176	(64 370)
	449 285	**425 421**

7 Net gain on operations with precious metals

	2017 RUB'000	**2016 RUB'000**
Gain on trading operations	118 900	124 533
Gain from revaluation of financial assets and liabilities and operations with derivatives	98 838	13 746
	217 738	**138 279**

8 Other operating income

	2017 RUB'000	**2016 RUB'000**
Income from sale of loans and repayment of written off loans	394 161	314 800
Penalties on loans and other operations	390 575	676 605
Rental income	40 305	39 701
Dividend income	70 868	22 732
Other income	105 386	40 268
	1 001 295	**1 094 106**

9 Impairment losses

	2017 RUB'000	2016 RUB'000
Loans to customers	2 138 988	3 490 323
Available-for-sale financial assets	20 379	(747 572)
Due from banks	3 124 603	2 896 686
Investments in associates and other investments	-	2 300 000
Credit related commitments	(43 670)	43 670
Net investments in finance leases	18 134	3 995
Other assets	69 054	166 875
	5 327 488	**8 153 977**

10 Personnel expenses

	2017 RUB'000	2016 RUB'000
Employee compensation	3 043 041	2 991 864
Payroll related taxes	781 495	831 107
	3 824 536	**3 822 971**

11 Other general administrative expenses

	2017 RUB'000	2016 RUB'000
Depreciation and amortisation	429 390	283 478
Advertising and marketing	412 324	217 314
IT expenses	304 791	176 150
Professional services	277 791	89 162
Taxes other than income tax	269 571	244 465
Write-off of materials and loss on disposals of assets	256 628	410 489
Repairs and maintenance	212 867	210 029
Information and communications services	171 429	195 735
Rent	144 563	148 028
Travel expenses	93 827	48 887
Security	61 967	55 208
Insurance	26 526	18 077
Loss on cease and restructuring of lease agreements	15 716	28 996
Charity	100	35 500
Other	160 270	264 920
	2 837 760	**2 426 438**

12 Income tax benefit

	2017 RUB'000	2016 RUB'000
Current year tax expense	(90 132)	(88 233)
Movement in deferred tax assets and liabilities due to origination and reversal of temporary differences	430 239	551 234
Change in deferred tax asset, not recognised in the consolidated financial statements	165 407	(165 407)
Total income tax benefit	**505 514**	**297 594**

In 2017, the applicable tax rate for current and deferred tax is 20% (2016: 20%).

Reconciliation of effective tax rate for the year ended 31 December:

	2017 RUB'000	%	2016 RUB'000	%
Loss before income tax	**(1 625 708)**		**(2 372 333)**	
Income tax at the applicable tax rate	325 142	20.0	474 467	20.0
Other differences	(12 493)	(1.0)	(34 984)	(1.5)
Change in deferred tax asset, not recognised in the consolidated financial statements	165 407	10.0	(165 407)	(7.0)
Income taxed at lower tax rates	27 458	2.0	23 518	1.0
	505 514	**31.0**	**297 594**	**12.5**

Deferred tax assets and liabilities

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to deferred tax assets as at 31 December 2017 and 31 December 2016. Net deferred tax assets have been recognised in these consolidated financial statements.

The term of use of temporary differences, which decrease the amount of tax base on profit tax and tax losses carry-forward is not limited by the current tax legislation of the Russian Federation.

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

RUB'000	Balance 1 January 2017	Recognised in profit or loss	Recognised in other comprehensive income and directly in equity	Balance 31 December 2017
Due from banks	589 791	(297 139)	-	292 652
Available-for-sale financial assets	91 935	(2 176)	(23 889)	65 870
Held-to-maturity investments	7 187	17 080	-	24 267
Derivative financial instruments	15 503	21 514	-	37 017
Loans to customers	(622 793)	414 674	-	(208 119)
Net investments in finance leases	165 407	(78 384)	-	87 023
Property, equipment, intangible assets and investment property	(409 120)	104 340	12 349	(292 431)
Investments in associates and other investments	474 444	2 618	-	477 062
Other assets	4 455	(74 368)	-	(69 913)

RUB'000	Balance 1 January 2017	Recognised in profit or loss	Recognised in other comprehensive income and directly in equity	Balance 31 December 2017
Debt securities issued	(126)	126	-	-
Subordinated borrowings	(6 694)	797	-	(5 897)
Other liabilities	9 465	7 249	-	16 714
Tax loss carry-forward	240 529	313 908	-	554 437
Deferred tax assets	**559 983**	**430 239**	**(11 540)**	**978 682**
Change in deferred tax asset, not recognised in the consolidated financial statements	(165 407)	165 407	-	-
Recognised net deferred tax assets	**394 576**	**595 646**	**(11 540)**	**978 682**
Comprising of:				
Deferred tax asset	394 576			978 682

RUB'000	Balance 1 January 2016	Recognised in profit or loss	Recognised in other comprehensive income and directly in equity	Balance 31 December 2016
Due from banks	(2 000)	591 791	-	589 791
Available-for-sale financial assets	40 167	74 932	(23 164)	91 935
Held-to-maturity investments	(56 603)	63 790	-	7 187
Derivative financial instruments	26 692	(11 189)	-	15 503
Amounts receivable under reverse repurchase agreements	(2 977)	2 977	-	-
Loans to customers	(512 921)	(109 872)	-	(622 793)
Net investments in finance leases	103 016	62 391	-	165 407
Property, equipment, intangible assets and investment property	(365 059)	18 789	(62 850)	(409 120)
Investments in associates and other investments	-	474 444	-	474 444
Other assets	107 375	(102 920)	-	4 455
Debt securities issued	1 022	(1 148)	-	(126)
Subordinated borrowings	(8 450)	1 756	-	(6 694)
Other liabilities	6 202	3 263	-	9 465
Tax loss carry-forward	758 299	(517 770)	-	240 529
Deferred tax assets	**94 763**	**551 234**	**(86 014)**	**559 983**
Change in deferred tax asset, not recognised in the consolidated financial statements	-	(165 407)	-	(165 407)
Recognised net deferred tax assets	**94 763**	**385 827**	**(86 014)**	**394 576**
Comprising of:				
Deferred tax asset	103 016			394 576
Deferred tax liability	(8 253)			-

13 Cash and cash equivalents

	2017 RUB'000	2016 RUB'000
Cash on hand	**2 944 433**	**3 658 005**
Nostro accounts with the CBR	**3 948 691**	**4 447 001**
Nostro accounts with other banks		
- Largest 30 Russian banks	1 324 053	1 598 260
- OECD banks	542 818	948 568
- Other Russian banks	123 853	152 799
- Other foreign banks	14 493	53 036
Total nostro accounts with other banks	**2 005 217**	**2 752 663**
Term deposits with the CBR	**1 200 683**	**500 407**
Total cash and cash equivalents	**10 099 024**	**11 358 076**

As at 31 December 2017, the Group has no banks (except the CBR) (31 December 2016 (except the CBR): no banks), whose balances individually exceed 10% of equity.

14 Financial instruments at fair value through profit or loss

	2017 RUB'000	2016 RUB'000
ASSETS		
Derivative financial instruments		
Foreign currency and securities contracts	4 018	105 132
	4 018	**105 132**
LIABILITIES		
Derivative financial instruments		
Foreign currency and securities contracts	189 106	182 650
	189 106	**182 650**
Liabilities on reverse delivery of realized securities, received on operations under reverse repurchase agreements	687 556	-
	876 662	**182 650**

None of financial assets at fair value through profit or loss are past due.

Foreign currency and securities contracts

The table below summarises, by major currencies, the contractual amounts of forward exchange and securities contracts outstanding at 31 December 2017 and 31 December 2016 with details of the contractual exchange rates and prices and remaining periods to maturity. Foreign currency and securities amounts presented below are translated at rates ruling at the reporting date. The resultant unrealised gains and losses on these unmatured contracts are recognised in profit or loss and in financial instruments at fair value through profit or loss, as appropriate.

	Notional amount		Weighted average contractual exchange rates	
	2017 RUB'000	**2016 RUB'000**	**2017**	**2016**
Buy USD sell RUB				
Less than 3 months	31 084 106	24 960 148	57.84	60.75
Buy USD sell RUB				
Between 3 to 12 months	633 602	-	57.60	-
Buy USD sell CHF				
Less than 3 months	251 587	28 157	0.98	1.02
Buy USD sell CNY				
Less than 3 months	5 311	103 727	6.52	7.00
Buy USD sell JPY				
Less than 3 months	35 086	60 442	1.13	1.17
Buy EUR sell RUB				
Less than 3 months	1 377	765 095	69.42	64.40
Buy EUR sell USD				
Less than 3 months	482 068	1 664 780	1.20	1.05
Buy GBP sell USD				
Less than 3 months	240 012	246 564	1.35	1.23
Buy CNY sell RUB	70 760	-	8.83	-
Less than 3 months				
Buy Au sell RUB				
Less than 3 months	-	2 005 767	-	2 226.81
Buy put options JPY/GBP				
Less than 3 months	-	62 183	-	119.97
Sell USD buy RUB				
Less than 3 months	30 423 488	22 784 913	57.51	60.46
Sell USD buy JPY				
Less than 3 months	5 775	75 622	1.13	1.17
Sell USD buy CHF				
Less than 3 months	7 077	17 007	0.98	1.02

	Notional amount		Weighted average contractual exchange rates	
	2017 RUB'000	**2016 RUB'000**	**2017**	**2016**
Sell USD buy CNY				
Less than 3 months	674 674	397 050	6.52	6.96
Sell EUR buy RUB				
Less than 3 months	96 414	239 292	69.20	64.02
Sell EUR buy USD				
Less than 3 months	1 014 220	2 018 376	1.20	1.05
Sell GBP buy RUB	155 348	-	77.44	-
Less than 3 months				
Sell GBP buy USD				
Less than 3 months	1 893 328	2 278 606	1.35	1.25
Sell CNY buy RUB				
Less than 3 months	106 140	-	8.82	-
Sell gold buy USD				
Less than 3 months	495 038	-	41.34	-
Sell put options GBP/ JPY				
Less than 3 months	-	62 183	-	119.97

15 Available-for-sale financial assets

	2017 RUB'000	**2016 RUB'000**
Held by the Group		
- Government, the CBR and municipal bonds		
Russian Government Federal bonds (OFZ)	2 201 940	5 737 578
Regional authorities bonds	248 653	601 665
The CBR bonds	6 583 010	-
Total government, the CBR and municipal bonds	**9 033 603**	**6 339 243**
- Corporate bonds		
rated from BB- and above	2 959 608	4 938 441
banks with revoked license	102 651	1 133 849
rated B+ and below	-	714 815
Total corporate bonds	**3 062 259**	**6 787 105**

	2017 RUB'000	2016 RUB'000
- Corporate shares		
rated B+ and below	2 840 668	1 028 519
not rated	388 504	2 377 648
Total corporate shares	**3 229 172**	**3 406 167**
Total available-for-sale financial instruments held by Group	**15 325 034**	**16 532 515**
Pledged under sale and repurchase agreements		
- Government and municipal bonds		
Russian Government Federal bonds (OFZ)	-	101 490
Total government and municipal bonds	**-**	**101 490**
- Corporate bonds		
rated from BB- to BBB+	93 364	1 285 464
Total corporate bonds	**93 364**	**1 285 464**
Total available-for-sale financial instruments pledged under sale and repurchase agreements	**93 364**	**1 386 954**
Total available-for-sale financial instruments	**15 418 398**	**17 919 469**
Impairment allowance	(259 508)	(257 979)
Total available-for-sale financial instruments	**15 158 890**	**17 661 490**

Movements in the impairment allowance are as follows:

	2017 RUB'000	2016 RUB'000
Balance of the impairment allowance at the beginning of the year	257 979	1 005 551
Net charge (reversal) of the impairment allowance	20 379	(747 572)
Write –off	(18 850)	-
Balance of the impairment allowance at the end of the year	**259 508**	**257 979**

Ratings of corporate entities are based on Standard & Poor's or the equivalent ratings assigned by Fitch Rating and Moody's.

Available-for-sale financial assets stated at cost comprise unquoted securities for the amount of RUB 1 237 643 thousand (2016: RUB 1 255 982 thousand). There is no market for these investments and there have not been any recent transactions that provide evidence of the current fair value. In addition, discounted cash flow techniques yield a wide range of fair values due to the uncertainty regarding future cash flows in this industry. However, management of the Group believes it unlikely that the fair value at the year-end would differ significantly from that carrying amount.

Reclassifications out of securities held for trading

During the year ended 31 December 2014 the Group reclassified certain financial assets out of available-for-sale assets into held-to-maturity investments. For details on impact of these reclassifications, refer to note 21 "Held-to-maturity investments" of the consolidated financial statements.

16 Due from banks

	2017 RUB'000	2016 RUB'000
Due from PJSC "M2M Private Bank" (refer to note 40)	**6 521 277**	**6 578 892**
Other amounts due from banks	**32 834**	**22 623**
Term deposits		
- Largest 30 Russian banks	-	156
Total term deposits	**-**	**156**
Total due from banks	**6 554 111**	**6 601 671**
Impairment allowance	(6 021 289)	(2 896 686)
Total due from banks after impairment allowance	**532 822**	**3 704 985**

Movements in the impairment allowance are as follows:

	2017 RUB'000	2016 RUB'000
Balance of the impairment allowance at the beginning of the year	2 896 686	-
Net charge of the impairment allowance	3 124 603	2 896 686
Balance of the impairment allowance at the end of the year	**6 021 289**	**2 896 686**

17 Amounts receivable under reverse repurchase agreements

The table below sets out receivables under reverse repurchase agreements showing individual types of securities received as collateral under reverse repurchase agreements outstanding as at 31 December 2017:

	Russian Federation Government bonds RUB'000	Corporate bonds RUB'000	Total RUB'000
Amounts receivable under reverse repurchase agreements			
- Largest 30 Russian banks	2 608 292	32 672	2 640 964
	2 608 292	**32 672**	**2 640 964**

As at 31 December 2016 the Group does not have receivables under reverse repurchase agreements.

At 31 December 2017, the fair value of securities collateralising reverse repurchase agreements is RUB 2 845 303 thousand.

None of amounts receivable under reverse repurchase agreements are past due or impaired.

18 Loans to customers

	2017 RUB'000	2016 RUB'000
Loans to corporate customers	**29 796 847**	**36 597 723**
Loans to retail customers		
Consumer loans	40 916 298	43 750 998
Mortgage loans	3 820 645	5 722 920
Total loans to retail customers	**44 736 943**	**49 473 918**
Gross loans to customers	**74 533 790**	**86 071 641**
Impairment allowance	(16 930 001)	(17 083 236)
Net loans to customers	**57 603 789**	**68 988 405**

Interest accrued on impaired loans in 2017 amounted to RUB 855 384 thousand (2016: RUB 1 198 951 thousand).

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

	Loans to corporate customers RUB'000	Loans to retail customers RUB'000	Total RUB'000
Balance of the impairment allowance at the beginning of the year	**3 234 196**	**13 849 040**	**17 083 236**
Net (reversal) charge	(30 479)	2 169 467	2 138 988
Write-offs	(424 604)	(1 867 619)	(2 292 223)
Balance of the impairment allowance at the end of the year	**2 779 113**	**14 150 888**	**16 930 001**

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

	Loans to corporate customers RUB'000	Loans to retail customers RUB'000	Total RUB'000
Balance of the impairment allowance at the beginning of the year	**2 905 598**	**16 191 757**	**19 097 355**
Net charge	458 466	3 031 857	3 490 323
Write-offs	(129 868)	(5 374 574)	(5 504 442)
Balance of the impairment allowance at the end of the year	**3 234 196**	**13 849 040**	**17 083 236**

Credit quality of loans to customers

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

	2017 RUB'000	2016 RUB'000
Loans to corporate customers		
Loans without individual signs of impairment	21 573 161	33 015 948
Impaired loans:		
- not overdue	4 600 894	66 950
- overdue less than 90 days	815 684	482 776
- overdue more than 90 days and less than 1 year	488 295	617 018
- overdue more than 1 year	2 318 813	2 415 031
Total impaired loans	**8 223 686**	**3 581 775**
Gross loans to corporate customers	**29 796 847**	**36 597 723**
Impairment allowance	(2 779 113)	(3 234 196)
Net loans to corporate customers	**27 017 734**	**33 363 527**

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

	Consumer loans RUB'000	Mortgage loans RUB'000	Total loans to retail customers RUB'000
Loans to retail customers			
- not overdue	24 330 085	3 333 598	27 663 683
- overdue less than 30 days	692 607	45 401	738 008
- overdue 30-90 days	574 384	96 888	671 272
- overdue 90-180 days	740 652	67 665	808 317
- overdue more than 180 days	14 578 570	277 093	14 855 663
Gross loans to retail customers	**40 916 298**	**3 820 645**	**44 736 943**
Impairment allowance	(13 952 400)	(198 488)	(14 150 888)
Net loans to retail customers	**26 963 898**	**3 622 157**	**30 586 055**

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

	Consumer loans	Mortgage loans	Total loans to retail customers
	RUB'000	RUB'000	RUB'000
Loans to retail customers			
- not overdue	26 200 205	5 227 499	31 427 704
- overdue less than 30 days	973 799	74 399	1 048 198
- overdue 30-90 days	1 031 231	73 737	1 104 968
- overdue 90-180 days	1 339 376	111 558	1 450 934
- overdue more than 180 days	14 206 387	235 727	14 442 114
Gross loans to retail customers	**43 750 998**	**5 722 920**	**49 473 918**
Impairment allowance	(13 675 116)	(173 924)	(13 849 040)
Net loans to retail customers	**30 075 882**	**5 548 996**	**35 624 878**

Key assumptions and judgments for estimating loan impairment

Loans to corporate customers

Loan impairment results from one or more events that occurred after the initial recognition of the loan and that have an impact on the estimated future cash flows associated with the loan and that can be reliably estimated. Loans without individual signs of impairment do not have objective evidence of impairment that can be directly attributed to them.

The objective indicators of loan impairment for loans to corporate customers include the following:

- overdue payments under the loan agreement;
- significant difficulties in the financial conditions of the borrower;
- deterioration in the business environment, negative changes in the borrower's markets.

The Group estimates loan impairment for loans to corporate customers based on an analysis of the future cash flows for significant impaired loans and based on its past loss experience for portfolios of loans for which no indications of impairment has been identified or not significant impaired loans.

In determining the impairment allowance for loans to corporate customers management makes the following key assumptions:

- the principal collateral taken into account in the estimation of future cash flows represented by different types, mainly real estate. Valuations for real estate have been discounted to reflect current market conditions and costs to sell;
- loss given default rate for unsecured loans is 75%.

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 one percent, the impairment allowance on loans to corporate customers as at 31 December 2017 would be RUB 270 177 thousand lower/higher (31 December 2016: RUB 333 635 thousand).

Loans to retail customers

The Group estimates loan impairment for loans to retail customers based on its past historical loss experience on each type of loan. The significant assumptions used by management in determining the impairment losses for loans to retail customers include:

- loss migration rates are constant and estimated based on historic loss migration pattern for the past 36 months;
- the historic actual recovery rate of loans overdue 364 - 393 days for past 18 months has been taken into account when estimating future recoveries on overdue loans.

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 three percent, the impairment allowance on loans to retail customers as at 31 December 2017 would be RUB 917 582 thousand lower/higher (31 December 2016: RUB 1 068 746 thousand).

Analysis of collateral

Loans to corporate customers

Loans to corporate customers are secured by different types of collateral, including pledge over securities, real estate, guarantees provided by individuals, commercial enterprises or banks and other collateral.

The following table provides an analysis of loans to corporate customers, net of impairment, by types of collateral as at 31 December:

	2017 RUB'000	**% of loan portfolio**	**2016 RUB'000**	**% of loan portfolio**
Real estate	13 647 940	50.51	15 822 534	47.42
Motor vehicles	3 070 888	11.37	2 811 958	8.43
Corporate and personal guarantees	1 662 035	6.15	1 299 617	3.90
Goods in turnover	405 894	1.50	592 354	1.78
Equipment	1 086 371	4.02	312 026	0.93
Cash balances	120 911	0.45	51 140	0.15
Securities	361 564	1.34	45 776	0.14
Other collateral	249 246	0.92	163 729	0.49
No collateral	6 412 885	23.74	12 264 393	36.76
	27 017 734	**100.00**	**33 363 527**	**100.00**

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

Corporate and personal guarantees are not considered for impairment assessment purposes.

Loans to corporate customers that are impaired or past due

Loans with individual signs of impairment or past due with net carrying value of RUB 1 239 716 thousand (31 December 2016: RUB 697 643 thousand) are secured by collateral (mainly real estate) with fair value of RUB 1 182 691 thousand (31 December 2016: RUB 646 692 thousand), excluding the effect of over collateralisation.

Loans to retail customers

Mortgage loans are secured by the underlying housing real estate. The Group's policy is to issue mortgage loans with a loan-to-value ratio of a maximum of 90%.

For certain mortgage loans the Group updates the appraised values of collateral obtained at inception of the loan to the current values considering the approximate changes in property values. The Group may also obtain a specific individual valuation of collateral at each reporting date where there are indications of impairment. For the remaining mortgage loans the fair value of collateral was estimated at inception of the loans and was not adjusted for subsequent changes to the reporting date.

For overdue mortgage loans management believes that the fair value of collateral is at least 100% of the carrying amount of the loans at the reporting date.

Consumer loans are mainly not secured.

Repossessed collateral

During the year ended 31 December 2017, the Group obtained certain assets by taking possession of collateral for loans to customers with a net carrying amount of RUB 64 276 thousand (2016: RUB 270 515 thousand). As at 31 December, the repossessed collateral comprise:

	2017 RUB'000	**2016 RUB'000**
Real estate	90 361	247 680
Other assets	6 155	5 813
Total repossessed collateral	**96 516**	**253 493**

The Group's policy is to sell these assets as soon as it is practicable.

Asset securitisation

As at 31 December 2017, the Group transferred mortgage loans of RUB 2 270 433 thousand (31 December 2016: RUB 2 942 101 thousand) to MA APB, MA APB 2, LLC SFC APB 2 entities that are, in substance, controlled by the Group. Accordingly, MA APB, MA APB 2 and LLC SFC APB 2 are consolidated into these consolidated financial statements and the loans are included in the consolidated statement of financial position. These loans serve as collateral for secured mortgage backed securities issued by the Group. As at 31 December 2017, the carrying amount of liabilities on these securities is RUB 1 201 126 thousand (31 December 2016: RUB 1 800 347 thousand). All bonds issued by LLC SFO ATB 2 in 2016 were purchased by the Bank. The nominal value of these bonds as at 31 December 2017 was RUB 1 346 410 thousand (31 December 2016: RUB 1 390 000 thousand).

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:

	2017 RUB'000	2016 RUB'000
Wholesale and retail trade	5 822 947	7 900 148
Services	5 552 488	7 252 451
Investment activities and real estate	4 875 136	4 686 705
Construction	3 503 269	3 815 928
Production	939 033	1 960 951
Wood processing and production of wood products	916 676	601 078
Agriculture and fishery	651 657	1 250 131
Transport services and communication	422 495	730 009
Mining	344 718	1 712 906
Production and distribution of energy, gas and water	259 244	265 236
Public authorities	46 437	41 613
Other	6 462 747	6 380 567
Individuals	44 736 943	49 473 918
	74 533 790	**86 071 641**
Impairment allowance	(16 930 001)	(17 083 236)
	57 603 789	**68 988 405**

Significant credit exposures

As at 31 December 2017, the Group has two groups of connected borrowers whose loan balances individually exceed 10% of equity (31 December 2016: two groups of connected borrowers). The carrying value of these balances as at 31 December 2017 is RUB 7 341 673 thousand (2016: RUB 7 951 472 thousand).

For maturity analysis refer to note 32.

19 Net investments in finance leases

Net investments in finance leases comprise:

	2017 RUB'000	2016 RUB'000
Gross investments in finance leases	1 888 132	1 960 108
Unearned finance lease income	(450 889)	(411 143)
	1 437 243	**1 548 965**
Impairment allowance	(92 257)	(259 052)
Net investments in finance leases	**1 344 986**	**1 289 913**

Net investments in finance leases generally comprise lease contracts on various types of equipment and vehicles.

Information on the reconciliation of gross investments and net investments in finance leases expected to be received as at 31 December 2017 is disclosed further:

	Within 1 year RUB'000	From 1 to 5 years RUB'000	Total RUB'000
Gross investments in finance leases	**1 021 457**	**866 675**	**1 888 132**
Less unearned finance lease income	(265 079)	(185 810)	(450 889)
Net investments in finance leases	**756 378**	**680 865**	**1 437 243**

Information on the reconciliation of gross investments and net investments in finance leases expected to be received as at 31 December 2016 is disclosed further:

	Within 1 year RUB'000	From 1 to 5 years RUB'000	Total RUB'000
Gross investments in finance leases	**1 182 285**	**777 823**	**1 960 108**
Less unearned finance lease income	(246 393)	(164 750)	(411 143)
Net investments in finance leases	**935 892**	**613 073**	**1 548 965**

Gross investments in leases is receivable in the following currencies:

	2017 RUB'000	2016 RUB'000
RUB	1 888 132	1 937 923
USD	-	22 185
Gross investments in finance leases	**1 888 132**	**1 960 108**

The following table provides information on the credit quality of net investments in finance leases as at 31 December 2017 and 2016:

	2017 RUB'000	2016 RUB'000
Not overdue and overdue less than 90 days	1 251 007	1 254 440
Overdue more than 90 days and less than 180 days	37 996	12 189
Overdue more than 180 days	148 240	282 336
	1 437 243	**1 548 965**
Less allowance for impairment	(92 257)	(259 052)
Net investments in finance leases	**1 344 986**	**1 289 913**

Movements in the impairment allowance are as follows:

	2017 RUB'000	2016 RUB'000
Balance at the beginning of the year	259 052	261 511
Net charge	18 134	3 995
Write-offs	(184 929)	(6 454)
Balance at the end of the year	**92 257**	**259 052**

20 Investments in associates and other investments

Associates and other investments comprise the following:

Name	Country of incorporation	Main activity	Ownership % 2017	Ownership % 2016	2017 Carrying value RUB'000	2016 Carrying value RUB'000
PJSC "M2M Private Bank" (refer to note 40)	Russian Federation	Banking	100%	100%	2 300 000	2 300 000
CUIF "Celena"	Russian Federation	Unit investment fund	40.99%	40.99%	108 731	121 818
Impairment allowance					(2 300 000)	(2 300 000)
					108 731	**121 818**

The following table summarises the financial information of CUIF "Celena" as at 31 December 2017 and 31 December 2016 and for 2017 and 2016 year and reconciliation of carrying amount of the Group's interest in associate:

	2017 RUB'000	2016 RUB'000
Total assets	271 207	338 293
Total liabilities	(5 941)	(41 099)
Net assets	265 266	297 194
Group's share of net assets (40.99%)	**108 731**	**121 818**

	2017 RUB'000	2016 RUB'000
Net loss for the year	(13 087)	(47 847)
Total comprehensive loss for the year	**(13 087)**	**(47 847)**

21 Held-to-maturity investments

	2017 RUB'000	2016 RUB'000
Held by the Group		
Government and municipal bonds		
Regional authorities bonds	49 553	243 451
Total government and municipal bonds	**49 553**	**243 451**
Corporate bonds		
rated from BB- and above	291 375	801 823
Total corporate bonds	**291 375**	**801 823**
Total held-to-maturity investments held by Group	**340 928**	**1 045 274**
Pledged under sale and repurchase agreements		
Corporate bonds		
rated from BB- to BBB+	2 423 085	2 586 706
Total corporate bonds	**2 423 085**	**2 586 706**
Total held-to-maturity investments pledged under sale and repurchase agreements	**2 423 085**	**2 586 706**
Total held-to-maturity investments	**2 764 013**	**3 631 980**

Ratings of corporate entities are based on Standard & Poor's or the equivalent ratings assigned by Fitch Rating and Moody's.

None of held-to-maturity investments are past due or impaired.

Reclassifications out of of available-for-sale financial assets

In accordance with IAS 39 the Group reclassified certain securities out of available-for-sale financial assets to held-to-maturity investments as a result of a change in intention to hold these securities until maturity.

The reclassifications were made with effect in October 2014 and December 2014 at fair value at these dates:

Date of reclassification	Carrying value of reclassified securities as at date of reclassification RUB'000	Fair value of reclassified securities as at date of reclassification RUB'000
28 October 2014	2 680 256	2 680 256
5 December 2014	591 225	591 225
8 December 2014	172 255	172 255
16 December 2014	1 522 810	1 522 810
31 December 2014	454	454

The table below shows carrying and fair value of reclassified securities as at reporting dates:

Date of reclassification	Carrying value of reclassified securities as at 31 December 2017 RUB'000	Fair value of reclassified securities as at 31 December 2017 RUB'000	Carrying value of reclassified securities as at 31 December 2016 RUB'000	Fair value of reclassified securities as at 31 December 2016 RUB'000
28 October 2014	1 640 594	1 654 434	2 564 514	2 583 790
5 December 2014	-	-	91 586	93 463
8 December 2014	-	-	43 707	44 176
16 December 2014	-	-	-	-
31 December 2014	-	-	-	-

The table below shows the amounts actually recognised in consolidated profit or loss and other comprehensive income for the year then ended 31 December 2017 in respect of securities reclassified out of available-for-sale securities:

	Profit or loss RUB'000
Available-for-sale securities reclassified to held-to-maturity investments:	
Interest income	220 837

The table below shows the amounts actually recognised in consolidated profit or loss and other comprehensive income for the year then ended 31 December 2016 in respect of securities reclassified out of available-for-sale securities:

	Profit or loss
	RUB'000
Available-for-sale securities reclassified to held-to-maturity investments:	
Interest income	289 653

The table below sets out the amounts that would have been recognised during 2017 if the reclassifications had not been made:

	Profit or loss	**Other comprehensive income**
	RUB'000	**RUB'000**
Available-for-sale securities reclassified to held-to-maturity investments:		
Interest income	223 357	-
Revaluation reserve for available-for-sale financial assets	-	17 167

The table below sets out the amounts that would have been recognised during 2016 if the reclassifications had not been made:

	Profit or loss	**Other comprehensive income**
	RUB'000	**RUB'000**
Available-for-sale securities reclassified to held-to-maturity investments:		
Interest income	289 028	-
Revaluation reserve for available-for-sale financial assets	-	124 885

The effective interest rates on available-for-sale securities reclassified to held-to-maturity investments with expected recoverable cash flows as at the date of reclassification are presented below:

Date of reclassification	**Effective interest rate**	**Expected cash flows**
	%	**RUB'000**
28 October 2014	8.02%	3 314 172
5 December 2014	8.77%	825 392
8 December 2014	9.75%	226 624
16 December 2014	7.89%	2 244 101
31 December 2014	8.50%	564

22 Transfers of financial assets

(a) Transferred financial assets, that are not derecognised in their entirety

The securities sold under agreements to repurchase as at 31 December 2017 are presented in the table below:

RUB'000	**Financial assets available-for-sale**	**Held-to-maturity investments**
Carrying amount of assets	93 364	2 423 085
Carrying amount of associated liabilities	87 228	2 290 403

The securities sold under agreements to repurchase as at 31 December 2016 are presented in the table below:

RUB'000	Financial assets available-for-sale	Held-to-maturity investments
Carrying amount of assets	1 386 954	2 586 706
Carrying amount of associated liabilities	1 299 350	2 406 830

The Group has transactions to lend securities and to sell securities under agreements to repurchase and to purchase securities under agreements to resell.

The securities lent or 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 default by the Group, but the counterparty has an obligation to return the securities at the maturity of the contract. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. These securities are presented as "pledged under sale and repurchase agreements" in notes 15 and 21 and as repledged securities received under reverse repurchase agreements in note 17. The cash received is recognised as a financial asset and a financial liability is recognised for the obligation to repay the purchase price for this collateral, and is included in amounts payable under repurchase agreements (note 26).

These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities.

(b) Transferred financial assets with continuing involvement

Securitisations

As part of securitisation transaction with unconsolidated structured entity (for details refer to note 34) the Group transferred mortgage loans and neither transferred nor retained substantially all the risks and rewards of ownership of the loans. The Group recognises its continuing involvement in mortgage loans in the amount of the issued lower tranche of bonds by unconsolidated structured entity.

The Group also retains servicing rights in respect of the transferred mortgage loans. Under the servicing arrangements the Group collects cash flows on the transferred mortgage loans on behalf of the unconsolidated structured entity. In return, the Group receives a fee that is expected to compensate the Group adequately for performing the servicing of the related assets. Consequently, the Group accounts for the servicing arrangements as executory contracts and has not recognised a servicing asset/liability.

Mortgage loans transferred were classified as loans to customers and measured at amortised cost with a total carrying amount of RUB 2 300 027 thousand at the date of transfer. As at 31 December 2017, the value of the loans that the Group still services amounts to RUB 1 469 862 thousand (31 December 2016: RUB 1 878 189 thousand).

During the year ended 31 December 2017, the Group recognised income of RUB 15 767 thousand in respect of servicing transferred mortgage loans (2016: RUB 15 887 thousand).

23 Property, equipment, intangible assets and investment property

RUB'000	Land and buildings	Computers and equipment	Fixtures and fittings	Vehicles	Intangible assets	Construction in progress	Total
Cost/revalued amount							
Balance at 1 January 2017	4 596 096	601 738	82 686	76 522	748 918	883 695	6 989 655
Additions and transfers	262 166	1 018 691	4 491	11 575	648 888	-	1 945 811
Disposals and transfers	(76 915)	(26 378)	(76 587)	(5 485)	-	(883 695)	(1 069 060)
Revaluation	(155 694)	-	-	-	-	-	(155 694)
Balance at 31 December 2017	**4 625 653**	**1 594 051**	**10 590**	**82 612**	**1 397 806**	**-**	**7 710 711**
Depreciation, amortisation and impairment losses							
Balance at 1 January 2017	5 453	403 476	7 639	46 581	270 221	-	733 370
Depreciation and amortisation for the year	95 345	244 771	1 795	10 758	76 722	-	429 390
Disposals	(869)	(11 944)	(197)	(5 298)	-	-	(18 308)
Revaluation	(92 256)	-	-	-	-	-	(92 256)
Balance at 31 December 2017	**7 673**	**636 302**	**9 237**	**52 042**	**346 943**	**-**	**1 052 196**
Carrying amounts							
At 31 December 2017	**4 617 980**	**957 749**	**1 353**	**30 570**	**1 050 863**	**-**	**6 658 515**
At 31 December 2016	**4 590 643**	**198 262**	**75 047**	**29 941**	**478 697**	**883 695**	**6 256 285**

There were no capitalised borrowing costs related to the acquisition or construction of property, equipment and intangible assets during 2017 (2016: nil).

RUB'000	Land and buildings	Computers and equipment	Fixtures and fittings	Vehicles	Intangible assets	Construction in progress	Total
Cost/revalued amount							
Balance at 1 January 2016	4 602 441	595 364	10 885	69 266	589 724	95 268	5 962 948
Additions and transfers	109 955	14 648	74 216	13 408	176 832	883 695	1 272 754
Disposals and transfers	(49 287)	(8 274)	(2 415)	(6 152)	(17 638)	(95 268)	(179 034)
Revaluation	(67 013)	-	-	-	-	-	(67 013)
Balance at 31 December 2016	**4 596 096**	**601 738**	**82 686**	**76 522**	**748 918**	**883 695**	**6 989 655**
Depreciation, amortisation and impairment losses							
Balance at 1 January 2016	269 537	315 892	5 740	42 506	230 120	-	863 795
Depreciation and amortisation for the year	135 021	95 283	2 011	10 066	41 097	-	283 478
Disposals	(2 704)	(7 699)	(112)	(5 991)	(996)	-	(17 502)
Revaluation	(396 401)	-	-	-	-	-	(396 401)
Balance at 31 December 2016	**5 453**	**403 476**	**7 639**	**46 581**	**270 221**	**-**	**733 370**
Carrying amounts							
At 31 December 2016	**4 590 643**	**198 262**	**75 047**	**29 941**	**478 697**	**883 695**	**6 256 285**
At 31 December 2015	**4 332 904**	**279 472**	**5 145**	**26 760**	**359 604**	**95 268**	**5 099 153**

Investment property

	2017 RUB'000	2016 RUB'000
Balance at 1 January	379 830	38 600
Additions	-	379 300
Transfer to property, equipment and intangible assets	(113 537)	(38 568)
Fair value revaluation during the year	(32 619)	498
Balance at 31 December	**233 674**	**379 830**

The investment property is represented by land and buildings.

Revalued assets

At 31 December 2017 and 31 December 2016, buildings were revalued based on the results of an independent appraisal performed by S.A.Ricci.

The basis used for the appraisal is the combination of market and income approaches weighted on 50% / 50% basis.

The market approach is based upon an analysis of the results of comparable sales/offers of similar buildings. Adjustments were applied for location, size, condition, design, bargain discount, date of offer, and parking.

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

- the rental rates applied by the appraiser were calculated based on the analysis of comparable properties' rental rates
- the vacancy rate from 0% to 10% was defined on the individual basis taking into account qualitative and quantitative parameters, including location, total square, state and level of market development and competition
- the capitalisation rate is applied depending on the population size of each individual populated area, where the object of evaluation is located and varies from 12.5% (2016:15%) (for cities with population less 150 thousand people) to 11% (2016:12%) (for cities with population above 500 thousand people). For the office building located in Moscow, the capitalisation rate of 10.5% was assumed based on the Appraiser's internal research (S.A.Ricci).

The values assigned to the key assumptions represent management's assessment of future business trends and are based on both external sources and internal sources of information.

Fair value measurement of buildings is categorised as Level 3 in the fair value hierarchy.

Changes in the estimates above could effect the value of the buildings. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus three percent, the building valuation as at 31 December 2017 would be RUB 136 551 thousand higher/lower (31 December 2016: RUB 136 470 thousand).

The carrying value of buildings as at 31 December 2017, if the buildings would not have been revalued, would be RUB 2 581 994 thousand (31 December 2016: RUB 2 368 683 thousand).

Fair value measurement of investment property is categorised as Level 3 in the fair value hierarchy.

There were no rental income from investment property for the year ended 31 December 2017 (in 2016: comprised RUB 70 thousand).

The amount of direct operating expenses for investment property for 2017 and 2016 were not material.

24 Other assets

	2017 RUB'000	2016 RUB'000
Guarantee deposits	816 616	413 153
Continuing involvement with sold loan portfolio	563 048	563 048
Commemorative coins	144 865	114 238
Outstanding settlements with payment infrastructure sevices and cash transfers operators	92 506	104 191
Receivables on commissions	76 329	78 263
Other receivables	303 657	176 758
Total other financial assets	**1 997 021**	**1 449 651**
Gold	1 209 057	-
Prepayments	819 479	1 400 323
Settlements on claims	262 509	327 716
Assets held for sale	190 176	325 646
Advances on precious metals delivery	51 478	1 103 326
Prepayments for assets to be leased under finance lease	34 429	133 738
Materials and supplies	29 672	47 261
Current income tax	29 041	30 968
VAT payable	3 241	187 741
Other	58 101	97 272
Total other non-financial assets	**2 687 183**	**3 653 991**
Total other assets	**4 684 204**	**5 103 642**
Impairment allowance	(146 038)	(175 187)
Total other assets net of impairment allowance	**4 538 166**	**4 928 455**

Movements in the impairment allowance are as follows:

	2017 RUB'000	2016 RUB'000
Balance of the impairment allowance at the beginning of the year	175 187	108 530
Net charge	69 054	166 875
Write-offs	(98 203)	(100 218)
Balance of the impairment allowance at the end of the year	**146 038**	**175 187**

For details on continuing involvement with sold loan portfolio please refer to note 34.

25 Deposits and balances from banks

	2017 RUB'000	2016 RUB'000
Vostro accounts	560 952	170 338
Term deposits from banks	966 336	2 174 605
	1 527 288	**2 344 943**

As at 31 December 2017, the Group has no counterparties or groups of related counterparties whose balances individually exceed 10% of equity (31 December 2016: no counterparties).

Covenants

As at 31 December 2016, the Group has term deposits from one of the banks amounting to RUB 863 345 thousand. According to the terms of the agreements, the Group was subject to a debt covenant stating that funds should be used for loan issuance to small and medium size entities. The Bank should comply with all ratios of the CBR and N1.0 statutory ratio should be not less than 10.2%.

As at 31 December 2016 N1.0 statutory ratio comprised 9.82%. In March 2017 the Group made early debt repayment in full per all agreements, described above.

26 Amounts payable under repurchase agreements

The table below sets out payables under repurchase agreements showing individual types of securities transferred as collateral under repo agreements outstanding as at 31 December 2017:

RUB'000	Corporate bonds	Total
Amounts payable under repurchase agreements		
- Largest 30 Russian banks	2 377 631	2 377 631
	2 377 631	**2 377 631**

The table below sets out payables under repurchase agreements showing individual types of securities transferred as collateral under repo agreements outstanding as at 31 December 2016:

RUB'000	Government and municipal bonds	Corporate bonds	Total
Amounts payable under repurchase agreements			
- Largest 30 Russian banks	96 228	3 609 952	3 706 180
	96 228	**3 609 952**	**3 706 180**

Fair value of securities transferred under repo agreements as at 31 December 2017 comprised RUB 2 532 049 thousand (31 December 2016: RUB 3 986 557 thousand) (refer to note 22).

27 Current accounts and deposits from customers

	2017 RUB'000	2016 RUB'000
Current accounts and demand deposits		
- Retail	7 016 255	4 699 685
- Corporate	10 752 784	12 958 449
Term deposits		
- Retail	55 862 087	65 927 678
- Corporate	5 510 774	6 767 682
	79 141 900	**90 353 494**

As at 31 December 2017, the Group has no groups of related customers (31 December 2016: no groups of connected customers), whose balances individually exceed 10% of equity.

28 Debt securities issued

	2017 RUB'000	2016 RUB'000
Bonds	1 201 126	1 800 347
Promissory notes	28 593	155 901
	1 229 719	**1 956 248**

As at 31 December 2017 bonds are presented by two issues of MA APB and MA APB 2.

In December 2012, the Group issued RUB 1 521 863 thousand of mortgage backed securities with a coupon rate of 8.75%. These securities mature not later than 26 April 2045 with partially repayments each quarter.

In February 2014, the Group issued RUB 2 553 000 thousand of mortgage backed securities with a coupon rate of 9%. These securities mature not later than 1 October 2046 with partially repayments each quarter.

On 19 February 2016, the Group repaid RUB 1 119 621 thousand of bonds issued in February 2013 with the total initial amount of RUB 3 000 000 thousand according to the terms of maturity.

Reconciliation of movements of debt securities issued to cash flows arising from financing activities

RUB'000	Debt securitites issued
Balance as at 1 January 2017	**1 800 347**
Redemption of debt securities issued	(599 110)
Total changes from financing cash flows	**1 201 237**
Interest expense	142 305
Interest paid	(142 416)
Balance as at 31 December 2017	**1 201 126**

29 Subordinated borrowings

	2017 RUB'000	2016 RUB'000
Subordinated loan	3 920 516	4 488 287
	3 920 516	**4 488 287**

On 21 November 2012 the Bank attracted a subordinated loan in the amount USD 30 million from one of the Bank's shareholders - IFC. The loan with interest rate 12.92% as at 31 December 2016 mature by tranches until 16 December 2019.

According to the terms of the agreement the Group is subject to a debt covenant stating that at the end of each quarter the Group should comply with a number of financial and non-financial covenants. As at 31 December 2014 and later the Group breached financial covenants that led to the increase of interest rate on the agreement in 2015 year. Subordinated debt is not payable on demand as at 31 December 2017 and 31 December 2016.

On 10 July 2014, the Group issued subordinated Loan Participation Notes in the amount of USD 42 million for 5.5 years with interest rate of 11.00% through SCI Finance B.V., partially consolidated structured entity incorporated in the Netherlands. This entity was partially consolidated because portion of the entity is a deemed separate entity which is in substance “ring-fenced” from the rest of the entity, and the Group has control over deemed separate entity. The Group consolidated only those assets and returns related to the issue of Loan Participation Notes.

Reconciliation of movements of subordinated borrowings to cash flows arising from financing activities

RUB’000	Subordinated loans
Balance as at 1 January 2017	**4 488 287**
Redemption of subordinated borrowings	(352 249)
Total changes from financing cash flows	**4 136 038**
The effect of changes in foreign exchange rates	**(209 449)**
Interest expense	502 596
Interest paid	(508 669)
Balance as at 31 December 2017	**3 920 516**

30 Other liabilities

	2017 RUB’000	2016 RUB’000
Incomplete settlements with operators of payment infrastructure services	113 652	64 416
Payables to Deposit Insurance Agency on deposit insurance	78 059	294 109
The amounts received on correspondent accounts until clarification	43 512	28 343
Other liabilities	40 443	22 254
Total other financial liabilities	**275 666**	**409 122**
Obligation to NKO JSC “NRD”	-	1 060 490
Payables to employees	349 272	339 378
Other taxes payable	230 026	165 880
Advances from lessees received	76 127	203 981
VAT payables	72 798	56 109
Liabilities for the payment of long-term employee benefits	38 787	10 698
Payables to creditors	37 904	57 619
Unearned commissions and reserve for issued guarantees	34 522	81 716
Current profit tax payable	9 479	21 488
Payables under cession agreements	6 587	10 441
Other liabilities	4 958	3 231
Total other non-financial liabilities	**860 460**	**2 011 031**
	1 136 126	**2 420 153**

As at 31 December 2016 the Group recognises in the consolidated financial statements the bonds of LLC “Vneshprombank” in the amount of RUB 1 billion, received in the result of exchange for the bonds of the Bank in the same amount. Due to default of LLC “Vneshprombank” and revocation of banking license on 21 January 2016, the Group initiated the termination of the deal in the court. As of today the decision of the court came into fource, but due to refusal of LLC “Vneshprombank” to execute the court decision and its appealing to the Supreme Court of the Russian Federation, the depositary (NKO JSC “NRD”) had no technical ability to make a reverse exchange of the bonds. In this regard, other liabilities of the Group included the liability to repay owned bonds, at the same time cash relating to this obligation had been receieved. The above uncertainty was resolved 19 June 2017 after the hearing of case in the Supreme Court of the Russian Federation and court decision about refusal of cassation appeal of LLC “Vneshprombank”.

31 Share capital

Issued capital

Movements in share capital for the years ended 31 December 2017 and 31 December 2016 are as follows:

	Shares (thousands)	Nominal amount, RUB’000	Inflation adjustment, RUB’000	Total, RUB’000
Balance as at 1 January 2016	**5 155 290 941 888**	**577 392**	**8 022**	**585 414**
Ordinary shares	5 064 574 366 154	567 232	7 875	575 107
Preferred shares	250	-	-	-
Previously purchased ordinary treasury shares	90 716 575 484	10 160	147	10 307
Balance as at 1 January 2017	**5 155 290 941 888**	**577 392**	**8 022**	**585 414**
Ordinary shares	5 064 574 366 154	567 232	7 875	575 107
Preferred shares	250	-	-	-
Previously purchased ordinary treasury shares	90 716 575 484	10 160	147	10 307
Balance as at 31 December 2017	**5 155 290 941 888**	**577 392**	**8 022**	**585 414**

In accordance with the Russian legislation, dividends may only be declared to shareholders of the Bank from accumulated undistributed and unreserved earnings as shown in the Bank's financial statements prepared in accordance with the Russian Accounting Legislation.

The share capital of the Bank was contributed by the shareholders in Russian Roubles and they are entitled to dividends and any capital distribution in Russian Roubles.

32 Corporate governance, internal control and risk management

a) Corporate governance framework

The Bank operates as a 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 and extraordinary meetings. The general shareholders’ meeting makes strategic decisions on the Bank’s operations.

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

Russian legislation and the charter of the Bank establish lists of decisions that are exclusively approved by the general shareholders’ meeting and that are approved by the Board of Directors.

As at 31 December 2017, the Board of Directors includes:

- Van der Plas Marc;
- Jacobs Margo;
- Dosmukhamedov Rinat Mingalievich;
- Kostikov Alexsey Nikolaevich;
- Kotkov Oleg Grigorjevich;
- Kulikov Alexey Albertovich;
- Selivanova Valerija Alexandrovna.

During the year ended 31 December 2017 the following changes occurred in composition of the Board of Directors: Vdovin Andrey Vadimovich, Murichev Alexander Vasiljevich, Novikov Andrey Valentinovich and Safonov Oleg Alexandrovich left the Board of Directors; Kulikov Alexey Albertovich, Selivanova Valerija Alexandrovna, Kotkov Oleg Grigorjevich, Kostikov Alexsey Nikolaevich joined the Board.

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

Till 18 April 2016 responsibilities of the Chairman of the Management Board were executed by Vdovin Andrey Vadimovich, starting from 19 April 2016 Novikov Andrey Valentinovich was appointed as Chairman of the Management Board by the decision of the Board of Directors. On 10 March 2017, according to the decision of the Board of Directors, Novikov Andrey Valentinovich left the Management Board, and Makarov Dmitry Nikolaevich was appointed as Acting Chairman of the Management Board. During the year ended 31 December 2017 Pavlov Mikhail Germanovich, Chekonova Tatiana Alexeevna, Andryushkin Vyacheslav Jurjevich, Zilberblum Igor Mihailovich.

As at 31 December 2017, the Management Board includes:

- Makarov Dmitry Nikolaevich;
- Chavtur Andrey Vladimirovich;
- Shabliko Tatjana Vadimovna.

b) Internal control policies and procedures

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

The purpose of internal controls is to ensure:

- efficiency and effectiveness of the financial and economic activity in performing banking operations and other transactions, efficiency of assets and liabilities management, including the preservation of assets and management of banking risks;

- reliability, completeness, objectivity and timeliness of the preparation and issuance of financial, accounting, statistical and other statements (for internal and external users), as well as informational security in the information sphere, which represents the variety of information, information infrastructure, persons performing collection, forming, distribution and use of information, as well as the systems of the arising relationships regulation;

- compliance with laws and regulations, standards of self-regulating organisations (for professional participants of the security market), foundation and internal documents;

- prevention of fraudulent or illegal activities of the Group and its employees, including legalisation (the laundering) of income, received in the result of fraudulent or illegal activities, and financing terrorism, as well as timely submission of information in accordance with the legislation of Russian Federation to state governing authorities and the CBR.

Management is responsible for the development and implementation of the effective internal control system, implementation of the strategy and policy of the Group relating to the organisation and functioning of the internal control, identification and evaluation of risks, approval of documentation on organising the internal control system and monitoring internal control system. Management monitors the effectiveness of the Group's internal controls and periodically modifies existing controls as considered necessary.

The internal control system includes the following areas.

I. Control by the management bodies over organisation of the Group's functioning.

II. Control over the functioning of the banking risks management system and assessment of banking risks.

III. Control over disaggregation of authorities in the process of banking operations and other deals performing.

Disaggregation of authorities between divisions and employees during the process of performing banking operations and other deals is set by the internal documents of the Bank and includes such forms (means) of control as:

- inspections, carried out by the management bodies in the form of reports and information about the results of divisions' activities, explanations by the divisional heads with the aim of lacks of controls identification, violations, mistakes;

- control, carried out by the divisional heads, in the form of reports inspections on the work of subordinates (on a daily, weekly or monthly basis);

- material (physical) control, carried out by checks of access restrictions to inventory, by the inventory of tangible assets (cash, securities in the documentary form, etc.), the disaggregation of duties for the storage and use of tangible assets, security of premises for tangible assets storage;

- the check of established limits on conducting of banking operations and other transactions by the receiving of relevant reports and reconciliation with the primary supporting documents;

- the system of confirmation (approval) of operations (transactions) and disaggregation of authorities over the banking operations and other transactions, exceeding the set limits, prescribing the appropriate timely notification the relevant managers of the Bank (its divisions) on such operations (transactions) or the current situation and its proper recording in the accounting and financial statements;

- the check of compliance with the order of execution (procedures) of banking operations and other transactions, reconciliation of accounts, informing of relevant management bodies (its divisions) about the revealed breaches, mistakes and drawbacks.

Disaggregation of duties of the Bank's employees is in place to exclude conflicts of interests (the contradiction between material and other interests of the Bank and (or) its employees and (or) clients, which can lead to the unfavourable consequences to the Bank and (or) its clients) and the conditions of its origin, committing crimes and the implementation of other illegal actions in the process of conducting banking operations and other transactions, as well as the providing to the same division or employee the right of:

- to conduct banking operations and other transactions and to register them and (or) to make accounting records;

- to authorise cash payments and to make factual payments;

- to conduct operations by the accounts of the Bank's clients and accounts, reflecting own financial and economic activity of the Bank;

- to render consulting and information services to the clients of the Bank and perform operations with the same clients;

- to assess the reliability and completeness of documents, presented for loan issue and to perform monitoring of the financial statement of the borrower;

- to perform actions in any other areas, where the conflict of interest can arise.

IV. The control over the information flows management (receipt and transfer of information) and ensuring of information security.

Internal control over automated information systems and technical means consists of general control and application control.

General control of automated information systems covers the control over computer systems (control over the host computer, the client-server system and end-user workstations, etc.), conducted to ensure uninterrupted and ongoing operation.

General control consists of the backup (copying) of data procedures and restoring of automated information systems procedures implemented by the Bank, providing support during the automated information systems time of use, including establishing rules for the acquisition, development and service (maintenance) of software, the procedure for monitoring the safety of physical access.

Application control is implemented by automated procedures built into the application programs, as well as by manual procedures controlling the processing of banking operations and other transactions (control editing, monitoring of logic access, internal procedures for data backup and recovery, etc.).

The Bank establishes rules for managing information activities, including the procedure for protection against unauthorised access and distribution of confidential information, as well as against the use of confidential information for personal purposes.

V. Continuous monitoring of the internal control system functioning in order to assess the level of its compliance with the objectives of the Group's activities, identifying gaps, developing proposals and monitoring the implementation of decisions to improve the internal control system.

The Group has developed a system of regulations, policies and procedures to ensure that operations are properly performed and that relevant legislative and regulatory requirements are met.

Internal control is exercised in accordance with the powers defined by the constituent and internal documents of the Bank:

- management bodies of the Bank (general shareholders' meeting, the Board of Directors, including the Assets and Liabilities Management Committee ("ALMC"), the Management Board, the Chairman of the Management Board);

- revision committee;

- chief accountant (his deputies) of the Bank;

- heads (their deputies) and chief accountants (their deputies) of the Bank's branches;

- divisions and employees performing internal control in accordance with the powers defined by internal documents of the Bank, including:

- the Internal audit service;

- the Internal control service;

- employee responsible for counteraction the legalisation (anti-money laundering) of proceeds from crime and financing of terrorism;

- professional securities market participant controller;

- other structural units and (or) responsible employees, depending on the nature and scale of operations, the level and combination of risks.

The Internal audit service performs the audit and evaluation of the effectiveness of the Bank's internal control system as a whole. The Internal audit service is independent of the Management Board of the Bank and is subordinated to the Board of Directors. The results of the Internal audit service checks are discussed with the heads of departments indicated in the report on the results of the audit. The report with the results of the audits is communicated to the Chairman of the Management Board of the Bank. The Internal audit service, at least once every six months, submits a written report on the results of inspections conducted during the reporting half-year term to the Audit and Risk Committee and the Board of Directors of the Bank.

The main functions of the Internal audit service include the following:

- audit and efficiency assessment of the system of internal control as a whole, fulfilment 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) and completeness of application of these documents;

- 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 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 Department;

- other issues provided for in the internal documents of the Bank.

The main functions of the Internal control service (the compliance service) include the following:

- identification of 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 of 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;

- conflict of interests identification in the Bank's and its employees activities, participation in aimed to its minimization internal documents development;

- analysis of dynamics of clients' complaints;

- analysis of economic reasonableness of agreements with suppliers;

- participation in interaction with authorities, self-organised organisations, associations and financial market participants;

- other issues provided for in the internal documents of the Bank.

Russian legislation, including Federal Law No. 395-1, 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 Board of Directors, the Management Board, Heads of the Internal audit service, the Internal control service and the Risk Department and other key management personnel. All members of the Bank's governing and management bodies meet with these requirements.

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

c) 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 market risk, including interest rate risk, credit risk, liquidity risk, and operational, legal and reputational risks.

The risk management policies of the Group aim to identify, analyse and manage the risks faced by the Group, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice. The Group has developed a system of reporting on significant risks and capital.

As at 31 December 2017, the Group's effective internal documentation establishing the procedures and methodologies for identification and managing the Group's significant risks, stress-testing of these risks was approved by the authorised management bodies of the Bank in accordance with regulations and recommendations issued by the CBR.

The risk and capital management policies established in the Group, as well as internal control policies, are consistent with the nature and scope of its operations and the level and combination of risks it takes.

The Board of Directors approves the General risk management policy, which regulates the general principles of risk management, acceptable level of risks, strategic goals in risk management and priorities for development of risk management policies. The Board of Directors ensures the improvement of the risk management policies, approves draft risk management documents, terms of standard products and programs for the Bank's clients, monitors and controls the elements of the risk management, approves the acceptable level of risks within the approved development strategy, controls compliance of the Group's operations with the basic principles of credit policy and policies for other operations, develops, implements and manages credit decisions making process.

The Management Board implements the risk management policy, approves the rights and structure of the collegial risk management bodies, takes decisions on the certain types of risks, approves the credit policy and the policy regarding other asset- and liability-related transactions.

The Credit Committee (credit committee system) of the Bank is responsible for optimization of credit risks and maintaining of an effective loan portfolio in terms of the “risk-profitability” ratio and controls risk both at the portfolio and specific transactions levels.

The Risk Department is responsible for general risk management and controls the application of general principles and methods of identification, estimation, management and reporting risks on a regular basis. The Risk Department develops methodology for risk assessment, performs independent risk analysis for products, programs and limits of particular customers/transactions, performs a portfolio risk analysis and controls the risk by setting limits and controlling their compliance, preparing risk reports covering all major risks, including credit, market, operational and liquidity risks, which are regularly reported to the Board of Directors, the Audit and Risk Committee of the Board of Directors and the Management Board. The Risk Department is not subordinate to and does not report to risk-taking divisions.

The divisions manage risks within the area of their responsibilities.

The Internal audit service audits the divisions for compliance with internal policy, reports on non-compliances to the Board of Directors and management, suggests measures to eliminate the identified violations and controls their correction.

d) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate, currency and equity based financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

The Bank has the “Market risk management policy”, which specifies basic principles and methods of market risk management, the participants of market risk management process, their rights and responsibilities.

In accordance with the policy, the Bank applies the independence principle for divisions responsible for transactions with market risks and divisions responsible for identification, assessment and monitoring of taken risks. The approved broad structure of limits for market risk transactions allows to control the level of the taken risk and possible impact on financial performance and capital of the Bank. The limits are reviewed on a regular basis depending on the market situation and the Bank's financial needs. The reports on the risks taken are prepared on a regular basis by the responsible divisions and provided to the management of the Group.

i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. 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.

Average interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2017 and 31 December 2016. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2017 Average effective interest rate, %			2016 Average effective interest rate, %		
	RUB	**USD**	**Other currencies**	**RUB**	**USD**	**Other currencies**
Interest bearing assets						
Cash and cash equivalents	5%	1%	-	8%	-	-
Available-for-sale financial assets	8%	4%	3%	8%	4%	-
Due from banks	-	-	1%	-	-	1%
Amounts receivable under reverse repurchase agreements	7%	-	-	-	-	-
Loans to customers						
- retail	21%	10%	-	22%	10%	-
- corporate	16%	9%	4%	17%	9%	3%
Net investments in finance leases	32%	-	-	33%	23%	-
Held-to-maturity investments	11%	4%	-	11%	4%	-
Interest bearing liabilities						
Deposits and balances from banks	7%	1%	4%	9%	5%	1%
Amounts payable under repurchase agreements	8%	3%	-	10%	2%	-
Current accounts and term deposits from customers						
- retail	8%	1%	1%	9%	2%	2%
- corporate	8%	1%	1%	10%	2%	2%
Debt securities issued						
- promissory notes	2%	-	-	9%	5%	-
- bonds	10%	-	-	10%	-	-
Subordinated borrowings	-	12%	-	-	12%	-

Due to the fact that substantially all the financial instruments are fixed rated contracts, these remaining contractual maturity dates also represent the contractual interest rate repricing dates.

Interest rate sensitivity analysis

The management of interest rate risk based on interest rate gap analysis is supplemented by monitoring the sensitivity of financial assets and liabilities.

An analysis of sensitivity of profit or loss and equity (net of taxes) to changes in interest rates (repricing risk) based on a simplified scenario of a 300 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest bearing assets and liabilities existing as at 31 December is as follows:

	2017		2016	
	Profit or loss RUB'000	**Equity RUB'000**	**Profit or loss RUB'000**	**Equity RUB'000**
300 bp parallel fall	275 685	275 685	317 082	317 082
300 bp parallel rise	(275 685)	(275 685)	(317 082)	(317 082)

An analysis of sensitivity of profit or loss and equity (net of taxes) as a result of changes in the fair value of financial instruments at fair value though profit or loss and available-for-sale financial assets due to changes in the interest rates based on positions existing as at 31 December 2017 and a simplified scenario of a 300 basis point (bp) symmetrical fall or rise in all yield curves is as follows:

	2017		2016	
	Profit or loss RUB'000	Equity RUB'000	Profit or loss RUB'000	Equity RUB'000
300 bp parallel fall	(881)	408 826	(1 008)	411 858
300 bp parallel rise	833	(328 507)	1 001	(438 288)

ii) Currency risk

The Group has assets and liabilities denominated in several foreign currencies.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. Although the Group hedges its exposure to currency risk, such activities do not qualify as hedging relationships in accordance with IFRS.

The system of currency risk management includes procedures for calculating the limit of the amount of open currency position and limits for conversion operations, as well as exchange rate policy.

Currency risk management is carried out on the basis of the ALMC decisions.

The Group controls the level of currency risk by observing the limits of the open currency position ("OCP"). The Treasury monitors OCP daily to ensure its compliance with the requirements of the CBR and intra-bank restrictions.

Currency risk is minimized by the balanced value of OCP, which allows to provide the required liquidity per foreign currencies.

The following table shows the foreign currency structure of assets and liabilities as at 31 December 2017:

	RUB RUB'000	USD RUB'000	EUR RUB'000	Gold RUB'000	Other currencies RUB'000	Total RUB'000
ASSETS						
Cash and cash equivalents	7 880 654	1 040 486	481 215	308 207	388 462	10 099 024
Obligatory reserves with the Central Bank of the Russian Federation	661 225	-	-	-	-	661 225
Financial instruments at fair value through profit or loss	-	2 120	1 123	-	775	4 018
Available-for-sale financial assets	11 690 157	1 124 087	350 108	-	1 994 538	15 158 890
Due from banks	516 081	15 505	259	-	977	532 822
Amounts receivable under reverse repurchase agreements	2 640 964	-	-	-	-	2 640 964
Loans to customers	55 069 189	2 258 164	276 436	-	-	57 603 789
Net investments in finance leases	1 344 986	-	-	-	-	1 344 986
Investments in associates and other investments	108 731	-	-	-	-	108 731
Held-to-maturity investments	1 690 148	1 073 865	-	-	-	2 764 013
Deferred tax assets	978 682	-	-	-	-	978 682
Property, equipment, intangible assets and investment property	6 892 189	-	-	-	-	6 892 189
Other assets	2 472 685	70 856	779 021	1 209 057	6 547	4 538 166
Total assets	**91 945 691**	**5 585 083**	**1 888 162**	**1 517 264**	**2 391 299**	**103 327 499**

	RUB RUB'000	USD RUB'000	EUR RUB'000	Gold RUB'000	Other currencies RUB'000	Total RUB'000
LIABILITIES						
Financial instruments at fair value through profit or loss	687 556	177 986	1 572	4 068	5 480	876 662
Deposits and balances from banks	444 110	90 653	304 306	-	688 219	1 527 288
Amounts payable under repurchase agreements	1 634 775	742 856	-	-	-	2 377 631
Current accounts and deposits from customers	72 471 127	4 517 360	939 335	1 022 160	191 918	79 141 900
Debt securities issued	1 229 719	-	-	-	-	1 229 719
Subordinated borrowings	-	3 920 516	-	-	-	3 920 516
Other liabilities	1 129 344	2 140	4 642	-	-	1 136 126
Total liabilities	**77 596 631**	**9 451 511**	**1 249 855**	**1 026 228**	**885 617**	**90 209 842**
Net position	**14 349 060**	**(3 866 428)**	**638 307**	**491 036**	**1 505 682**	**13 117 657**
The effect of derivatives held for risk management	**(1 008 456)**	**3 579 183**	**(627 188)**	**(495 038)**	**(1 448 501)**	**-**
Net position after derivatives held for risk management purposes	**13 340 604**	**(287 245)**	**11 119**	**(4 002)**	**57 181**	**13 117 657**

The following table shows the foreign currency structure of assets and liabilities as at 31 December 2016:

	RUB RUB'000	USD RUB'000	EUR RUB'000	Gold RUB'000	Other currencies RUB'000	Total RUB'000
ASSETS						
Cash and cash equivalents	7 311 806	1 715 551	918 110	1 162 239	250 370	11 358 076
Obligatory reserves with the Central Bank of the Russian Federation	808 276	-	-	-	-	808 276
Financial instruments at fair value through profit or loss	-	51 856	8 479	3 504	41 293	105 132
Available-for-sale financial assets	14 996 392	694 295	-	-	1 970 803	17 661 490
Due from banks	3 680 839	19 609	1 780	-	2 757	3 704 985
Loans to customers	63 800 396	4 786 503	401 506	-	-	68 988 405
Net investments in finance leases	1 267 728	22 185	-	-	-	1 289 913
Investments in associates and other investments	121 818	-	-	-	-	121 818
Held-to-maturity investments	2 807 965	824 015	-	-	-	3 631 980
Deferred tax assets	394 576	-	-	-	-	394 576
Property, equipment, intangible assets and investment property	6 636 115	-	-	-	-	6 636 115
Other assets	4 499 739	81 085	347 630	-	1	4 928 455
Total assets	**106 325 650**	**8 195 099**	**1 677 505**	**1 165 743**	**2 265 224**	**119 629 221**

	RUB RUB'000	USD RUB'000	EUR RUB'000	Gold RUB'000	Other currencies RUB'000	Total RUB'000
LIABILITIES						
Financial instruments at fair value through profit or loss	-	162 695	17 969	1 870	116	182 650
Deposits and balances from banks	976 607	777 421	415 517	-	175 398	2 344 943
Amounts payable under repurchase agreements	2 943 308	762 872	-	-	-	3 706 180
Current accounts and deposits from customers	78 756 395	6 670 617	1 451 844	3 196 697	277 941	90 353 494
Debt securities issued	1 954 025	2 223	-	-	-	1 956 248
Subordinated borrowings	-	4 488 287	-	-	-	4 488 287
Other liabilities	2 413 611	5 111	1 005	-	426	2 420 153
Total liabilities	**87 043 946**	**12 869 226**	**1 886 335**	**3 198 567**	**453 881**	**105 451 955**
Net position	**19 281 704**	**(4 674 127)**	**(208 830)**	**(2 032 824)**	**1 811 343**	**14 177 266**
The effect of derivatives held for risk management	**(4 706 805)**	**4 263 520**	**172 207**	**2 005 767**	**(1 734 689)**	**-**
Net position after derivatives held for risk management purposes	**14 574 899**	**(410 607)**	**(36 623)**	**(27 057)**	**76 654**	**14 177 266**

A weakening of the RUB, as indicated below, against the following currencies at 31 December 2017 and 31 December 2016 would have decreased equity and profit or loss by the amounts shown below. This analysis is on net of tax basis and is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2017		**2016**	
	Profit or loss RUB'000	**Equity RUB'000**	**Profit or loss RUB'000**	**Equity RUB'000**
20% appreciation of USD against RUB	(45 959)	(45 959)	(65 697)	(65 697)
20% appreciation of EUR against RUB	1 779	1 779	(5 860)	(5 860)

A strengthening of the RUB against the above currencies at 31 December 2017 and 31 December 2016 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

iii) Equity risk

Equity risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Equity risk arises when the Group takes a long or short position in an equity financial instrument.

An analysis of sensitivity of profit or loss and equity as a result of changes in quotations of equity secutities (prepared on the basis of positions to be in force as at 31 December 2017 and 31 December 2016, and simplified scenario of 10% decrease or rise of quotations of equity secutities) is presented as follows:

	2017		**2016**	
	Profit or loss RUB'000	**Equity RUB'000**	**Profit or loss RUB'000**	**Equity RUB'000**
10% rise of quotations of equity securities	-	144 972	-	157 664
10% decrease of quotations of equity securities	-	(144 972)	-	(157 664)

iv) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations before the Group.

The Group has policies and procedures for the management of credit exposures regulating the procedures of the evaluation of the financial position of the Borrower, the order to take decision for issuing loans, guidelines to monitor the timing of its settlement.

The Group limits the concentration of risks per separate clients, counterparties and issuers of securities, as well as groups of interdependent clients.

The management of credit risks is performed in accordance with the "Policy on managing credit risks", assuming the realisation of the system approach, which is based on the principles of awareness of the risks, separation of authorities for accepting, assessing and monitoring of accepted risks, integrity and consistency of credit risks evaluation, alignment of procedures and methods of evaluation of credit risks, actuality of applied procedures of evaluation and monitoring of risks. The principles of identification, analyses, evaluation, optimisation, monitoring and control of credit risks are established by the regulatory documents of the Bank.

The main direction of credit risk management are:

- the limitation of credit risks by the operating system of limits for credit risks decisions, for credit risks concentration for the separate borrowers/groups of interrelated borrowers;

- coverage of credit risks through the accepted collateral and its insurance, charging adequate fees for credit risks and accrual of allowance for impairment for credit losses;

- the control of credit risks level, taken by the Group for the counterparty or group of interrelated counterparties, as well as through regular monitoring the quality of credit loan portfolio, separate clients, deals and collateral property;

- credit risk prevention on the stage of consideration of loan applications, as well as by taking timely actions in identifying factors of credit risks in the process of monitoring;

- the detailed study of the borrowers business including the evaluation of the financial statement of the borrower, as well as the initial structuring of the transaction, exercised by the regional credit divisions/credit committees;

- the ongoing monitoring of credit projects - includes the verification of the borrower's financial statement and its business as a whole, the determination of the level of risks and the amount of allowance for impairment for credit losses, the specification of parameters and the structure of the deal, as well as the evaluation of the taken collateral, exercised by the Head office credit divisions/credit committees;

- the independent verification and validation of the credit projects - includes the calculation of borrower's rating, the evaluation the level of credit investments concentration, the control over the impairment allowance calculation, the correction of the structure of the deal, and within the scope of retail lending the analyses of the approved (changing) characteristics of the retail products of the Bank, as well as assessing the cost of products with consideration the premium for risk (COR), performed by the risk-management divisions of the Head office;

- disaggregation of authorities to take credit decisions - includes the developed system of credit limits for independent procedure of risks taking; the overview of limits is carried on at least two times a year by the regulatory body;

- the operation of the "veto" institute at all levels of taking credit decisions – includes vesting the right for "veto" to employees of risk-management employees, members of credit committees of the Bank; the ultimate authority for the overcoming of "veto" is the Management Board of the Bank;

- the evaluation of the portfolio credit risk level on the on-going base – includes the analysis and evaluation of the credit risk level (risk - reporting).

The main internal risk reporting includes the corporate and retail credit risks reports, which are prepared on a monthly basis by the relevant risk-management divisions, at least once per quarter are reviewed by the Audit and Risk Committee of the Board of Directors. Based on the results of this review, the decisions on changing/correction of credit policy are taken with the aim of maintaining the level of credit risk at the acceptable level.

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

For the analysis of concentration of credit risk in respect of loans to customers refer to note 18.

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in note 35.

e) 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 consolidated statement of financial position.

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

The Group's derivative transactions that are not transacted on the 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.

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

The above 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 recognised 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 realise the assets and settle the liabilities simultaneously.

The Group receives and accepts collateral in the form of cash and marketable securities in respect of the following transactions:

- derivatives;
- 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:

RUB'000				**Related amounts not offset in the consolidated statement of financial position**		
Types of financial assets/liabilities	**Gross amounts of recognised financial assets/liabilities**	**Gross amount of recognised financial assets/liabilities 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**
Foreign currency and security sale and purchase agreements	4 018	-	4 018	4 018	-	-
Reverse sale and repurchase agreements	2 640 964	-	2 640 964	2 640 964	-	-
Total financial assets	**2 644 982**	**-**	**2 644 982**	**2 644 982**	**-**	**-**
Foreign currency and security sale and purchase agreements	(189 106)	-	(189 106)	(189 106)	-	-
Sale and repurchase agreements	(2 377 631)	-	(2 377 631)	(2 377 631)	-	-
Total financial liabilities	**(2 566 737)**	**-**	**(2 566 737)**	**(2 566 737)**	**-**	**-**

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

RUB'000				**Related amounts not offset in the consolidated statement of financial position**		
Types of financial assets/liabilities	**Gross amounts of recognised financial assets/liabilities**	**Gross amount of recognised financial assets/liabilities 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**
Foreign currency and security sale and purchase agreements	105 132		105 132	105 132		
Reverse sale and repurchase agreements	-	-	-	-	-	-
Total financial assets	**105 132**	**-**	**105 132**	**105 132**	**-**	**-**
Foreign currency and security sale and purchase agreements	(182 650)	-	(182 650)	(182 650)		
Sale and repurchase agreements	(3 706 180)	-	(3 706 180)	(3 706 180)	-	-
Total financial liabilities	**(3 888 830)**	**-**	**(3 888 830)**	**(3 888 830)**	**-**	**-**

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:

- derivative assets and liabilities – at fair value;
- assets and liabilities resulting from sale and repurchase agreements, reverse sale and repurchase agreements and securities lending and borrowing – amortised cost.

f) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities or current payments on behalf of customers without restructuring the assets and/or urgently raising the necessary funds. Liquidity risk exists when the maturities of assets and liabilities do not match.

The Group has developed a policy for managing and monitoring the liquidity situation, which is the basis for the organisation of work on liquidity management and regulates the system of requirements for divisions' interaction, a list of activities conducted within the framework of liquidity management, and a system of measures to maintain and restore liquidity of the Group. The liquidity management policy is reviewed and approved by the Board of Directors of the Bank.

The purpose of the policy is to ensure the Group's liquidity level is sufficient to fulfil its obligations, while observing the cost of attracting additional funding under reasonable market conditions.

The process of liquidity management includes two main parts:

- compliance with mandatory liquidity ratios established by the CBR;

- intra-bank liquidity management activities.

The Bank calculates the value of the short-term liquidity indicator (STLI) monthly, in accordance with the procedure established by the CBR, taking into account international approaches to the calculation of the short-term liquidity indicator and the instruments for monitoring liquidity risk (Basel III).

Within the framework of the Group's liquidity management policy, the following actions are taken:

- initial liquidity assessment based on the payment calendar data, taking into account the planned new transactions with customers and counterparties;

- forming a regulatory liquidity reserve in the form of highly liquid assets, converting into cash in minimum terms and with minimal losses from their market value, which can be easily realised as a protective measure in case of a break in cash liquidity;

- forecasting of cash flows and calculation of the required level of liquid assets related to these flows;

- performing regular monitoring and analysis of the level, structure and parameters of liquidity of assets and determining the liquidity requirements taking into account the current market situation and available alternative sources of financing;

- determining the estimated timeframe necessary for converting each type of asset into cash;

- carrying out diversification of short-term financing sources to achieve maximum liquidity.

Liquidity risk management is divided into management of current, short-term and forecast (medium- and long-term) liquidity.

The management of current liquidity covers the management of liquidity reserves, in order to ensure the timely and full execution of payment orders of customers, as well as conducting the Group's own payments. Money market instruments, which include short-term interbank loans, repurchase agreements, are used to regulate current and short-term liquidity and are not used to fund long-term assets.

The main source of liquidity of the Group is a portfolio of securities.

The methodology for measuring the liquidity position of the Bank is established by the procedure for maintaining a report on the net monetary position and liquidity reserves of the Bank. The Bank's net monetary position and liquidity reserves are indicators that are not subject to mandatory disclosure, but are used by the Bank to manage liquidity risk.

The net monetary position is formed on the basis of the balances of the following highly liquid assets:

- cash on hand;

- funds in ATMs;

- Correspondent account in the CBR;

- NOSTRO accounts;

- balance of transactions in the inter-bank loan market with a maturity of up to 30 days;

- balance of REPO transactions with a maturity of up to 30 days;

- highly liquid securities, free of collateral;

- presentation for payment of own/third-party promissory notes.

The net monetary position is adjusted for the unstable balance of customer accounts.

The total value of the above items shows the net monetary position as of the morning of the reporting day, taking into account expected inflows/outflows for 1,7 and 30 days.

Liquidity reserves indicate the level of free liquid assets after deducting the necessary minimum values for the continued activity of the Bank.

The Treasury monitors the liquidity position on a daily basis and performs operational management of the Group's current liquidity by initiating interbank operations to attract and allocate funds to other structural divisions of the Group that are responsible for concluding transactions with inter-bank and capital market instruments.

Carrying out measures aimed at increasing the amount of highly liquid assets of the Bank is submitted for consideration to the ALMC. By the ALMC decision, the divisions of the Group may be given instructions on the sale of low liquid assets, making borrowing and other activities. In addition, certain issues may be submitted for consideration to the Management Board.

Possible actions include:

- attraction of loans from the CBR in accordance with the Regulation of the CBR dated 12 November 2007, No 312-P *About Procedure for Granting Loans to Credit Institutions by the Bank of Russia Secured by Assets or Guarantees;*

- raising funds in the inter-bank market, within th;e limits of other banks opened for the Bank;

- securitisation of loan portfolios

- reduction in the amount of new loans issuance within the inter-bank, retail and corporate loan portfolios.

Medium-term and long-term liquidity management is carried out by the ALMC by developing a set of measures aimed at maintaining solvency and ensuring profitability of the Bank's operations as a whole. When forecasting, the analysis is performed taking into account the actual demand/maturity of assets/liabilities and the control of the gap between assets and liabilities (GAP analysis).

In order to assess the potential impact on the liquidity situation of the Group of negative market events and/or directly related to the Group, the Treasury conducts stress tests on a regular basis to assess the Group's ability to sell assets and raise additional funds in the event of a liquidity lack.

Liquidity status reports are reviewed weekly at the ALMC meetings.

The ALMC decisions may set limits for indicators that are not subject to mandatory disclosure but used by the Group for liquidity management purposes.

Decisions on measures to manage liquidity risks are made by the ALMC and executed by the Group's divisions involved in the implementation of the liquidity management policy. The results of the reports prepared by the ALMC are communicated to the management bodies and the Board of Directors.

The following tables show the undiscounted cash flows from financial liabilities and unrecognised credit related commitments under contractual maturities. The aggregate amounts of cash inflows and outflows indicated in these tables represent contractual undiscounted cash flows from financial liabilities or off-balance sheet commitments.

The maturity analysis for financial liabilities as at 31 December 2017 is as follows:

RUB'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow (inflow)	Carrying amount
Non-derivative liabilities							
Liabilities on reverse delivery of realized securities, received on operations under reverse repurchase agreements	687 556	-	-	-	-	687 556	687 556
Deposits and balances from banks	628 614	628 294	80 004	197 214	-	1 534 126	1 527 288
Amounts payable under repurchase agreements	2 381 867	-	-	-	-	2 381 867	2 377 631
Current accounts and deposits from customers	21 942 662	19 361 186	38 055 265	1 147 535	-	80 506 648	79 141 900
Debt securities issued	245 321	1 360	469 513	629 677	334	1 346 205	1 229 719
Subordinated borrowings	140 449	-	982 648	3 577 550	-	4 700 647	3 920 516
Other financial liabilities	197 441	78 225	-	-	-	275 666	275 666
Derivative liabilities							
Inflow	(62 336 820)	-	(633 602)	-	-	(62 970 422)	-
Outflow	62 147 714	-	633 602	-	-	62 781 316	189 106
Total financial liabilities	**26 034 804**	**20 069 065**	**39 587 430**	**5 551 976**	**334**	**91 243 609**	**89 349 382**
Credit related commitments	**5 903 894**	**-**	**-**	**-**	**-**	**5 903 894**	**5 903 894**

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

RUB'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow (inflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks	1 178 424	59 506	830 644	310 182	-	2 378 756	2 344 943
Amounts payable under repurchase agreements	3 714 542	-	-	-	-	3 714 542	3 706 180
Current accounts and deposits from customers	20 611 814	16 247 155	54 549 035	1 159 457	-	92 567 461	90 353 494
Debt securities issued	264 937	11 845	568 698	1 383 418	335	2 229 233	1 956 248
Subordinated borrowings	144 010	-	742 430	4 942 314	-	5 828 754	4 488 287
Other financial liabilities	93 882	315 240	-	-	-	409 122	409 122
Derivative liabilities							
Inflow	(35 361 238)	-	-	-	-	(35 361 238)	-
Outflow	35 543 888	-	-	-	-	35 543 888	182 650
Total financial liabilities	**26 190 259**	**16 633 746**	**56 690 807**	**7 795 371**	**335**	**107 310 518**	**103 440 924**
Credit related commitments	**9 424 459**	**-**	**-**	**-**	**-**	**9 424 459**	**9 424 459**

The tables above show the undiscounted cash flows of financial liabilities, including issued financial guarantee contracts and unrecognised loan commitments, on the basis of their earliest possible contractual maturity. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

In accordance with Russian Federation legislation, individuals can withdraw their term deposits at any time, forfeiting in most of the cases the accrued interest. These retail deposits with future payments of interests, included in the tables above, totaling RUB 57 116 683 thousand (31 December 2016: RUB 68 017 882 thousand) are classified in accordance with their stated maturity dates, but could legally be withdrawn on demand.

The table below shows an analysis, by expected maturities, of the amounts recognised in the consolidated statement of financial position as at 31 December 2017:

RUB'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Total
ASSETS							
Cash and cash equivalents	10 099 024	-	-	-	-	-	10 099 024
Obligatory reserves with the Central Bank of the Russian Federation	-	-	-	-	-	661 225	661 225
Financial instruments at fair value through profit or loss	4 018	-	-	-	-	-	4 018
Available-for-sale financial assets	12 109 099	-	3 049 791	-	-	-	15 158 890
Due from banks	-	-	-	499 989	-	32 833	532 822
Amounts receivable under reverse repurchase agreements	2 640 964	-	-	-	-	-	2 640 964
Loans to customers	4 564 077	3 547 550	14 335 085	28 876 619	1 967 082	4 313 376	57 603 789
Net investments in finance leases	87 382	92 827	417 721	624 300	-	122 755	1 344 986
Investments in associates and other investments	-	-	-	-	-	108 731	108 731
Held-to-maturity investments	-	-	2 423 086	49 552	291 375	-	2 764 013
Deferred tax assets	-	-	-	-	-	978 682	978 682
Property, equipment, intangible assets and investment property	-	-	-	-	-	6 892 189	6 892 189
Other assets	2 912 629	378 879	319 789	21 363	553 247	352 259	4 538 166
Total assets	**32 417 193**	**4 019 256**	**20 545 472**	**30 071 823**	**2 811 704**	**13 462 050**	**103 327 499**

RUB'000	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**No maturity**	**Total**
LIABILITIES							
Financial instruments at fair value through profit or loss	876 662	-	-	-	-	-	876 662
Deposits and balances from banks	628 475	622 391	79 458	196 964	-	-	1 527 288
Amounts payable under repurchase agreements	2 377 631	-	-	-	-	-	2 377 631
Current accounts and deposits from customers	21 849 542	19 052 735	37 137 499	1 102 124	-	-	79 141 900
Debt securities issued	243 655	1 341	445 517	538 873	333	-	1 229 719
Subordinated borrowings	140 449	-	699 140	3 080 927	-	-	3 920 516
Other liabilities	694 213	187 466	206 665	47 164	618	-	1 136 126
Total liabilities	**26 810 627**	**19 863 933**	**38 568 279**	**4 966 052**	**951**	**-**	**90 209 842**
Net position	**5 606 566**	**(15 844 677)**	**(18 022 807)**	**25 105 771**	**2 810 753**	**13 462 050**	**13 117 657**

In constructing liquidity forecasts, the Group believes that the negative positions presented in the table above will be sufficiently covered by constant balances on current and settlement accounts of customers that will not be claimed by depositors and customers, a portfolio of securities, as well as unused credit lines from the CBR and other financial institutions.

The table below shows an analysis, by expected maturities, of the amounts recognised in the consolidated statement of financial position as at 31 December 2016:

RUB'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Total
ASSETS							
Cash and cash equivalents	11 358 076	-	-	-	-	-	11 358 076
Obligatory reserves with the Central Bank of the Russian Federation	-	-	-	-	-	808 276	808 276
Financial instruments at fair value through profit or loss	105 132	-	-	-	-	-	105 132
Available-for-sale financial assets	13 422 358	-	4 239 132	-	-	-	17 661 490
Due from banks	-	-	-	3 682 206	-	22 779	3 704 985
Loans to customers	3 072 057	5 806 746	23 193 848	28 434 834	3 221 803	5 259 117	68 988 405
Net investments in finance leases	97 983	102 659	461 963	556 132	-	71 176	1 289 913
Investments in associates	-	-	-	-	-	121 818	121 818
Held-to-maturity investments	-	-	1 082 663	2 549 317	-	-	3 631 980
Deferred tax assets	-	-	-	-	-	394 576	394 576
Property, equipment, intangible assets and investment property	-	-	-	-	-	6 636 115	6 636 115
Other assets	1 392 822	1 013 097	1 527 662	55 933	550 723	388 218	4 928 455
Total assets	**29 448 428**	**6 922 502**	**30 505 268**	**35 278 422**	**3 772 526**	**13 702 075**	**119 629 221**
LIABILITIES							
Financial instruments at fair value through profit or loss	182 650	-	-	-	-	-	182 650
Deposits and balances from banks	1 162 070	56 391	818 334	308 148	-	-	2 344 943
Amounts payable under repurchase agreements	3 706 180	-	-	-	-	-	3 706 180
Current accounts and deposits from customers	20 541 900	15 629 334	53 076 980	1 105 280	-	-	90 353 494
Debt securities issued	263 375	11 686	538 795	1 142 057	335	-	1 956 248
Subordinated borrowings	144 010	-	374 390	3 969 887	-	-	4 488 287
Other liabilities	263 375	11 686	538 795	1 142 057	335	-	1 956 248
Total liabilities	**26 699 830**	**16 127 549**	**56 081 789**	**6 542 452**	**335**	**-**	**105 451 955**
Net position	**2 748 598**	**(9 205 047)**	**(25 576 521)**	**28 735 970**	**3 772 191**	**13 702 075**	**14 177 266**

In accordance with the Russian Federation legislation, individuals can withdraw their term deposits at any time, forfeiting in most of the cases the accrued interest. These retail deposits totaling RUB 55 862 087 thousand (31 December 2016: RUB 65 927 678 thousand) are classified in accordance with their stated maturity dates, but could legally be withdrawn on demand. The classification of these deposits in accordance with their stated maturity dates is presented below:

	2017 RUB'000	**2016 RUB'000**
Demand and less than 1 month	9 658 356	9 422 159
From 1 to 3 months	17 211 147	14 036 392
From 3 to 12 months	28 190 541	41 495 356
From 1 to 5 years	802 043	973 771
	55 862 087	**65 927 678**

Management expects that the cash flows from certain assets and liabilities will be different from their contractual terms either because management has the discretionary ability to manage the cash flows or because past experience indicates that cash flows will differ from contractual terms. In the tables below the following financial assets and liabilities are presented on a discounted basis and are based on their expected cash flows:

- impaired but not overdue loans and funds on accounts in PJSC "M2M Private Bank"are included in the from 1 to 5 years category based on expected cash flows asessment.
- Available-for-sale financial assets: management holds a portfolio of liquid securities that are also readily marketable and can be used to meet outflows of financial liabilities. Cash flows from these available-for-sale securities, totalling RUB 12 109 099 thousand (31 December 2016: RUB 13 422 358 thousand) are included in demand and less than 1 month category. Other securities in the amount of RUB 3 049 791 thousand (31 December 2016: RUB 4 239 132 thousand) are included in from 3 to 12 months category based on the Group's management plans for their sale.

Contractual maturities of available-for-sale financial assets are as follows:

	2017 RUB'000	**2016 RUB'000**
Less 1 month	3 081 402	635 720
From 1 to 3 months	4 490 444	149 715
From 3 to 12 months	829 245	4 664 896
From 1 to 5 years	2 477 683	6 725 902
More than 5 years	1 207 802	1 203 218
Overdue	-	1 012 347
No maturity	3 072 314	3 269 692
	15 158 890	**17 661 490**

- In accordance with the Russian Federation legislation, individuals and legal entities can withdraw the amounts from their current accounts at any time. However, past experience indicates that current accounts in total population have permanent balances. Based on the statistics cash flows from the current accounts for the year ended 31 December 2017, totalling RUB 8 000 000 thousand are included in the category from 3 to 12 months instead of the demand and less than 1 month category (31 December 2016: RUB 10 347 426 thousand).

The Group maintains unused lines of credit from the CBR and other financial institutions. So when analysing liquidity position the Group considers that liquidity gaps represented in the tables above will be adequately covered by outstanding balances of customer accounts not withdrawn by depositors and unused lines of credit from the CBR and other financial institutions, mentioned above.

The Bank also calculates mandatory liquidity ratios on a daily basis in accordance with the requirements of the CBR. These ratios include:

- instant liquidity ratio (N2), which is calculated as the ratio of highly liquid assets to liabilities payable on demand
- current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days
- long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after 1 year to the equity and liabilities maturing after 1 year.

The Bank was in compliance with these ratios as at 31 December 2017 and 31 December 2016. The following table shows the mandatory liquidity ratios calculated as at 31 December 2017 and 31 December 2016.

	Requirement	**2017, %**	**2016, %**
Instant liquidity ratio (N2)	Not less than 15%	295.0	271.6
Current liquidity ratio (N3)	Not less than 50%	182.8	183.9
Long-term liquidity ratio (N4)	Not more than 120%	34.2	32.8

g) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group’s processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Group’s operations.

The Group’s objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group’s reputation with overall cost effectiveness and innovation. In all cases, the Group policy requires compliance with all applicable legal and regulatory requirements.

The Group manages operational risk by establishing internal controls that management determines to be necessary in each area of its operations.

33 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. The Group calculates the amount of capital in accordance with Provision of the CBR dated 3 December 2015 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. Starting from 1 January 2016, the Group should comply with capital buffers: capital conservation buffer and countercycle buffer. As at 31 December 2017, the minimum levels of capital buffers are 1.25% and 0% accordingly (31 December 2016: 0.625% and 0%). The Group maintains capital adequacy at the level appropriate to the nature and volume of its operations.

The Group provides the territorial CBR that supervises its activity with information on mandatory ratios in accordance with set form. The Bank’s Financial-Analytical 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 Group's internal policy this information is communicated to the Management Board and the Board of Directors. The Group is in compliance with the statutory capital ratios as at 31 December 2017 and 31 December 2016.

The calculation of capital adequacy for the Group based on requirements set by the CBR ratios as at 31 December 2017 and 31 December 2016 is as follows:

	2017 RUB'000	**2016 RUB'000**
Base capital	8 459 283	9 725 591
Main capital	8 459 283	9 725 591
Additional capital	3 286 530	3 356 479
Own funds (capital)	**11 745 813**	**13 082 070**
Risk-weighted assets	**110 095 150**	**135 563 681**
Ratio N20.1 (%)	**7.87**	**7.30**
Ratio N20.2 (%)	**7.87**	**7.30**
Ratio N20.0 (%)	**10.67**	**9.71**

The Group is subject to minimum capital adequacy requirements calculated in accordance with the methodology of International Finance Corporation (IFC) established by covenants under liabilities incurred by the Group. The Group has complied with capital requirements requirements calculated in accordance with the methodology of International Finance Corporation (IFC) as at 31 December 2017 and 31 December 2016.

34 Involvement with unconsolidated structured entities

The table below describes the structured entities that the Group does not consolidate but in which it holds an interest as at 31 December 2017:

Description	**Country of registration**	**The main types of activity**	**Interest held by the Group**	**Total assets, RUB'000**
CJSC "Multi Originator Mortgage Agent 1"	Russian Federation	Mortgage agent	See below	7 933 689

CJSC "Multi Originator Mortgage Agent 1" ("MMA 1") is a structured entity established to facilitate the issue of mortgage backed securities (refer to notes 22 and 24). The Group does not control MMA 1. The involvement of the Group refers to retaining risks and benefits of the entity in the amount of the issued lower tranche of bonds by MMA 1 which was bought by the Group, as well as the fees for transferred mortgage loan servicing.

The table below sets out the carrying amounts of interests held by the Group in MMA 1 representing the maximum exposure to loss:

	2017 Other assets, RUB'000	**2016 Other assets, RUB'000**
Continuing involvement with sold loan portfolio	563 048	563 048
Impairment allowance	(9 801)	(12 325)
Total net continuing involvement with sold loan portfolio net of impairment allowance	**553 247**	**550 723**

35 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 commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

	2017 RUB'000	**2016 RUB'000**
Contracted amount		
Undrawn overdraft facilities	3 503 162	5 044 390
Guarantees and letters of credit	2 013 126	2 899 523
Loan and credit line commitments	387 606	1 480 546
	5 903 894	**9 424 459**

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

As at 31 December 2017, the Group has a commitment to purchase 3 144 kg of gold, 8 656 kg of silver (31 December 2016: 4 779 kg of gold and 6 381 kg of silver and 128 kg of platinum) under contracts to be settled at the market price at the date of maturity.

36 Operating leases

Leases as lessee

The Group leases a number of premises and equipment under operating leases. The leases typically run for an initial period of one to ten years, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals or non-cancellable payments.

37 Contingencies

a) 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 relating 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.

b) 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.

c) Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities who 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 longer. Recent events within 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 Group's financial position, if the authorities were successful in enforcing their interpretations, could be significant.

38 Related party transactions

a) Control relationships

The Group's parent company is LLC "PPFIN Region" (Russian Federation). As at 31 December 2017 and 31 December 2016, the collective ultimate controlling parties of the Group were Mr. Andrey Vdovin (the owner of 19.724% as at 31 December 2017 and 22.528% as at 31 December 2016), Mr. Alexey Maslovsky (the owner of 19.724% as at 31 December 2017 and 22.528% as at 31 December 2016), Mr. Peter Hambro (the owner of 19.724% as at 31 December 2017 and 22.528% as at 31 December 2016). The influence of CBR order relating to the implementation of transactions aimed at reducing the shares of these persons to no more than 10% is described in note 1.

b) Transactions with the members of the Board of Directors and the Management Board

Total remuneration included in personnel expenses for the years ended 31 December 2017 and 2016 is as follows:

	2017 RUB'000	2016 RUB'000
Short term employee benefits	116 132	144 055
Long term employee benefits	29 682	9 379
	145 814	**153 434**

The outstanding balances and average effective interest rates as at 31 December 2017 and 31 December 2016 for transactions with the members of the Board of Directors and the Management Board are as follows:

	2017 RUB'000	Average effective interest rate, %	2016 RUB'000	Average effective interest rate, %
Consolidated statement of financial position				
ASSETS				
Loans to customers	-	-	1 008 302	18.17%
Other assets	60	-	1 724	-
LIABILITIES				
Current accounts and deposits from customers	17 721	4.81%	9 418	3.80%
Other liabilities	39 061	-	9 379	-
Commitments				
Credit commitments	-	-	1 100	-

Other amounts included in the consolidated statement of profit or loss and other comprehensive income in relation to transactions with the members of the Board of Directors and the Management Board for the year ended 31 December are as follows:

	2017 RUB'000	2016 RUB'000
Consolidated statement of of profit or loss and other comprehensive income		
Interest income	27 680	153 360
Interest expense	(165)	(6 863)
Impairment losses	3 843	(2 729)

c) Transactions with shareholders

The outstanding balances and average effective interest rates as at 31 December 2017 and 31 December 2016 for transactions with shareholders owning more than 10% share capital and the collective ultimate controlling parties of the Group are as follows:

	2017 RUB'000	Average effective interest rate, %	2016 RUB'000	Average effective interest rate, %
Consolidated statement of financial position				
ASSETS				
Loans to customers	4 707 815	13.25%	4 165 028	12.04%
(including allowance for impairment)	*(841 711)*	-	*(131 891)*	-
Other assets	671	-	-	-
LIABILITIES				
Current accounts and deposits	438 130	0.94%	195	-
Subordinated borrowings	1 390 343*	12.92%	-	-

*It includes subordinated borrowings from the International Financial Corporation, attracted 21 November 2012.

Amounts included in the consolidated statement of profit or loss and other comprehensive income in relation to transactions with shareholders for the years ended 31 December are as follows:

	2017 RUB'000	2016 RUB'000
Consolidated statement of profit or loss and other comprehensive income		
Interest income	402 696	500 111
Interest expenses	(226 308)	-
(Charge) recovery of impairment allowance	(709 820)	23 792

d) Transactions with other related parties

Other related parties are represented by companies controlled by management, shareholders and the collective ultimate controlling parties of the Group.

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

	2017 RUB'000	**Average effective interest rate, %**	**2016 RUB'000**	**Average effective interest rate, %**
Consolidated statement of financial position				
ASSETS				
Available-for-sale financial assets	-	-	1 970 803	-
Loans to customers	-	-	4 520	17.74%
Investments in associates	108 731	-	121 818	-
Other assets	127 329		74 383	-
LIABILITIES				
Deposits and balances from banks	-	-	21 857	0.03%
Current accounts and deposits from customers	9 753	4.05%	43 672	-
Other liabilities	3 102	-	1 417	-
Commitments		-		
Credit related commitments	10 000	-	50	-

Information on balances and allowance for impairment of transactions with PJSC "M2M Private Bank", included in the consolidated statement of financial position as at 31 December 2017, disclosed in notes 16 and 20.

Amounts included in the consolidated statement of profit or loss and other comprehensive income in relation to transactions with other related parties for the year ended 31 December are as follows:

	2017 RUB'000	**2016 RUB'000**
Consolidated statement of profit or loss and other comprehensive income		
Interest income	378	702 668
Interest expense	(365)	(43 331)
Commission income	347 598	135 220
Net income (loss) on operations with foregn currencies	285	(183 136)
Loss from equity-accounted investee	(13 087)	(47 847)
Recovery of impairment allowance	-	394

39 Financial assets and liabilities: fair values and accounting classifications

a) Accounting classifications and fair values

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 realisable 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. The estimated fair values of all other financial assets and liabilities are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the reporting date.

The estimated fair value of all financial instruments as at 31 December 2017 approximates their carrying value except for the following financial instruments:

RUB'000	**Balance value**	**Fair value**
Loans to customers	57 603 789	57 517 223
Held-to-maturity investments	2 764 013	2 766 930
Deposits and balances from banks	1 527 288	1 491 334
Current accounts and deposits from customers	79 141 900	79 213 333
Debt securities issued	1 229 719	1 246 861

The estimated fair value of all financial instruments as at 31 December 2016 approximates their carrying value except for the following financial instruments:

RUB'000	**Balance value**	**Fair value**
Loans to customers	68 988 405	69 309 678
Held-to-maturity investments	3 631 980	3 657 009
Deposits and balances from banks	2 344 943	2 275 258
Current accounts and deposits from customers	90 353 494	90 447 851
Debt securities issued	1 956 248	1 951 646

b) Fair value hierarchy

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

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: inputs other than quotes prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

- Level 3: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The Group has a control framework with respect to the measurement of fair values. This framework includes a Market Risks Department function, which reports directly to the Deputy Chairman of the Management Board, and which has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements. Specific controls include:

- verification of observable pricing;
- re-performance of model valuations;
- analysis and investigation of significant daily valuation movements.

Where third-party information, such as broker quotes or pricing services, are used to measure fair value, Market Risks Department assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet IFRS requirements. This includes:

- verifying that the broker or pricing service is approved by the Group for use in pricing the relevant type of financial instrument;
- understanding how the fair value has been arrived at the extent to which it represents actual market transactions;
- when prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement;
- where a number of quotes for the same financial instrument have been obtained, how fair value has been determined using those quotes.

The table below analyses financial instruments measured at fair value at 31 December 2017, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the consolidated statement of financial position:

RUB '000	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial instruments at fair value through profit or loss				
- Derivative assets	-	4 018	-	4 018
- Derivative liabilities	-	(189 106)	-	(189 106)
Liabilities on reverse delivery of realized securities, received on operations under reverse repurchase agreements	(687 556)	-	-	(687 556)
Available-for-sale financial assets	13 921 248	-	-	13 921 248

The table below analyses financial instruments measured at fair value at 31 December 2016, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the consolidated statement of financial position:

RUB '000	Level 1	Level 2	Level 3	Total
Financial instruments at fair value through profit or loss				
- Derivative assets	-	105 132	-	105 132
- Derivative liabilities	-	(182 650)	-	(182 650)
Available-for-sale financial assets	15 393 161	-	1 012 347	16 405 508

The fair value of available-for-sale financial assets relating to Level 3 of the fair value hierarchy in the table above was estimated based on cash received by the Group as a result of litigation on bonds of LLC "Vneshprombank" (refer to note 30). Till the impairment, these instruments were measured at fair value categorised to Level 1 of the fair value hierarchy, and as at 31 December 2015 were 100% impaired. Recovery of impairment allowance in the amount of RUB 1 005 551 thousand was recorded in profit or loss for 2016. These instruments were redeemed in 2017 on the basis of cash received by the Group.

Unquoted investments available for sale are recorded at cost. As at 31 December 2017, the cost of unquoted available-for-sale investments is RUB 1 237 642 thousand (31 December 2016: RUB 1 255 982 thousand). There is no market for these investments and there have not been any recent transactions that provide evidence of the current fair value. In addition, discounted cash flow techniques yield a wide range of fair values due to the uncertainty regarding future cash flows in this industry.

Fair value of loans to customers, subordinated borrowings and debt securities issued relates to Level 3. Fair value of all other financial instruments at amortised cost is categorised in Level 2.

40 Going concern

Management of the Group has prepared these consolidated financial statements on a going concern basis.

In April 2018 the Bank violated mandatory ratios N1.2 (main capital ratio) and N6 (maximum risk exposure ratio per borrower or group of related borrowers). These violations arose due to significant decrease of equity (capital) as a result of the creation of provisions for possible losses up to 100% under the Russian Accounting Legislation on investments in the subsidiary bank PJSC «M2M Private Bank» and the parent company (related through shareholder LLC «PPFIN Region») «VMHY Holdings Limited», which is also a borrower of the Group.

Due to the high social significance of the Bank in the regions of Siberia and the Far East on 26 April 2018, the Bank of Russia decided to implement measures to improve financial stability of the PJSC Asian-Pacific Bank.

As part of measures to ensure the ability of the Bank to continue as a going concern in the market of banking services and to improve its financial stability, the Bank of Russia plans to participate as an investor using the funds of LLC «Fund of Banking Sector Consolidation Asset Management Company». The Bank of Russia will provide funds to the Bank to maintain liquidity. No moratorium on payments to creditors is imposed.

The Board of Directors of the Bank of Russia took a decision to guarantee the going concern basis of the Bank during the period of implementation of the Bank of Russia plan for prevention of bankruptcy of the Bank.

In order to implement all necessary measures to support and further develop the Bank's activity, the Bank of Russia ordered (Order No. OD-1076 dated 25 April 2018) to assign the functions of the temporary administration for the management of the PJSC Asian-Pacific Bank to LLC «Fund of Banking Sector Consolidation Asset Management Company» from 26 April 2018. Powers of shareholders, the Board of Directors and the Management Board are suspended.

In connection with the foregoing, the planned reorganization of «VMHY Holdings Limited», like any other changes in the structure of the shareholders acting as of the beginning of 2018, will not have a significant impact on the control over the Bank.

As of the date of these financial statements issuance the Bank violates mandatory ratios N1.1 (basic capital ratio), N1.2 (main capital ratio), N1.0 (own funds (capital) ratio), N1.4 (financial leverage ratio), N6 (maximum risk exposure ratio per borrower or group of related borrowers), N7 (maximum large risks exposure ratio), N10.1 (total risk for insiders), N12 (ratio of own capital usage for purchase of other legal entities shares), N25 (maximum risk exposure ratio per related to the Bank group of borrowers). These events arose due to significant decrease in equity (capital) as a result of the creation of provisions for possible losses in financial statements prepared in accordance with Russian Accounting Legislation up to 100% for assets of PJSC «M2M Private Bank», «VMHY Holdings Limited», other provisions for the assets including due to revision of provisioning approaches.