BANK CENTER-INVEST

THE GROUP OF CENTER-INVEST

International Financial Reporting Standards
Consolidated Financial Statements and
Independent Auditor's Report
31 December 2017

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To the Shareholders and Board of Directors of Public Joint-stock company commercial Bank "Center-invest":

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Public Joint-stock company commercial Bank "Center-invest" (the "Bank") and its subsidiary (together - 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").

What we have audited

The consolidated financial statements of the Group comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

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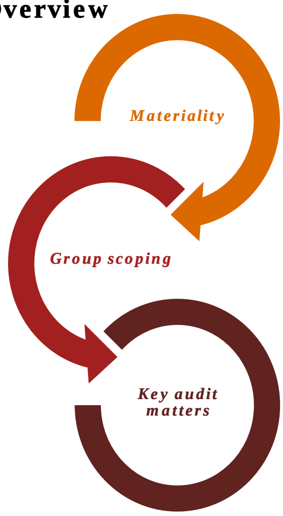
Our audit approach

Overview



- Overall group materiality was RR 127 million, which represented approximately 1% of total revenues (interest and fee and commission income) for the year ended 31 December 2017.

- We conducted audit work at the Bank. Total revenues of the Bank (excluding intercompany turnovers) represented approximately 99.9% of total revenues of the Group for the year ended 31 December 2017. We applied our professional judgement to the scope of audit procedures for the Bank's subsidiary.

- Provision for impairment of loans and advances to customers

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including, among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the consolidated financial statements as a whole.

Overall group materiality	RR 127 million.
How we determined it	1% of total revenues (interest and fee and commission income) for the year ended 31 December 2017

Rationale for the materiality benchmark applied	We chose total revenues as the benchmark as generally acceptable benchmark to mitigate the volatile nature of profit before tax during last years. We chose 1%, which is within the range of acceptable quantitative materiality thresholds commonly used in practice.

Key audit matters

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

Key audit matter	How our audit addressed the Key audit matter
Provision for impairment of loans and advances to customers	
We focused on this matter due to significance of loans and advances to customers and significance of judgements and estimates required for calculation of the related provision. The provision represents management's best estimate of losses incurred within the loans and advances to customers as at the balance sheet date. Collective provisions are calculated on a collective basis for loans and advances of a similar nature. Such provisions are calculated using statistical models estimating the impact of current economic and credit conditions on loan portfolios. The design of and inputs to the models are subject to management judgement. Provisions for significant loans and advances without individual impairment indicators are calculated collectively, as described above. Specific provisions are calculated on an individual basis for significant impaired loans and advances. For such provisions, judgement is required to determine when an impairment event has occurred and then to estimate the expected future cash flows related to the impaired loan. Note 3 “Significant Accounting Policies”, Note 4 “Critical Accounting Estimates, and Judgements in Applying Accounting Policies” and Note 9 “Loans and Advances to Customers” included in the consolidated financial statements provide detailed information on the provision for impairment of loans and advances to customers.	We assessed the key methodologies for calculation of the provision for consistency with the requirements of IFRS. We tested (on a sample basis) loans and advances which had not been identified by management as potentially impaired and formed our own judgement as to whether that was appropriate. We tested (on a sample basis) the basis and operation of collective provisioning models and the data and assumptions used. Our work included comparison of the principal assumptions, that is, probability of default and loss given default, with our own knowledge and actual experience of the Group, testing of the models through re-performance by recalculating of probability of default and loss given default on a sample basis, and analytical procedures (backtesting, benchmarking). We tested (on a sample basis) loans and advances for which the individual provision was calculated. We tested whether the impairment event had been identified in a timely manner, examined discounted cash flows calculations performed by management, challenged the assumptions and compared estimates to external evidence where available.
Note 6 "New Accounting Pronouncements" to the consolidated financial statements provides	In relation to the information on the adoption of IFRS 9 by the Group:

information on the adoption of IFRS 9 "Financial Instruments" ("IFRS 9") by the Group from 1 January 2018. The adoption of IFRS 9 requires that the Group should introduce significant changes in methodologies and processes for calculation of the provision. The process of the adoption of IFRS 9 is subject to finalisation and the Group disclosed the estimated impact of the adoption.

We have assessed the key methodologies developed for calculation of the provision in accordance with IFRS 9 for consistency with the requirements of IFRS 9.

We have obtained understanding and assessed for reasonableness the key judgments, assumptions and calculations made by the management for estimating impact of the adoption of IFRS 9 on the provision.

The finalisation of audit procedures related to the actual impact of the adoption of IFRS 9 is subject to completion of the adoption by the Group.

How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to be able to give an opinion on the consolidated financial statements as a whole, taking into account the geographic and management structure of the Group, the accounting processes and controls and the industry in which the Group operates.

We conducted audit work at the Bank. In addition, we applied our professional judgement to the scope of audit procedures for the Bank's subsidiary and performed specified audit procedures for the subsidiary's financial statement line items, which likely bear significant risks of material misstatement of consolidated financial statements of the Group. We performed certain audit procedures to determine that we obtained sufficient audit evidence in relation to the Bank's subsidiary.

We also performed audit procedures in relation to preparation of the consolidated financial statements of the Group.

Other information

Management is responsible for the other information. The other information comprises annual report and issuer's report for the 1st quarter of 2018 (but does not include the consolidated financial statements and our auditor's report thereon), which are expected to be made available to us after the date of this auditor's report.

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

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

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

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

In preparing the consolidated financial statements, management is responsible for assessing the ability of the Group 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 financial reporting process of the Group.

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Group.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Group to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on other legal and regulatory requirements

Report on examination in accordance with Article No.42 of Federal Law of 2 December 1990 No.395-1 "On Banks and Banking Activity"

The management of the Bank is responsible for compliance of the Group with the statutory ratios set by the Bank of Russia and for compliance of internal control and organisation of risk management systems of the Group with the Bank of Russia's requirements for such systems.

In accordance with Article No.42 of Federal Law of 2 December 1990 No.395-1 "On Banks and Banking Activity", we have examined the following during the audit of the consolidated financial statements of the Group for the year 2017:

- compliance of the Group as at 1 January 2018 with the statutory ratios set by the Bank of Russia;
- compliance of internal control and organisation of risk management systems of the Group with the requirements set by the Bank of Russia for such systems.

Our examination was limited to procedures selected based on our judgement, such as inquiries, analysis and examination of documents, comparison of requirements, procedures and methodologies adopted by the Group with the Bank of Russia's requirements, as well as recalculation, comparison and reconciliation of figures and other information.

We have identified the following based on our examination:

1) as related to compliance of the Group with the statutory ratios set by the Bank of Russia:

   as at 1 January 2018 the Group's statutory ratios set by the Bank of Russia were within the limits set by the Bank of Russia.

   We draw your attention to the fact that we have not performed any procedures related to the underlying accounting data of the Group other than the procedures we considered necessary to express our opinion on whether or not the 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 IFRS.

2) as related to compliance of internal control and organisation of risk management systems of the Group with the Bank of Russia's requirements for such systems:

   a) in accordance with the Bank of Russia's requirements and recommendations, as at 1 January 2018 subdivisions of the Bank for managing significant risks of the Group were not subordinated or accountable to subdivisions assuming corresponding risks;

b) internal documents of the Bank effective as at 1 January 2018 which set out the methodologies to identify and manage significant credit, market, interest rate, liquidity risks, the methodologies to carry out stress testing are duly approved by appropriate management bodies of the Bank in accordance with the Bank of Russia's requirements and recommendations;

c) as at 1 January 2018 the Bank had in place a reporting system for significant credit, market, interest rate, liquidity risks and for equity (capital) of the Group;

d) the frequency and consistency of reports prepared by risk management subdivisions of the Bank and its internal audit function during 2017 as related to management of credit, market, interest rate, liquidity risks complied with internal documents of the Bank; those reports included observations made by risk management subdivisions of the Bank and its internal audit function as related to the assessment of the effectiveness of the respective procedures of the Group as well as recommendations on their improvement;

e) as at 1 January 2018 the authority of the Board of Directors of the Bank and its executive bodies included control over compliance of the Group with risk and equity (capital) adequacy limits set by internal documents of the Bank. To exercise control over the effectiveness of the risk management procedures applied in the Group and their consistent application in 2017, the Board of Directors of the Bank and its executive bodies regularly discussed the reports prepared by risk management subdivisions of the Bank and its internal audit function and considered proposed measures to eliminate weaknesses.

We have performed the above procedures related to internal control and organisation of risk management systems of the Group solely to examine compliance of internal control and risk management systems of the Group with the Bank of Russia's requirements for such systems.

The certified auditor responsible for the audit resulting in this independent auditor's report is Olga Kucherova.

AO PricewaterhouseCoopers Audit

15 March 2018

Moscow, Russian Federation

O. Kucherova, certified auditor (licence number No. 01-000397), AO PricewaterhouseCoopers Audit

Audited entity: Public Joint-stock company commercial Bank "Center-invest".

Certificate of inclusion in the Unified State Register of Legal Entities issued on 26 August 2002 under registration No. 61002690018.

62 Sokolova Street, Rostov-on-Don, Russian Federation, 344000.

Independent auditor:
AO PricewaterhouseCoopers Audit.

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

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

Member of Self-Regulated Organization of Auditors «Russian Union of auditors» (Association).

ORNZ 11603050547 in the register of auditors and audit organizations.

25 years BANK CENTER-INVEST

CENTER-INVEST BANK GROUP
Consolidated Statement of Financial Position

In thousands of Russian Roubles	Note	31 December 2017	31 December 2016
ASSETS			
Cash and cash equivalents	7	8 369 737	9 629 681
Mandatory cash balances with the Central Bank of the Russian Federation		662 931	611 606
Due from other banks	8	8 607 390	6 014 533
Loans to customers and finance lease receivables	9	80 146 601	73 646 826
Investment in associate	10	305 468	315 409
Investment properties	12	422 971	2 609 073
Premises, equipment and intangible assets	11	2 807 326	2 770 444
Other financial assets	13	701 569	560 293
Other assets	14	592 509	417 824
TOTAL ASSETS		**102 616 502**	**96 575 689**
LIABILITIES			
Due to other banks		-	295 407
Customer accounts	15	87 217 936	80 433 365
Debt securities in issue	16	1 062 172	427 032
Borrowings from international financial institutions	17	996 297	182 116
Other financial liabilities		103 889	90 303
Other liabilities	19	275 139	492 674
Subordinated debt	18	-	3 077 640
Deferred income tax liability	24	320 549	65 919
TOTAL LIABILITIES		**89 975 982**	**85 064 456**
EQUITY			
Share capital	20	1 326 277	1 326 277
Share premium	20	2 078 860	2 078 860
Revaluation reserve for land and premises		1 306 152	1 353 140
Retained earnings		7 929 231	6 752 956
TOTAL EQUITY		**12 640 520**	**11 511 233**
TOTAL LIABILITIES AND EQUITY		**102 616 502**	**96 575 689**

15 March 2018

Публичное акционерное общество коммерческий банк "Центр-инвест" *Рег. №2225* г. Ростов-на-Дону

S. Yu. Smirnov
Chairman of the Executive Board

T.I. Ivanova
Chief Accountant

The notes set out on pages 5 to 61 form an integral part of these consolidated financial statements.

In thousands of Russian Roubles	**Note**	**2017**	**2016**
Interest income	21	11 398 295	11 665 819
Interest expense	21	(5 495 092)	(6 544 416)
Contributions to the state deposit insurance scheme		(340 502)	(782 734)
Net interest income		**5 562 701**	**4 338 669**
Provision for impairment of loans to customers and finance lease receivables	9	(1 177 078)	(1 480 661)
Net interest income after impairment provision		**4 385 623**	**2 858 008**
Fee and commission income	22	1 366 588	1 248 400
Fee and commission expense	22	(430 866)	(401 228)
Gains less losses from operations with foreign currencies		62 650	81 221
Foreign exchange translation gains less losses/(losses less gains)		8 310	(13 059)
Gains less losses / (losses less gains) from spot currency transactions and other conversion operations on the interbank market		31 217	(15 383)
Other provisions and expenses	13,14,19	(257 660)	(107 045)
Result from disposal of investment property	12	(405 915)	-
Other operating income		59 684	62 628
Administrative and other operating expenses	23	(2 945 275)	(2 417 681)
Share of result of associate	10	(9 941)	(7 735)
Profit before tax		**1 864 415**	**1 288 126**
Income tax expense	24	(438 843)	(284 155)
Profit for the year		**1 425 572**	**1 003 971**
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Revaluation of land and premises of the Group	11	-	250 190
Income tax recorded directly in other comprehensive income	24	-	(50 038)
Other comprehensive income for the year		**-**	**200 152**
Total comprehensive income for the year		**1 425 572**	**1 204 123**

In thousands of Russian Roubles	Note	Share capital	Share premium	Revaluation reserve for land and premises	Retained earnings	TOTAL EQUITY
Balance at 1 January 2016		**1 326 277**	**2 078 860**	**1 192 811**	**6 005 447**	**10 603 395**
Profit		-	-	-	1 003 971	1 003 971
Other comprehensive income		-	-	200 152	-	200 152
Total comprehensive income for the year		**-**	**-**	**200 152**	**1 003 971**	**1 204 123**
Dividends declared:						
- ordinary shares	25	-	-	-	(278 215)	(278 215)
- preference shares	25	-	-	-	(18 099)	(18 099)
Other movements	25	-	-	-	29	29
Transfer of revaluation surplus on land and premises to retained earnings		-	-	(39 823)	39 823	-
Balance at 31 December 2016		**1 326 277**	**2 078 860**	**1 353 140**	**6 752 956**	**11 511 233**
Profit		-	-	-	1 425 572	1 425 572
Total comprehensive income for the year		**-**	**-**	**-**	**1 425 572**	**1 425 572**
Dividends declared						
- ordinary shares	25	-	-	-	(278 215)	(278 215)
- preference shares	25	-	-	-	(18 099)	(18 099)
Other movements	25	-	-	-	29	29
Transfer of revaluation surplus on land and premises to retained earnings		-	-	(46 988)	46 988	-
Balance at 31 December 2017		**1 326 277**	**2 078 860**	**1 306 152**	**7 929 231**	**12 640 520**

In thousands of Russian Roubles	Note	2017	2016
Cash flows from operating activities			
Interest received		11 117 084	11 272 558
Interest paid		(5 516 214)	(7 011 004)
Contributions to the state deposit insurance scheme		(574 686)	(510 413)
Fees and commissions received		1 346 787	1 268 644
Fees and commissions paid		(422 048)	(396 414)
Gains less losses from trading in foreign currencies		62 650	81 221
Gains less losses from spot currency transactions and other conversion operations on the interbank market		33 191	(15 357)
Receipts from assignment of rights of claim on loans and advances to customers	9	476 762	302 111
Repayment of debt written off		58 673	44 927
Other operating income received		55 312	32 405
Staff costs paid		(1 854 623)	(1 340 280)
Operating expenses paid		(962 460)	(782 940)
Income tax paid		(249 006)	(458 450)
Cash flows from operating activities before changes in operating assets and liabilities		**3 571 422**	**2 487 008**
Change in operating assets and liabilities			
Net change in mandatory cash balances with the Central Bank of the Russian Federation		(51 325)	(200 220)
Net change in due from other banks		(2 589 776)	(5 597 167)
Net change in loans to customers and finance lease receivables		(7 439 359)	(6 039 356)
Net change in other financial and other assets		(54 032)	259 602
Net change in due to other banks		(295 407)	(316 313)
Net change in customer accounts		6 805 570	16 522 677
Net change in promissory notes issued		171 749	(74 607)
Net change in other financial and other liabilities		60 351	(108 106)
Net cash from operating activities		**179 193**	**6 933 518**
Cash flows from investing activities			
Acquisition of premises and equipment	11	(191 375)	(86 001)
Proceeds from disposal of premises and equipment	11	7 582	137
Acquisition of intangible assets	11	(48 588)	(88 491)
Investments in investment properties	12	(9 989)	-
Proceeds from disposal of investment properties	12	772 150	-
Net cash from (used in) investing activities		**529 780**	**(174 355)**
Cash flows from financing activities			
	16		
Issue of bonds		543 765	381 351
Repurchase and repayment of bonds	16	(81 502)	(3 046 710)
Proceeds from borrowings from international financial institutions	17	1 000 000	-
Repayment of borrowings from international financial institutions	17	(179 860)	(5 508 696)
Repayment of subordinated loans	18	(2 841 227)	-
Dividends paid	25	(296 251)	(296 284)
Net cash used in financing activities		**(1 855 075)**	**(8 470 339)**
Effect of exchange rate changes on cash and cash equivalents		**(113 842)**	**(845 920)**
Net outflow of cash and cash equivalents		**(1 259 944)**	**(2 557 096)**
Cash and cash equivalents at the beginning of the year		9 629 681	12 186 777
Cash and cash equivalents at the end of the year	7	**8 369 737**	**9 629 681**

The notes set out on pages 5 to 61 form an integral part of these consolidated financial statements.

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2017 for Public Join-Stock Company Commercial Bank «Center-invest» (the “Bank”) and its 100% subsidiary OOO Center-Leasing (the “Group”).

The Bank was incorporated and is domiciled in the Russian Federation. The Bank is a joint stock company limited by shares.

Principal activity. The Group’s principal business activities are corporate and retail banking and leasing operations within the Russian Federation. The Bank has operated under a full banking licence issued by the Central Bank of the Russian Federation (“CBRF”) since 1992. The Bank participates in the state deposit insurance program, which was introduced by Federal Law No.177-FZ “Deposits of individuals insurance in Russian Federation” dated 23 December 2003. The State Deposit Insurance Agency guarantees repayment of 100% of individual deposits up to RR 1 400 thousand per individual in the case of the withdrawal of a licence of a bank or a CBRF imposed moratorium on payments. In 2016, an additional rate of insurance charge to the State Deposit Insurance Agency was temporary applied according to the requirement of the Bank of Russia based on the result of the field inspection completed in January 2016. In 2017, charges to Deposit Insurance Agency were made at a standard rate.

In 2017, the Bank of Russia carried out an audit of the Bank’s operations. The audit was completed in 2018. Currently, the final results of the audit are being reviewed by the Bank of Russia. However, the Bank's management believes that the results of this audit have not and may not have affect the Bank’s compliance with all legal requirements, therefore these financial statements have been prepared on a going concern basis.

At 31 December 2017 the Bank had four branches (2016: three) in the Russian Federation. Additionally, the Bank has a representative office in Moscow and 115 (2016: 119) sub-branches in the Rostov and Volgograd Regions, Moscow, Nizhny Novgorod, Stavropol and Krasnodar Regions.

Registered address and place of business. The Bank’s registered address is: 62 Sokolova Street, Rostov-on-Don, Russian Federation, 344000.

The average number of the Group’s employees during 2017 was 1 461 (2016: 1 446).

Presentation currency. These consolidated financial statements are presented in thousands of Russian Roubles ("RR thousands"), unless otherwise stated.

2 Operating Environment of the Group

Russian Federation. The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations (Note 29). The Russian economy was growing in 2017 after overcoming the economic recession of 2015 and 2016. The economy adopted to deterioration of the economic situation in the oil and gas market and the effect of international sectoral sanctions introduced against Russia. GDP dynamics reverted to a positive zone.

In 2017, international rating agencies improved their outlook for sovereign credit ratings of the Russian Federation: from Moody’s “stable” to Standard & Poor’s “positive” and Fitch Ratings “positive”. In January 2018, Moody’s improved their outlook for sovereign credit rating of the Russian Federation from “stable” to “positive”, keeping the rating at Ba1 level. In February 2018, Standard & Poor’s increased Russia’s sovereign credit rating from speculative BB+ to investment BBB- with “stable” outlook. In respect of the Bank, in April 2017, Moody’s rating agency increased the long-term ratings of deposits in local and foreign currency from Ba3 to B1 with a stable outlook. At the same time, Moody’s increased the basic credit assessment (BCA) level of the Bank from b1 to ba3 and confirmed the stable outlook for short-term deposit ratings in local and foreign currency.

2 Operating Environment of the Group (Continued)

The Bank operates primarily in the South of Russia. Due to a diversified by industry economic structure, the South of Russia demonstrates more dynamic and stable development trends than most other Russian regions. The growth rate demonstrated by the main industry of the region, agriculture, significantly exceeds Russia's average level. Stable growth is attributable to natural and climatic factors, well developed infrastructure, the structure of economy diversified by activity and characterised by high share of small and medium enterprises. The management believes that these developments improve competitive advantages of the South of Russia.

Management determined loan impairment provisions using the “incurred loss” model required by the applicable accounting standards. These standards require recognition of impairment losses that arose from past events and prohibit recognition of impairment losses that could arise from future events, including future changes in the economic environment, no matter how likely those future events are. Thus final impairment losses from financial assets could differ significantly from the current level of provisions. Refer to Note 4.

3 Summary of Significant Accounting Policies

Basis of presentation. These consolidated financial statements have been prepared in accordance with IFRS under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of premises and equipment, and financial instruments at fair value through profit or loss. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented in the consolidated financial statements, unless otherwise stated.

Consolidated financial statements. Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor’s returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee’s activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group, and are deconsolidated from the date on which control ceases.

The acquisition method of accounting is used to account for acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated, unless the cost cannot be recovered. The Bank and its subsidiary use uniform accounting policies consistent with the Group’s policies.

Associates. Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting, and are initially recognised at cost. Post-acquisition changes in Group’s share of net assets of associates are recognised as follows: (i) the Group’s share of profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates, (ii) the Group’s share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii); all other changes in the Group’s share of the carrying value of net assets of associates are recognised in profit or loss within the share of result of associates. However, when the Group’s share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

3 Summary of Significant Accounting Policies (Continued)

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

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price. The price within the bid-ask spread that is most representative of fair value in the circumstances was used to measure fair value, which management considers is the last price on the reporting date. Prior to 1 January 2013, the quoted market price used for financial assets was the current bid price; the quoted market price for financial liabilities was the current asking price.

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly voluntary transaction between market participants at the measurement date under current market conditions. This is applicable for assets carried at fair value on a recurring basis if the Group: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same. Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

Cost is the amount of cash or cash equivalents paid or the fair value of the other resources given to acquire an asset at the time of its acquisition and includes *transaction costs*. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured and derivatives that are linked to, and must be settled by, delivery of such unquoted equity instruments.

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

3 Summary of Significant Accounting Policies (Continued)

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

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

Initial recognition of financial instruments. Trading securities, derivatives and other financial instruments at fair value through profit or loss] are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention (“regular way” purchases and sales) are recorded at trade date, which is the date on which the Group commits to deliver a financial asset. All other purchases and sales are recognised on the settlement date with the change in value between the commitment date and settlement date not recognised for assets carried at cost or amortised cost; recognised in profit or loss for trading securities, derivatives and other financial assets at fair value through profit or loss; and recognised when the entity becomes a party to an agreement on such financial instrument.

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

Cash and cash equivalents. Cash and cash equivalents are items which can be converted into cash within one business day. All short term interbank placements, beyond overnight placements, are included in due from other banks. Amounts which relate to funds that are of a restricted nature are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

Mandatory cash balances with the Central Bank of the Russian Federation; Mandatory cash balances with the CBRF are carried at amortised cost and represent non-interest bearing mandatory reserve deposits which are not available to finance the Group’s day to day operations, hence are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

Due from other banks. Amounts due from other banks are recorded when the Group advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

3 Summary of Significant Accounting Policies (Continued)

Loans to customers. Loans to customers are recorded when the Group advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates, and has no intention of trading the receivable. Loans to customers are carried at amortised cost.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in the consolidated statement of profit or loss and other comprehensive income for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics, and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.

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

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by the borrower's financial information that the Group obtains;
- the borrower considers bankruptcy;
- there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower; or
- the borrower considers or is implementing financial restructuring, which has resulted or may result in a worsening of the borrower's financial position entailing bankruptcy or persistent insolvency (e.g., a decrease in the borrower's net assets by more than 25%);
- provision by the Bank of favourable terms due to economic or judicial reasons associated with the borrower's financial problems, which the Bank would not have otherwise undertaken (debt restructuring);
- available information on an identifiable decrease of the expected future cash flows for a group of loans, on condition that this decrease cannot be yet identified with certain loans within this group, including national or local economic conditions related to defaults on loans within the group (growth of unemployment in the borrowers' geographic regions, a fall in real estate prices in relation to the mortgage situation in a particular region, adverse changes in the sector affecting the borrowers within the group).

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Impairment of groups of financial assets that are collectively evaluated for impairment is defined based on statistics available to the Group on the amounts of overdue debt arising as a result of loss events and on success of recovery of overdue amounts. Past experience is adjusted if necessary on the basis of current observable data to reflect the effects of current conditions that did not affect past periods, and to remove the effects of past conditions that do not exist currently.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms.

3 Summary of Significant Accounting Policies (Continued)

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the discounted present value of the individually estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

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

Repossessed collateral. Repossessed collateral represents financial and non-financial assets acquired by the Group in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in premises and equipment, other financial assets, investment properties or inventories within other assets depending on their nature and the Group's intention in respect of recovery of these assets, and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Inventories. Inventories are measured at the lower of cost and possible net realisable value. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion (development) and costs necessary to make the sale.

Credit related commitments. The Group issues financial guarantees, letters of credit and commitments to provide loans. Financial guarantees and letters of credit represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties, and carry the same credit risk as loans. Financial guarantees and letters of credit to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment. At the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period. All commitments to extend credit are revocable and are automatically closed upon breach by the borrower of the loan agreement, they create no exposure to credit risk and therefore no provision is made.

Investment properties. Investment property is property held by the Group to earn rental income or for capital appreciation, or both and which is not occupied by the Group. Investment property includes assets under construction for future use as investment property.

Investment property is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value updated to reflect market conditions at the end of the reporting period. Fair value of investment property is the price that would be received from sale of the asset in an orderly transaction, without deduction of any transaction costs. Fair value of the Group's investment property is determined based on reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

Earned rental income is recorded in profit or loss for the year within other operating income. Gains and losses resulting from changes in the fair value of investment property are recorded in profit or loss for the year and presented separately.

3 Summary of Significant Accounting Policies (Continued)

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

Land and premises of the Group are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the of the premises and equipment being revalued. Increases in the carrying amount arising on revaluation are credited to other comprehensive income and increase the revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation surplus in equity; all other decreases are charged to profit or loss for the year. The revaluation reserve for premises and equipment included in equity is transferred directly to retained earnings when the revaluation surplus is realised on the retirement or disposal of the asset, or as the asset is used by the Group; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. If there is no market based evidence of fair value, fair value is estimated using an income approach.

Costs of minor repairs and day-to-day maintenance are expensed when incurred.

At the end of each reporting period management assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior periods is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Other premises and equipment include office and computer equipment and are stated at cost, less accumulated depreciation and provision for impairment, where required.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in the consolidated statement of profit and loss and other comprehensive income.

Depreciation. Land is not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives at the following annual rates:

Premises	2%-2.5%
Other	20%

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

Intangible assets. All of the Group's intangible assets have a definite useful life and primarily include capitalised computer software and software licenses.

Acquired software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of 3 to 10 years. Under certain circumstances the Group may decide to extend useful lives.

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

3 Summary of Significant Accounting Policies (Continued)

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

Finance lease receivables. Where the Group is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the future lease payments. Finance lease receivables are initially recognised at commencement using a discount rate determined at inception.

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

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

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

The difference between the gross investment in the lease and the net investment in the lease represents unearned financial income. The unearned finance income is amortised over the lease term using the discount rate implicit in the lease.

Initial direct costs incurred by lessors include amounts such as intermediary activities, legal fees and internal costs that are incremental and directly attributable to negotiating and arranging a lease. They exclude general overheads such as those incurred by a sales and marketing team. In case of a finance lease direct costs are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term.

Any advances made to the supplier after the date of the inception of the lease and before the date of commencement of the lease term, are recorded as prepayments within other financial assets. Payments received by the Group from the lessee before the commencement of the lease term are recorded as advances received within other financial liabilities. These amounts are adjusted against finance lease receivables on the date of commencement of the lease term.

Impairment losses are recognised in the consolidated statement of profit or loss and other comprehensive income for the year when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of finance lease receivables. Impairment losses are recognised through an allowance account to write down the receivables’ net carrying amount to the present value of expected future cash flows (which exclude future credit losses that have not been incurred), discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Group by counterparty banks. The non-derivative financial liability is carried at amortised cost. If the Group purchases its own debt, the liability 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.

Customer accounts. Customer accounts are non-derivative financial liabilities to individuals, state or corporate customers and are carried at amortised cost.

3 Summary of Significant Accounting Policies (Continued)

Debt securities in issue. Debt securities in issue include promissory notes and debentures issued by the Group. Debt securities are stated at amortised cost. If the Group purchases its own debt securities in issue, they are 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 arising from early retirement of debt.

Borrowings from international financial institutions. Borrowings (including subordinated loans) are recorded from the moment of provision of cash funds to the Group. The non-derivative financial liability is carried at amortised cost.

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts, are carried at their fair value. All derivative instruments are carried as assets when fair value is positive, and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in the consolidated statement of profit and loss and other comprehensive income. The Group does not apply hedge accounting.

Certain derivative instruments embedded in other financial instruments are treated as separate derivative instruments when their risks and characteristics are not closely related to those of the host contract.

Income tax. Income taxes have been provided for in the consolidated financial statements in accordance with Russian legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in the consolidated statement of profit and loss and other comprehensive income except if it is recognised directly in equity because it relates to transactions that are also recognised, in the same or a different period, directly in equity.

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

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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

Uncertain tax positions. The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Trade and other payables. Trade payables are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

3 Summary of Significant Accounting Policies (Continued)

Share capital and share premium. Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Dividends. Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the consolidated financial statements are authorised for issue, are disclosed in the subsequent events note. The statutory accounting reports of the Group with account for IFRS profit are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the current year net profit.

Income and expense recognition. Interest income and expense are recorded in the consolidated statement of profit or loss and other comprehensive income on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and will not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become doubtful for collection, they are written down to the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Loan syndication fees are recognised as income when the syndication has been completed and the Group retains no part of the loan package for itself, or retains a part at the same effective interest rate as for the other participants.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, and which are earned on execution of the underlying transaction, are recorded on its completion. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis. Asset management fees relating to investment funds are recorded rateably over the period that the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continually provided over an extended period of time.

Foreign currency translation. The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The Bank's functional currency and the Group's presentation currency is the national currency of the Russian Federation, Russian roubles ("RR").

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the CBRF at the respective reporting dates. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into each entity's functional currency at period-end official exchange rates of the CBRF, are recognised in the consolidated statement of profit or loss and other comprehensive income.

3 Summary of Significant Accounting Policies (Continued)

At 31 December 2017, the official rate of exchange used for translating foreign currency balances was USD 1 = RR 57.6002 and EUR 1 = RR 68.8668 (2016: USD 1 = RR 60.6569 and EUR 1 = RR 63,8111).

Fiduciary assets. Assets held by the Group in its own name, but on the account of third parties, are not reported in the consolidated statement of financial position. Commissions received from fiduciary activities are shown in fee and commission income.

Offsetting. Financial assets and liabilities are offset and the net amount is recognised in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to either settle on a net basis or to realise the asset and to settle the liability simultaneously.

Staff costs and related contributions. Wages, salaries, contributions to state pension and social insurance funds, paid annual leaves, sick leaves, bonuses and non-monetary benefits are accrued in the period in which the associated services are rendered by the employees of the Group. The Group has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

Segment reporting. Operating segments are reported in a manner consistent with the internal reporting provided to the Bank's Executive Board responsible for making operating decisions. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

Presentation of consolidated statement of financial position in order of liquidity. The Group does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the statement of financial position. Instead, assets and liabilities are presented in order of their liquidity. Refer to Note 29 for analysis of financial and non-financial instruments by expected maturity.

Changes in presentation. Where necessary, corresponding figures have been adjusted to conform to the presentation of the current year amounts.

Management has made these changes to the classification of the prior year's values in order to present more relevant information to the users of these consolidated financial statements. The effect of reclassifications of the information for the year 2016 for the purpose of presentation of consolidated financial statements is disclosed below:

In thousands of Russian Roubles	**2016 (before reclassification)**	**Reclassification**	**2016 (after reclassification)**
Consolidated Statement of Financial Position			
Loans and advances to customers	73 380 554	(73 380 554)	-
Finance lease receivables	266 272	(266 272)	-
Loans to customers and finance lease receivables	-	73 646 826	73 646 826
Intangible assets	310 878	(310 878)	-
Premises and equipment	2 459 566	(2 459 566)	-
Premises, equipment and intangible assets	-	2 770 444	2 770 444
Consolidated Statement of Cash Flows			
Net change in loans and advances to customers	(6 130 204)	6 130 204	-
Net change in finance lease receivables	90 848	(90 848)	-
Net change in loans to customers and finance lease receivables	-	(6 039 356)	(6 039 356)

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the amounts of assets and liabilities within the next financial year recognised in the consolidated financial statements. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Impairment loss on loans to customers. The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the consolidated statement of profit or loss and other comprehensive income for the year, the Group makes professional judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Impairment losses for individually significant loans are based on estimates of discounted future cash flows of the individual loans, taking into account repayments and realisation of any assets held as collateral against the loans.

A 10% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in loan impairment losses of RR 580 422 thousand (2016: RR 542 935 thousand), respectively.

Revaluation of premises and investment properties. Given the absence of a highly liquid market for non-residential premises and land in Rostov, the Rostov Region and other regions of the South of Russia, the Group and the independent appraiser have used professional judgements on comparability of the existing real estate sale deals and available data on transactions with land and real estate between third parties (Notes 11, 12). If the price per square meter of premises had increased (decreased) by 10%, the carrying value of land and premises within premises and equipment recorded in the balance sheet would have increased (decreased) by RR 233 571 thousand (2016: RR 235 019 thousand), respectively. If the price per hectare of land had increased (decreased) by 5%, the total value of investment properties in the balance sheet would have increased (decreased) by RR 2 648 thousand (2016: RR 89 028 thousand), respectively.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

Impairment of investments in associate. The Group management considered impairment of its investment in the associate (Note 10), a heat and power enterprise of heat systems Teploenergo (TEPTS), taking into consideration the valuation by an independent appraiser and discussions of the value with potential investors in this industry. As a result of the analysis, the Group management concluded that no impairment of carrying value of this investment was required. This conclusion largely depends on the correct assessment of 1) further growth of tariffs for services of TEPTS, 2) further solvency of clients of TEPTS, 3) discount rate applied to future cash flows, 4) well proven practice of TEPTS of including payment shortages into the future year tariffs. These parameters largely depend on the macroeconomic situation and the level of governmental regulation in the Russian Federation. Refer to Note 2. The Group set up a provision for non-performing receivables of TEPTS, which the management believes adequate.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 29.

5 Adoption of New or Revised Standards and Interpretations

The following amended standards became effective for the Group from 1 January 2017, but did not have any material impact on the Group:

- Disclosure Initiative – Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017).
- Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017).
- Amendments to IFRS 12, included in Annual Improvements to IFRSs 2014-2016 Cycle (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017).

6 New Accounting Pronouncements

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

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

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest. If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.

6 New Accounting Pronouncements (Continued)

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

Based on an analysis of the Group's financial assets and financial liabilities as at 31 December 2017 and on the basis of the facts and circumstances that exist at that date, the Management of the Group is expecting a significant impact on its consolidated financial statements from the adoption of the new standard on 1 January 2018. Based on the above, the Group expects an increase in provision for impairment of loan portfolio and finance lease receivables within 8% and 11% and a decrease of equity within 4% and 5%. The effect from the initial adoption of IFRS 9 was estimated based on the procedures completed at the current date. The final estimation of the effect from the initial adoption of IFRS 9 as at 1 January 2018 is subject to changes. No significant changes are expected for financial liabilities, other than changes in the fair value of financial liabilities designated at FVTPL that are attributable to changes in the instrument's credit risk, which will be presented in other comprehensive income.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

IFRS 15 "Revenue from Contracts with Customers" (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

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

6 New Accounting Pronouncements (Continued)

IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately.

IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018). The interpretation addresses how to determine the date of the transaction when IAS 21 is applied to account for foreign currency transactions. The interpretation is applied when an entity pays or receives consideration as prepayment under foreign currency contracts. The interpretation provides that the date of transactions is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. When several transactions are conducted to make or receive an advance consideration, the interpretation requires that an entity should determine the transaction date for each payment or receipt of the advance consideration. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019). IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgment or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the Interpretation. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

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

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).
- Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 2, Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 4, Insurance Contracts (issued on 12 September 2016 and effective for annual periods beginning on or after 1 January 2018).

6 New Accounting Pronouncements (Continued)

- Transfers of Investment Property – Amendments to IAS 40 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Annual Improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 1 and IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's consolidated financial statements.

7 Cash and Cash Equivalents

In thousands of Russian Roubles	2017	2016
Cash on hand	3 724 781	3 993 202
Cash balances with the Central Bank of the Russian Federation (other than mandatory reserve deposits)	3 394 714	2 248 718
Correspondent accounts and overnight placements with banks		
- the Russian Federation	773 739	616 094
- other countries	344 905	2 730 724
- settlement accounts with trading systems	131 598	40 943
Total cash and cash equivalents	**8 369 737**	**9 629 681**

At 31 December 2017 and 2016, cash and cash equivalents are neither past due nor impaired. There is no collateral on cash and cash equivalents.

Analysis by credit quality of correspondent accounts and overnight placements at 31 December 2017 and 2016, is as follows:

In thousands of Russian Roubles	Country	Rating Fitch/ S&P	2017	2016
Bank 1	Russia	BBB-	632 666	516 391
Bank 2	Russia	BB+	44 297	29 929
Bank 3	Russia	BBB-	9 424	26 380
Non-banking credit institutions	Russia	-	78 895	43 270
Other	Russia	-	8 457	124
Total for the Russian Federation			**773 739**	**616 094**

(in thousands of Russian Roubles)	Country	Rating Fitch/ S&P	2017	2016
Bank 5	Austria	A-	172 099	224 311
Bank 4	US, UK	A+	170 595	2 437 666
Others with a rating not lower than A		-	2 211	68 747
Total for other countries	**-**	**-**	**344 905**	**2 730 724**

Settlement accounts with trading systems represent balances on the Moscow Stock Exchange and its subsidiary.

Balances on correspondent accounts and overnight placements are not collateralised.

Interest rate analysis of cash and cash equivalents is disclosed in Note 27. Information on related party balances is disclosed in Note 33.

8 Due from Other Banks

In thousands of Russian Roubles	Country	Rating Fitch/ S&P	2017	2016
Short-term deposits with the Central Bank of the Russian Federation	Russia	-	8 607 390	6 004 023
Transferred cover on letter of credit	Germany	BBB+ (2016)	-	10 210
Long-term placements and margin deposits with other banks	Russia	BBB- (2016)	-	300
Total due from other banks	**-**	**-**	**8 607 390**	**6 014 533**

At 31 December 2017 and 2016, amounts due from other banks are neither past due nor impaired. There is no collateral on cash and cash equivalents.

Carrying value of each class of amounts due from other banks approximates fair value at 31 December 2017 and 31 December 2016. Refer to Note 31.

Interest rate analysis of due from other banks is disclosed in Note 27.

9 Loans to Customers and Finance Lease Receivables

In thousands of Russian Roubles	2017	2016
Loans to small and medium size enterprises (SME loans)	27 909 532	28 758 730
Loans to individuals – mortgage loans	27 035 643	20 371 174
Loans to individuals – consumer loans and car loans	22 828 714	22 009 147
Corporate loans	8 042 611	7 670 857
Finance lease receivables (lease)	233 591	270 747
Total loans to customers and finance lease receivables before provision for impairment	**86 050 091**	**79 080 655**
Less provision for impairment of loans to customers and finance lease receivables (provision for impairment)	(5 903 490)	(5 433 829)
Total loans to customers and finance lease receivables	**80 146 601**	**73 646 826**

Movements in the provision for impairment during 2017 are as follows:

In thousands of Russian Roubles	Mortgage loans	Consumer loans and car loans	Loans to SME	Corporate loans	Lease	Total
Provision for impairment at 1 January 2017	765 462	2 011 858	1 899 765	752 269	4 475	5 433 829
Provision for impairment during the year	291 844	348 853	291 627	298 624	(3 478)	1 227 470
Provision on assigned loans written off	(1 544)	(21 842)	(229 698)	(100 170)	(287)	(353 541)
Amounts written off during the year as uncollectible	(8 512)	(113 643)	(119 692)	(162 421)	-	(404 268)
Provision for impairment at 31 December 2017	**1 047 250**	**2 225 226**	**1 842 002**	**788 302**	**710**	**5 903 490**

The provision for impairment during 2017 differs from the amount presented in consolidated statement of other comprehensive income, due to RR 58 673 thousand recovery of amounts previously written off as uncollectible. The amount of the recovery was credited directly to the provisions line in profit or loss for the year. The amount presented in the consolidated statement of other comprehensive income includes a loss on initial recognition of asset at a rate below market in the amount of RR 8 281 thousand which is not a provision for impairment.

9 Loans to Customers and Finance Lease Receivables (Continued)

Movements in the provision for impairment during 2016 are as follows:

In thousands of Russian Roubles	Mortgage loans	Consumer loans and car loans	Loans to SME	Corporate loans	Lease	Total
Provision for impairment at 1 January 2016	591 385	1 767 575	1 739 898	503 622	6 158	4 608 638
Provision for impairment during the year	179 615	513 720	738 563	248 827	(478)	1 680 247
Provision on assigned loans written off	(3 592)	(4 877)	(331 561)	(180)	-	(340 210)
Amounts written off during the year as uncollectible	(1 946)	(264 560)	(247 135)	-	(1 205)	(514 846)
Provision for impairment at 31 December 2016	**765 462**	**2 011 858**	**1 899 765**	**752 269**	**4 475**	**5 433 829**

The provision for impairment during 2016 differs from the amount presented in consolidated statement of other comprehensive income, due to RR 199 586 thousand recovery of amounts previously written off as uncollectible. The amount of the recovery was credited directly to the provisions line in profit or loss for the year.

In 2017, the Group assigned its rights to overdue and impaired loans totally amounting (before impairment provision) to RR 827 788 thousand (2016: RR 634 286 thousand) for RR 474 247 thousand (2016: RR 293 998 thousand). Net result of the assignment of these loans is zero. The Group also assigned its rights to loans previously written off for the amount of RR 3 071 thousand (2016: RR 11 582 thousand) for RR 2 515 thousand (2016: RR 8 113 thousand). Net result of the assignment of loans previously written off as uncollectible is RR 2 515 thousand (2016: RR 8 113 thousand) and was recorded in the consolidated statement of profit and loss within other operating income. No right of recourse is provided for assignment agreements.

Economic sector risk concentrations within the loan portfolio are as follows:

	2017		2016	
In thousands of Russian Roubles	Amount	%	Amount	%
Individuals (total), incl.	49 864 357	57.9	42 380 321	53.6
mortgage loans	*27 035 643*	*31.4*	*20 371 174*	*25.8*
consumer loans	*20 835 112*	*24.2*	*19 563 284*	*24.7*
car loans	*1 993 602*	*2.3*	*2 445 863*	*3.1*
Trade	10 487 269	12.2	10 764 440	13.6
Agriculture	9 087 365	10.6	9 781 991	12.4
Manufacturing	6 963 539	8.1	8 141 567	10.3
Transport	4 314 986	5.0	3 046 307	3.8
Construction	1 719 918	2.0	1 485 568	1.9
Other	3 613 657	4.2	3 480 461	4.4
Total loans to customers and finance lease receivables before provision for impairment	**86 051 091**	**100.0**	**79 080 655**	**100.0**

At 31 December 2017, the Group had 10 major borrowers with aggregate loan amounting to RR 8 337 613 thousand, or 9.7% of the loan portfolio and finance lease receivables (2016: RR 8 771 017 thousand or 11.1%).

At 31 December 2017, the Group had a major group of borrowers with aggregate loan amounting to RR 2 143 975 thousand, or 6.0% of the corporate loan portfolio, including SME (2016: RR 2 062 396 thousand or 5.7%). Additionally, during 2016 a part of loans to this group of borrowers has been repaid by way of the transfer of property to the Group (Note 12).

9 Loans to Customers and Finance Lease Receivables (Continued)

Information about the carrying amount of loans and advances to customers by classes of collateral at 31 December 2017 is as follows:

In thousands of Russian Roubles	**Mortgage loans**	**Consumer loans and car loans**	**Loans to SME**	**Corporate loans**	**Lease**	**Total**
Loans collateralised by:	26 754 927	16 174 088	27 881 252	7 612 121	233 591	78 655 979
real estate	*21 708 721*	*3 575 083*	*17 238 487*	*6 593 603*	-	*49 115 894*
tradable securities	-	*56 918*	*292 636*	-	-	*349 554*
motor vehicles	*30 284*	*6 161 745*	*5 161 350*	*164 028*	*145 637*	*11 663 044*
agricultural machines	*598*	*98 409*	*2 425 063*	*373 041*	*26 736*	*2 923 847*
equipment and other property	*66 860*	*149 018*	*767 164*	*173 982*	*61 218*	*1 218 242*
pledge of rights	*4 035 140*	*8 477*	*54 999*	-	-	*4 098 616*
goods in turnover	-	*1 115*	*505 111*	*25 215*	-	*531 441*
third parties' guarantees	*913 324*	*6 123 323*	*1 436 442*	*282 252*	-	*8 755 341*
Unsecured loans	280 716	6 654 626	28 280	430 490	-	7 394 112
Total loans to customers and finance lease receivables before provision for impairment	**27 035 643**	**22 828 714**	**27 909 532**	**8 042 611**	**233 591**	**86 050 091**

Information about the carrying amount of loans and advances to customers by classes of collateral at 31 December 2016 is as follows:

In thousands of Russian Roubles	**Mortgage loans**	**Consumer loans and car loans**	**Loans to SME**	**Corporate loans**	**Lease**	**Total**
Claims collaterised by:	20 055 290	15 386 797	28 721 476	7 376 702	270 747	71 811 012
real estate	*16 846 493*	*3 038 371*	*18 349 842*	*6 199 395*	-	*44 434 101*
tradable securities	-	*52 000*	*481 749*	-	-	*533 749*
motor vehicles	*40 314*	*6 416 757*	*4 523 020*	*199 844*	*151 477*	*11 331 412*
agricultural machines	*3 011*	*62 846*	*2 106 695*	*279 411*	*38 099*	*2 490 062*
equipment and other property	*23 375*	*8 722*	*918 836*	*453 096*	*81 171*	*1 485 200*
pledge of rights	*2 194 509*	*2 793*	*71 720*	-	-	*2 269 022*
goods in turnover	-	*1 087*	*685 326*	*74 890*	-	*761 303*
third parties' guarantees	*947 588*	*5 804 221*	*1 584 288*	*170 066*	-	*8 506 163*
Unsecured loans	315 884	6 622 350	37 254	294 155	-	7 269 643
Total loans to customers and finance lease receivables before provision for impairment	**20 371 174**	**22 009 147**	**28 758 730**	**7 670 857**	**270 747**	**79 080 655**

The carrying value of loans and leases was allocated based on liquidity of the assets taken as collateral.

9 Loans to Customers and Finance Lease Receivables (Continued)

Analysis by credit quality of loans and advances to customers outstanding at 31 December 2017 is as follows:

In thousands of Russian Roubles	Mortgage loans	Consumer loans and car loans	Loans to SME	Corporate loans	Lease	Total
Current and not impaired						
Individually significant borrowers						
A2 rated	-	-	9 946	726 055	-	736 001
A3 rated	-	-	563 431	-	-	563 431
B1 rated	-	-	-	4 215 137	-	4 215 137
Claims assessed on a portfolio basis						
Mortgage	25 294 624	-	-	-	-	25 294 624
Consumer loans	-	18 440 619	-	-	-	18 440 619
Car loans	-	1 854 690	-	-	-	1 854 690
Agriculture	-	-	7 630 410	748 699	-	8 379 109
Trade	-	-	8 833 107	639 029	-	9 472 136
Manufacturing	-	-	3 506 260	583 808	-	4 090 068
Other	-	-	4 808 030	580 957	-	5 388 987
Lease	-	-	-	-	229 039	229 039
Total current and not impaired	**25 294 624**	**20 295 309**	**25 351 184**	**7 493 685**	**229 039**	**78 663 841**
Past due but not impaired						
Claims assessed on a portfolio basis						
1 to 90 days overdue	573 077	441 113	69 968	-	-	1 084 158
Total past due but not impaired	**573 077**	**441 113**	**69 968**	**-**	**-**	**1 084 158**
Impaired						
Claims assessed on a portfolio basis						
up to 180 days overdue	224 701	328 186	477 721	541 761	3 538	1 575 907
over 180 days overdue	943 241	1 764 106	2 010 659	7 165	1 014	4 726 185
Total impaired	**1 167 942**	**2 092 292**	**2 488 380**	**548 926**	**4 552**	**6 302 092**
Total loans to customers and finance lease receivables before provision for impairment	**27 035 643**	**22 828 714**	**27 909 532**	**8 042 611**	**233 591**	**86 050 091**
Less impairment provision	(1 047 250)	(2 225 226)	(1 842 002)	(788 302)	(710)	(5 903 490)
Total loans to customers and finance lease receivables	**25 988 393**	**20 603 488**	**26 067 530**	**7 254 309**	**232 881**	**80 146 601**

9 Loans to Customers and Finance Lease Receivables (Continued)

Analysis by credit quality of loans and advances to customers outstanding at 31 December 2016 is as follows:

In thousands of Russian Roubles	Mortgage loans	Consumer loans and car loans	Loans to SME	Corporate loans	Lease	Total
Current and not impaired						
Individually significant borrowers						
A1 rated	-	-	1 439 064	452 134	-	1 891 198
A2 rated	-	-	78 397	675 874	-	754 271
A3 rated	-	-	1 304 371	2 449 629	-	3 754 000
B2 rated	-	-	-	1 583 221	-	1 583 221
Claims assessed on a portfolio basis						
Mortgage	18 877 478	-	-	-	-	18 877 478
Consumer loans	-	17 297 596	-	-	-	17 297 596
Car loans	-	2 295 381	-		-	2 295 381
Agriculture	-	-	6 723 376	605 601	-	7 328 977
Trade	-	-	7 982 651	344 725	-	8 327 376
Manufacturing	-	-	3 968 855	667 505	-	4 636 360
Other	-	-	4 524 456	469 164	-	4 993 620
Lease	-	-	-	-	261 498	261 498
Total current and not impaired	**18 877 478**	**19 592 977**	**26 021 170**	**7 247 853**	**261 498**	**72 000 976**
Past due but not impaired						
Claims assessed on a portfolio basis						
1 to 90 days overdue	502 335	549 167	92 575	259	2 306	1 146 642
Total past due but not impaired	**502 335**	**549 167**	**92 575**	**259**	**2 306**	**1 146 642**
Impaired						
Claims assessed on a portfolio basis						
up to 180 days overdue	178 734	262 720	256 848	-	551	698 853
over 180 days overdue	812 627	1 604 283	2 388 137	422 745	6 392	5 234 184
Total impaired	**991 361**	**1 867 003**	**2 644 985**	**422 745**	**6 943**	**5 933 037**
Total loans to customers and finance lease receivables before provision for impairment	**20 371 174**	**22 009 147**	**28 758 730**	**7 670 857**	**270 747**	**79 080 655**
Less impairment provision	(765 462)	(2 011 858)	(1 899 765)	(752 269)	(4 475)	(5 433 829)
Total loans to customers and finance lease receivables	**19 605 712**	**19 997 289**	**26 858 965**	**6 918 588**	**266 272**	**73 646 826**

9 Loans to Customers and Finance Lease Receivables (Continued)

The Group applied the portfolio provisioning methodology prescribed by IAS 39, Financial Instruments: Recognition and Measurement, and created portfolio provisions for impairment losses that were incurred, but have not been specifically identified with any individual loan, by the end of the reporting period. The Group's policy is to classify each loan as 'neither past due nor impaired' until specific objective evidence of impairment of the loan is identified. The impairment provisions may exceed the total gross amount of individually impaired loans as a result of this policy and the portfolio impairment methodology.

The primary factors that the Group considers in determining whether a loan is impaired are its overdue status and realisability of related collateral, if any. As a result, the Group presents above an ageing analysis of loans that are determined to be impaired.

Past due, but not impaired loans primarily include collateralised loans where the fair value of collateral covers the overdue interest and principal repayments. The amount reported as past due is the whole balance of such loans, not only the individual instalments that are past due. Based on the results of the collection rate analysis, the Group assigns one of the following ratings to borrowers with individually significant, unimpaired and not past due loans:

A1 – is assigned when a comprehensive analysis of the borrower's financial and economic activity and other information on the borrower, including information on external conditions, confirm the borrower's absolute financial stability and the absence of any negative aspects or trends (with consideration of the seasonal factor) that can affect the borrower's financial stability in future, or existence of certain insignificant adverse aspects or trends that do not, and should not, affect the borrower's financial stability in foreseeable future (or before the agreement expires).

A2 – is assigned when a comprehensive analysis of the borrower's financial and economic activity and/or other information on the borrower confirm the absence of any direct threats to the borrower's financial position in the presence of adverse aspects and/or trends in the borrower's activity (with consideration of the seasonal factor) which in foreseeable future (or before the agreement expires) can cause financial problems unless the borrower undertakes necessary actions to remedy the situation, however the analysis of movements on the borrower's settlement accounts with the Bank confirms the borrower's ability to fully meet its obligations to the Group in due time.

A3 – is assigned when a comprehensive analysis of the borrower's financial and economic activity and/or other information on the borrower confirm the absence of any direct threats to the borrower's financial position in the presence of adverse aspects and/or trends in the borrower's activity (with consideration of the seasonal factor) which in foreseeable future (or before the agreement expires) can cause financial problems unless the borrower undertakes necessary actions to remedy the situation, however the sound budgeted performance indicators of the borrower of the Bank confirm the borrower's ability to fully meet its obligations in due time.

B1 – is assigned when a comprehensive analysis of the borrower's financial and economic activity and/or other information on the borrower indicates the absence of any direct threats to the borrower's financial position in the presence of adverse aspects and/or trends in the borrower's activity (with consideration of the seasonal factor) which in foreseeable future (or before the agreement expires) can lead to financial problems unless the borrower undertakes necessary actions to remedy the situation, and the analysis of actual and justified performance indicators of a group of entities, of which the borrower is a part, allows to conclude that the borrower will be able to repay its debt with the use of the group's funds.

B2 – is assigned when a comprehensive analysis of the borrower's financial and economic activity and/or other information on the borrower indicates the absence of any direct threats to the borrower's financial position in the presence of adverse aspects and/or trends in the borrower's activity (with consideration of the seasonal factor) which in foreseeable future (or before the agreement expires) can cause financial problems unless the borrower undertakes necessary actions to remedy the situation, and the analysis of movements on the borrower's settlement accounts with the Bank indicates insufficiency of the movements for the purpose of debt repayment, however, the analysis of the borrower's loan collateral enables to conclude that the borrower will be able to repay its debt to the Group by selling the available collateral.

9 Loans to Customers and Finance Lease Receivables (Continued)

An entity's rating deterioration alone is not an impairment indicator, however, it may become an impairment indicator when other available information is taken into account.

The financial effect of collateral is presented by disclosing collateral values separately for (1) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets") and (2) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets").

The effect of collateral at 31 December 2017 is as follows:

	Over-collateralised assets		**Under-collateralised assets**	
In thousands of Russian Roubles	**Assets**	**Fair value of collateral**	**Assets**	**Fair value of collateral**
Mortgage loans	26 186 231	75 513 278	849 412	513 400
Consumer loans and car loans	14 848 036	35 014 026	7 980 678	1 040 082
Loans to SME	12 689 914	21 707 234	15 219 618	7 506 058
Corporate loans	2 880 075	5 641 426	5 162 536	2 537 146
Lease	233 591	543 635	-	

The effect of collateral at 31 December 2016 is as follows:

	Over-collateralised assets		**Under-collateralised assets**	
In thousands of Russian Roubles	**Assets**	**Fair value of collateral**	**Assets**	**Fair value of collateral**
Mortgage loans	19 671 816	57 291 214	699 358	329 577
Consumer loans and car loans	14 094 285	33 272 291	7 914 862	1 038 894
Loans to SME	12 689 914	21 707 234	15 219 618	-
Corporate loans	2 880 075	5 641 426	5 162 536	-
Lease	266 272	649 545	-	-

At 31 December 2017, fair value of collateral on corporate loans and finance lease includes movable property (vehicles, agricultural machines, equipment, etc.) amounting to RR 14 158 279 thousand (2016: RR 8 816 100 thousand). The Group believes it reasonable to use this type of loan collateral, since it has practical experience in collecting overdue loans at the account of such property.

The fair value of the collateral in respect of retail loans includes personal guarantees in the amount less than or equal to the loan amount. The fair value of these guarantees was RR 45 738 460 thousand at 31 December 2017 (2016: RR 38 047 097 thousand). The Group believes it reasonable to use personal guarantees as loan collateral, since it has practical experience in collecting overdue loans from guarantors.

The fair value of residential real estate at the end of the reporting period was estimated by indexing the values determined by the Group's internal credit staff at the time of loan inception for the average increases in residential real estate prices by city and region. The fair value of other real estate and other assets was determined by the credit department using analysis of comparable offers in the open market, subject to information available on specific features of assets being evaluated based on the Group's internal guidelines. Provision for impairment reflects the risk that the management will not be able to change the right of ownership and take possession of the collateral on a particular loan, or the amount received from the disposal of the collateral will be insufficient.

At 31 December 2017, there were no loans to customers pledged as a collateral under obligations to other counterparties (31 December 2016: loans to customers totally amounting to RR 430 413 thousand were pledged as a collateral under obligations to other banks). Refer to Note 29.

Carrying value of each class of loans to customers and finance lease receivables approximates their fair value at 31 December 2017 and 31 December 2016. Refer to Note 31.

Geographical, maturity and interest rate analyses are disclosed in Note 27. Information on related party balances is disclosed in Note 33.

10 Investment in Associate

Before December 2007, AO TEPTS Teploenergo was a subsidiary of Center-invest Bank. Following the additional share issue in December 2007, Center-invest Bank Group holds 47.31% in the share capital of AO TEPTS Teploenergo and EBRD holds 25%. The core activity of the company is heat energy generation, transmission and distribution in the town of Taganrog, Rostov Region.

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

In thousands of Russian Roubles	2017	2016
Carrying amount as at 1 January	315 409	323 144
Share of result of associate	(9 941)	(7 735)
Revaluation of premises and equipment	-	-
Carrying amount at 31 December	**305 468**	**315 409**

Summarised financial information on this associate, including total assets, liabilities, revenues and profit or loss, was as follows:

In thousands of Russian Roubles	2017	2016
Total current assets	226 740	282 498
Total non-current assets	683 879	704 909
Total current liabilities	(159 038)	(180 500)
Total non-current liabilities	(105 909)	(140 221)
Revenue	536 005	549 767
Loss	(21 014)	(16 348)
% interest held	47.31%	47.31%

11 Premises, Equipment and Intangible Assets

In thousands of Russian Roubles	Note	Land and premises	Other property and equipment	Intangible assets	Total
Residual value as at 31 December 2015		**2 166 518**	**104 023**	**252 756**	**2 523 297**
Carrying amount					
Balance at the beginning of the year		2 357 200	1 107 343	390 961	3 855 504
Additions		17 690	68 311	88 491	174 492
Disposals		-	(8 265)	(3)	(8 268)
Transfer to other assets		(37 882)	-	-	(37 882)
Revaluation		29 885	-	-	29 885
Balance at the end of the year		**2 366 893**	**1 167 389**	**479 449**	**4 013 731**
Accumulated depreciation					
Balance at the beginning of the year		190 682	1 003 320	138 205	1 332 207
Depreciation charge	23	46 330	62 709	30 369	139 408
Disposals		-	(8 020)	(3)	(8 023)
Revaluation		(220 305)	-	-	(220 305)
Balance at the end of the year		**16 707**	**1 058 009**	**168 571**	**1 243 287**
Residual value as at 31 December 2016		**2 350 186**	**109 380**	**310 878**	**2 770 444**
Carrying amount					
Balance at the beginning of the year		2 366 893	1 167 389	479 449	4 013 731
Additions		41 918	149 457	48 588	239 963
Disposals		(22 800)	(17 518)	(146 812)	(187 130)
Written off		-	-	(40 545)	(40 545)
Balance at the end of the year		**2 386 011**	**1 299 328**	**340 680**	**4 026 019**
Accumulated depreciation					
Balance at the beginning of the year		16 707	1 058 009	168 571	1 243 287
Depreciation charge	23	45 116	70 610	33 747	149 473
Disposals		(11 524)	(16 113)	(146 430)	(174 067)
Balance at the end of the year		**50 299**	**1 112 506**	**55 888**	**1 218 693**
Residual value as at 31 December 2017		**2 335 712**	**186 822**	**284 792**	**2 807 326**

As at 31 December 2017, no independent valuation of premises and land was carried out, as there were no significant changes in the real estate market of the South Federal District in 2017. Premises and land were independently valued at 31 December 2016 by an independent firm of valuers ZAO BDO, Moscow, who hold a recognised and relevant professional qualification and have recent professional experience in valuation of assets of similar location and category. The valuation was based on market value determined using the comparative approach. To determine the fair value of premises and land plots, the appraiser adjusted the value of similar assets (the asking price of premises and land plots similar to those subject to valuation) for key price-forming parameters of the assets: designation of premises or land plot, adjustments for bargaining over price, location within the city, location in relation to main transport routes, the area, the set of transferred rights, etc.

11 Premises and Equipment and Intangible Assets (Continued)

Residual value of intangible assets includes investments into the following software: SAP for Banking, SAP Business Warehouse data storage, TranzWare processing centre, CFT settlement centre, SAP Process Integration, GEMINI IBSC remote banking service system, SAP Human Capital Management, Terrasoft XRM Bank and other.

12 Investment Properties

In thousands of Russian Roubles	**2017**	**2016**
Investment properties at fair value at 1 January	**2 609 073**	**126 822**
Additions	9 989	2 482 251
Disposals	(2 196 091)	-
Investment properties at fair value at 31 December	**422 971**	**2 609 073**

Investment properties are fair valued by independent qualified valuer on an annual basis on 31 December or at the time when they are recorded in the Group's balance sheet.

Additions during 2016 include properties amounting to RR 2 196 091 thousand obtained as a repossessed collateral for loans from a major group of borrowers. These properties are mostly represented by port areas and port facilities. They were leased out under an operating lease to the same borrowers for the periods from one year to five years with the right of early termination of leasing as agreed by the parties. In 2017 these assets were sold.

As at 31 December 2017, no independent valuation of investment properties was carried out, as there were no significant changes in the real estate market of the South Federal District in 2017. As at 31 December 2016, the above facilities and land were valued by an independent firm of valuers, OOO AF Center-Audit, Rostov-on-Don, who hold a recognised and relevant professional qualification and who have recent professional experience in valuation of assets of similar location and category. The valuation was based on market value determined using the comparative approach. To determine the fair value of land plots, the appraiser adjusted the value of similar assets (the asking price of plots similar to those subject to valuation) for key price forming parameters of the assets: designation of the land plot, adjustments for bargaining over price, for location within the city, location in relation to main transport routes and houses, the area, the set of transferred rights, etc. To determine the fair value of premises and facilities, the appraiser adjusted the market value of similar assets for their accumulated depreciation.

13 Other Financial Assets

In thousands of Russian Roubles	**2017**	**2016**
Trade receivables and prepayments	577 032	476 910
Plastic cards receivables	104 537	16 505
Other	53 135	68 183
Less impairment provision	(33 135)	(1 305)
Total other financial assets	**701 569**	**560 293**

The primary factor that the Group considers in determining whether a receivable is impaired is its overdue status.

13 Other Financial Assets (Continued)

Movements in the provision for impairment of other financial assets during 2017 and 2016 are as follows:

In thousands of Russian Roubles	2017	2016
Provision for impairment of other financial assets at 1 January	**1 305**	**-**
Charges to provision for impairment of other financial assets for the year	41 451	23 046
Disposal of impairment provision at the account of writing off the debt	(9 621)	(21 741)
Provision for impairment of other financial assets at 31 December	**33 135**	**1 305**

Carrying value of each class of other financial assets approximates fair value at 31 December 2017 and 31 December 2016. The fair value of other financial assets is disclosed in Note 31.

14 Other Assets

In thousands of Russian Roubles	2017	2016
Repossessed collateral	575 288	240 923
Prepaid income tax	149 185	84 393
Inventories	45 398	54 440
Prepaid taxes and recoverable taxes (other than income tax)	27 150	83 945
Prepaid expenses	25 110	11 055
Prepayments to suppliers of equipment for leasing purposes	16 213	15 703
Equipment purchased for leasing purposes	6 063	17 755
Other	35 746	30 428
Less impairment provision	(287 644)	(120 818)
Total other assets	**592 509**	**417 824**

Repossessed collateral represents real estate and other assets acquired by the Group in the course settlement of overdue loans. The Group expects to dispose of the assets in the foreseeable future. The assets do not meet the definition of non-current assets held for sale, and are classified as inventories in accordance with IAS 2 “Inventories”. The assets were initially recognised at fair value when acquired.

At 31 December 2017 and 31 December 2016, the repossessed collateral includes land plots reclassified from premises and equipment.

Movements in the provision for impairment of other financial assets during 2017 and 2016 are as follows:

In thousands of Russian Roubles	2017	2016
Provision for impairment of other assets at 1 January	**120 818**	**71 954**
Charges to provision for impairment of other assets for the year	214 046	92 862
Recovery of provision for impairment upon sale of assets at the price exceeding their carrying amount	(796)	(14 492)
Disposal of impairment provision at the account of writing off the debt and sale of properties	(46 424)	(29 506)
Provision for impairment of other assets at 31 December	**287 644**	**120 818**

15 Customer Accounts

In thousands of Russian Roubles	2017	2016
State and public organisations		
- Current/settlement accounts	173 789	51 379
- Term placements	15 061	17 086
Other legal entities		
- Current/settlement accounts	14 419 864	12 006 755
- Term placements	2 153 598	2 397 579
Individuals		
- Current accounts/demand deposits	6 963 109	5 708 786
- Term placements	63 492 515	60 251 780
Total customer accounts	**87 217 936**	**80 433 365**

State and public organisations exclude government owned profit oriented businesses.

Industry concentrations within customer accounts are as follows:

	2017		2016	
In thousands of Russian roubles	Amount	%	Amount	%
Individuals	70 455 624	80.8	65 960 566	82.0
Trade	4 820 383	5.5	4 115 663	5.1
Agriculture	2 184 372	2.5	1 947 722	2.4
Construction	2 202 046	2.5	1 760 495	2.2
Manufacturing	2 277 824	2.6	1 543 864	1.9
Transport	1 026 175	1.2	798 740	1.0
Other	4 251 512	4.9	4 306 318	5.4
Total customer accounts	**87 217 936**	**100.0**	**80 433 371**	**100.0**

At 31 December 2017, the total aggregate balance of 10 largest clients of the Group was RR 2 283 121 thousand or 2.6% of customer accounts (2016: RR 2 192 236 thousand or 2.7% of customer accounts).

Carrying value of each class of customer accounts approximates fair value at 31 December 2017 and 31 December 2016. Refer to Note 31.

Geographical, maturity and interest rate analyses are disclosed in Note 27. Information on related party balances is disclosed in Note 33.

16 Debt Securities in Issue

In thousands of Russian Roubles	2017	2016
Promissory notes	589 652	105 449
Bonds	472 520	321 583
Total debt securities in issue	**1 062 172**	**427 032**

During 2017, the Group arranged three issues of bonds for public. 545 thousand bonds with a par value of RR 1000 were placed.

Each bond has a par value of RR 1 000 and an embedded put option at par value of the bond exercisable at the moment of coupon income change.

Geographical, currency, maturity and interest rate analyses of debt securities in issue are disclosed in Note 29.

17 Borrowings from International Financial Institutions

The principal conditions of these loans are as follows:

In thousands of Russian Roubles	Currency	Original issue date	Repayable by tranches by:	Balance at 31 December 2017	Balance at 31 December 2016
Black Sea Bank of Reconstruction and Development (Greece)	RR	June 2017	June 2020	996 297	-
Funds Credit Suisse Microfinance Fund Management Company and responsAbility SICAV (Lux) (ResponsAbility)	RR	August 2013	February 2017	-	182 116
Total borrowings from international financial institutions	**-**	**-**	**-**	**996 297**	**182 116**

The carrying value of borrowings from international financial institutions approximates fair value at 31 December 2017 and 31 December 2016. Refer to Note 31.

Geographical, maturity and interest rate analyses are disclosed in Note 27. Information on covenants related to borrowings from international financial institutions is disclosed in Note 29.

18 Subordinated Debt

During 2017, the Group made an early repayment of subordinated loans to DEG (Deutsche Investitions und Entwicklungsgesellschaft GmbH) and European Bank for Reconstruction and Development (EBRD).

In thousands of Russian Roubles	2017	2016
Subordinated loan from DEG	-	1 846 573
Subordinated loan from EBRD	-	1 231 067
Total subordinated debt	**-**	**3 077 640**

The principal conditions of these subordinated loans are as follows:

	Amount (thousands of USD)	Issue date	Maturity date (contracted)	Effective repayment date
Subordinated loan from DEG	30 000	June 2008	October 2018	April 2017
Subordinated loan from EBRD	20 000	April 2008	October 2018	October 2017

The carrying value of subordinated loans approximates their fair value at 31 December 2016, as interest rate of these loans is floating. Refer to Note 31.

The claims of lenders against the Group in respect of the principal and interest on these loans will be subordinated to the claims of other creditors in accordance with legislation of the Russian Federation.

Geographical, maturity and interest rate analyses are disclosed in Note 29. Information on covenants related to borrowings is disclosed in Note 29. Information on related party balances is disclosed in Note 33.

19 Other Liabilities

In thousands of Russian Roubles	Note	2017	2016
Deposit Insurance Agency		88 487	322 671
Accrued employee benefit costs		86 296	124 122
Social insurance contributions payable		48 255	-
Taxes payable other than income tax		33 040	30 598
Provisions for contingencies	31	10 657	10 766
Other		8 404	4 517
Total other liabilities		**275 139**	**492 674**

Movements in the provision for contingent liabilities during 2017 and 2016 are as follows:

In thousands of Russian Roubles	2017	2016
Provision for contingent liabilities at 1 January	10 766	13 668
Provision for liabilities and charges during the year	2 163	5 629
Utilisation of provision during the year	(2 272)	(8 531)
Provision for contingent liabilities at 31 December	**10 657**	**10 766**

The provision for contingent liabilities includes a provision for legal claims brought against the Group by borrowers and lessees. In management's opinion, after taking appropriate legal advice, the outcome of these legal claims will not give rise to any significant loss beyond the accrued amounts. Refer to Note 29.

20 Share Capital

	Number of outstanding shares			**Ordinary shares**	**Preference shares**	**Share premium**	**Total**
In thousands of Russian Roubles except for the number of shares	**Ordinary shares**	**Preference shares with a par value of RR 4**	**Preference shares with a par value of RR 1 000**				
At 1 January 2016	**84 307 507**	**123 125**	**90 000**	**1 230 354**	**95 923**	**2 078 860**	**3 405 137**
At 31 December 2016	**84 307 507**	**123 125**	**90 000**	**1 230 354**	**95 923**	**2 078 860**	**3 405 137**
At 31 December 2017	**84 307 507**	**123 125**	**90 000**	**1 230 354**	**95 923**	**2 078 860**	**3 405 137**

The nominal registered amount of the Bank's share capital, prior to restatement of capital contributions made before 1 January 2003 to the purchasing power of the Russian Rouble at 31 December 2002, is RR 933 568 thousand (2016: RR 933 568 thousand). As at 31 December 2017 and 31 December 2016, all of the Bank's outstanding shares were authorised, issued and fully paid in.

All ordinary shares have a nominal value of RR 10 per share (2016: RR 10 per share). Each share carries one vote.

The preference shares have a par value of RR 4 and RR 1 000 and carry no voting rights but rank ahead of the ordinary shares in the event of the Bank's liquidation. The preference shares are not redeemable. Preference share dividends are set at 20 % p.a. (2016: 20 % p.a.) and rank above ordinary dividends. If preference dividends are not declared by ordinary shareholders, the preference shareholders obtain the right to vote as ordinary shareholders until such time that the dividend is paid.

Share premium represents the excess of contributions received over the nominal value of shares issued.

21 Interest Income and Expense

In thousands of Russian Roubles	2017	2016
Interest income		
Loans to SME	3 735 802	4 411 565
Consumer loans and car loans	3 319 880	3 564 438
Mortgage loans	2 636 299	2 066 652
Corporate loans	815 395	901 687
Short-term deposits with the Central Bank of the Russian Federation, amounts due from and accounts with other banks	442 616	275 685
Impaired loans	397 500	381 504
Finance income arising from leasing	50 803	64 288
Total interest income	**11 398 295**	**11 665 819**
Interest expense		
Term deposits and accounts of individuals	5 072 308	5 405 306
Borrowings from international financial institutions and subordinated debt	168 887	534 064
Term deposits of legal entities	121 346	237 639
Current accounts of legal entities	80 691	71 450
Bonds in issue	34 914	221 129
Promissory notes issued	11 872	26 363
Term placements of other banks	5 074	48 465
Total interest income	**5 495 092**	**6 544 416**
Net interest income	**5 903 203**	**5 121 403**

22 Fee and Commission Income and Expense

In thousands of Russian Roubles	2017	2016
Fee and commission income		
- Settlement transactions	527 660	509 162
- Plastic card transactions	411 697	334 550
- Cash transactions	269 541	255 721
- Guarantees issued	80 616	77 744
- Currency transactions	35 130	31 848
- Other	41 944	39 375
Total fee and commission income	**1 366 588**	**1 248 400**
Fee and commission expense		
- Plastic card transactions	233 156	184 847
- Settlement and currency transactions	71 451	79 942
- Cash collection	54 121	54 824
- Collateral authentication and valuation, mortgage registration	49 414	26 816
- Mobilisation of resources	6 426	7 263
- Collection agencies	4 348	40 902
- Guarantees received	3 026	99
- Other	8 924	6 535
Total fee and commission expense	**430 866**	**401 228**
Net fee and commission income	**935 722**	**847 172**

23 Administrative and Other Operating Expenses

In thousands of Russian Roubles	Note	2017	2016
Staff costs		1 751 317	1 443 781
Maintenance and lease of premises and equipment		308 396	261 556
Consulting and information services		193 946	98 949
Depreciation of premises and equipment	11	115 726	109 039
Taxes other than on income		112 146	117 468
Telecommunication and mail		71 802	59 739
Benefits paid to the Board of Directors		65 532	39 689
Repair of premises and equipment		61 212	30 382
Amortisation of intangible assets	11	33 747	30 369
Advertising and marketing services		33 378	35 371
Security		31 600	33 640
Staff costs other than salary		30 956	33 959
Insurance		27 333	22 129
Stationary		22 081	21 091
Maintenance and repair of motor vehicles		17 207	15 404
Travel and representative expenses		16 537	24 878
Other		52 359	40 237
Total administrative and other operating expenses		**2 945 275**	**2 417 681**

Included in staff costs are contributions to statutory pension of RR 274 913 thousand, social security fund and obligatory medical insurance fund of RR 104 685 thousand (2016: RR 203 390 and RR 79 945 thousand accordingly).

24 Income Taxes

(a) Components of income tax expense

Income tax expense comprises the following:

In thousands of Russian Roubles	2017	2016
Current income tax expense	184 213	199 967
Deferred tax	254 630	84 188
Income tax expense for the year	**438 843**	**284 155**

(b) Reconciliation between the tax expense and profit or loss multiplied by applicable tax rate

The income tax rate applicable to the Group's income is 20% (2016: 20%). A reconciliation between the expected and the actual taxation charge is provided below.

In thousands of Russian Roubles	2017	2016
Profit before tax	**1 864 415**	**1 288 126**
Expected tax charge at statutory rate (2017: 20%; 2016: 20%)	372 883	257 625
Tax effect of items which are not deductible for taxation purposes:		
- Non-deductible expenses	65 960	26 530
Income tax expense for the year	**438 843**	**284 155**

24 Income Taxes (Continued)

(c) Deferred taxes analysed by type of temporary difference

Differences between IFRS and statutory taxation regulations in Russia give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below, and is recorded at the rate of 20% (2016: 20%).

In thousands of Russian Roubles	1 January 2017	Credited / (charged) to profit or loss	Charged directly to equity	31 December 2017
Loans to customers	192 082	(172 786)	-	19 296
Other assets and accruals	41 720	86 132	-	127 852
Other liabilities and accruals	88 986	(78 375)		10 611
Other	3 570	273	-	3 843
Total deferred tax assets	**326 358**	**(164 756)**	**-**	**161 602**
Premises and equipment	(288 332)	(10 270)	-	(298 602)
Investment in associate	(59 094)	1 988	-	(57 106)
Other	(44 851)	(81 592)	-	(126 443)
Total deferred tax liability	**(392 277)**	**(89 874)**	**-**	**(482 151)**
Less offsetting with deferred tax assets	326 358	(164 756)	-	161 602
Net deferred tax liability	**(65 919)**	**(254 630)**	**-**	**(320 549)**

(in thousands of Russian Roubles)	1 January 2016	Credited/ (charged) to profit or loss	Charged directly to equity	31 December 2016
Loans to customers	314 091	(122 009)	-	192 082
Other assets and accruals	37 549	4 171	-	41 720
Other liabilities and accruals	17 561	71 425	-	88 986
Other	8 814	(5 244)	-	3 570
Total deferred tax assets	**378 015**	**(51 657)**	-	**326 358**
Premises and equipment	(241 534)	3 240	(50 038)	(288 332)
Investment in associate	(60 641)	1 547	-	(59 094)
Other	(7 533)	(37 318)	-	(44 851)
Total deferred tax liability	**(309 708)**	**(32 531)**	**(50 038)**	**(392 277)**
Less offsetting with deferred tax assets	378 015	(51 657)	-	326 358
Net deferred tax liability	**68 307**	**(84 188)**	**(50 038)**	**(65 919)**

The main part of the net deferred tax asset is expected to be settled in the term more than 12 months, or has no stated maturity.

In the context of the Group's current structure and Russian tax legislation, tax losses and current tax assets of the same Group companies may not be offset against current tax liabilities and taxable profits of other Group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the same taxation authority.

25 Dividends

In thousands of Russian Roubles	2017 Ordinary shares	2017 Preference shares	2016 Ordinary shares	2016 Preference shares
Dividends declared during the period	278 215	18 099	278 215	18 099
Dividends paid during the period	(278 215)	(18 036)	(278 215)	(18 069)
Other movements	-	29	-	29

In June 2017, the Bank declared dividends on preference shares with a par value of RR 1 000 – RR 200 per share (2016: RR 200 per share) and on preference shares with a par value of RR 4 – RR 0.8 per share (2016: RR 0.8 per share). In June 2017 the Bank declared dividends on ordinary shares – RR 3.3 per share (2016: A part of declared dividends was not claimed. RR 3.3 per share). All dividends were declared and paid in Russian Roubles. A part of declared dividends was not claimed. Dividends not claimed within three years are returned to retained earnings.

26 Segment Analysis

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM) and for which discrete financial information is available. The CODM is the person - or group of persons - who allocates resources and assesses the performance for the entity. The functions of the chief operating decision maker (CODM) are performed by the Executive Board of the Bank.

Description of products and services from which each reportable segment derives its revenue

The Group is organised on the basis of the following main business segments:

- Lending – representing retail and corporate lending services, leasing, factoring and bank guarantees issued.
- Treasury – representing financial instruments trading, borrowings on domestic and international markets, management of liquidity and foreign currency position of the Group, correspondent and current accounts, corporate deposits.
- Retail banking – representing private banking services to individuals, deposits, investment savings products, custody, credit and debit cards, municipal payments. This segment does not include loans to individuals other than lending through plastic cards.

Factors that management used to identify the reportable segments

The Group's segments are strategic business units that focus on different customers. They are managed separately because each business unit requires different marketing strategies and service level.

The Group has identified the following operating segments: lending activities, leasing, retail, securities, treasury, correspondent and current accounts, and plastic cards. Lending and leasing have been aggregated into one reportable segment – lending and leasing. Correspondent and current accounts, securities, and treasury have been aggregated into one reportable segment - treasury. Retail and plastic cards have been aggregated into one segment - retail banking.

In addition, the Bank's Executive Board reviews the major categories of general and administrative expenses, however, these expenses are not allocated to the above segments and they are not taken into consideration in allocating resources to segments and assessing their performance.

26 Segment Analysis (Continued)

Measurement of operating segment profit or loss, assets and liabilities

The Executive Board reviews financial information prepared based on Russian Accounting Standards and adjusted to meet the requirements of internal reporting. Such financial information differs in certain aspects from International Financial Reporting Standards:

- for operating decisions standalone information not adjusted to statutory subsequent events is used;
- income taxes are not allocated to segments;
- loan provisions are recognised based on management judgement and availability of information, rather than based on the incurred loss model prescribed in IAS 39;
- income on impaired loans is not recognised;
- commission income related to lending and commission expenses on borrowings are recognised immediately rather than deferred using the effective interest method;
- finance income arising from leasing is recognised as services provided, advances from lessees are recognised as income pro rata during the period of the leasing agreement;
- funds are generally reallocated between segments ignoring internal interest rates.

Information about reportable segment profit or loss, assets and liabilities

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

In thousands or Russian Roubles	**Lending**	**Treasury**	**Retail banking**	**Total**
2017				
External revenues:				
Interest income	10 308 132	442 617	105 843	10 856 592
Fee and commission income and other operating income	473 162	756 485	713 180	1 942 827
Total revenues	**10 781 294**	**1 199 102**	**819 023**	**12 799 419**
Interest expense	-	(419 828)	(5 157 886)	(5 577 714)
Provision for impairment	(962 205)	6 517	(687)	(956 375)
Fee and commission expenses and other expenses	(361 149)	(90 731)	(244 839)	(696 719)
Segment result	**9 457 940**	**695 060**	**(4 584 389)**	**5 568 611**
Total reportable segment assets	**79 246 296**	**8 826 299**	**-**	**88 072 595**
Total reportable segment liabilities	**-**	**(14 085 552)**	**(74 791 705)**	**(88 877 257)**

26 Segment Analysis (Continued)

Information about reportable segment profit or loss, assets and liabilities (Continued)

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

In thousands or Russian Roubles	Lending	Treasury	Retail banking	Total
2016				
External revenues:				
Interest income	10 525 535	275 684	129 057	10 930 276
Fee and commission income and other operating income	654 651	640 702	672 639	1 967 992
Total revenues	**11 180 186**	**916 386**	**801 696**	**12 898 268**
Interest expense	-	(1 075 920)	(5 491 384)	(6 567 304)
Provision for impairment	(1 994 306)	5 197	(1 260)	(1 990 369)
Fee and commission expenses and other expenses	(416 974)	(130 939)	(204 338)	(752 251)
Segment result	**8 768 906**	**(285 276)**	**(4 895 286)**	**3 588 344**
Total reportable segment assets	**73 038 744**	**6 167 523**	**-**	**79 206 267**
Total reportable segment liabilities	**-**	**(14 839 929)**	**(69 114 065)**	**(83 953 994)**

Reconciliation of reportable segment profit or loss, assets and liabilities

In thousands or Russian Roubles	2017	2016
Total revenues for reportable segments	**12 799 419**	**12 898 268**
Effective interest method application	6 065	25 569
Fair value remeasurement of trading securities portfolio and other financial assets and liabilities recalculation	11 629	7 262
Recognition of interest income on impaired loans	193 964	361 346
Foreign exchange translation losses less gains	(8 310)	13 059
Losses less gains from conversion operations on the interbank market	(33 191)	15 550
Consolidation effect	9 034	(154)
Other	(91 393)	(63 246)
Total consolidated revenues	**12 887 217**	**13 257 654**

Total consolidated revenues comprise interest income, fee and commission income, gains less losses on transactions with trading securities, foreign currency, income from assignment, repayment of debt earlier written off and other operating income.

26 Segment Analysis (Continued)

Reconciliation of reportable segment profit or loss, assets and liabilities (Continued)

In thousands or Russian Roubles	2017	2016
Total reportable segment result	**5 568 611**	**3 588 344**
Administrative expenses	(3 479 833)	(2 915 150)
Effective interest method application	(42 931)	(4 019)
Fair value remeasurement of trading securities portfolio and other financial assets and liabilities recalculation	9 955	37 979
Recognition of interest income on impaired loans	193 964	361 346
Recalculation of provision for impairment	(70 670)	626 957
Consolidation effect	(3 865)	(12 156)
Events after the end of the reporting period	(134 222)	(333 777)
Amortisation recalculation	31 633	21 980
Other	(208 227)	(83 378)
Profit before tax	**1 864 415**	**1 285 468**

In thousands or Russian Roubles	2017	2016
Total reportable segment assets	**88 072 595**	**79 206 267**
Unallocated assets	13 642 075	16 653 625
Recalculation of provision for impairment	(143 135)	(233 850)
Recognition of interest income on impaired loans	1 198 838	1 028 661
Application of effective interest rate method to fee and commission income	(232 452)	(239 456)
Finance lease adjustment	(36 959)	(60 046)
Consolidation effect	253 848	266 056
Other	(138 308)	(45 560)
Total consolidated assets	**102 616 502**	**96 575 689**

In thousands or Russian Roubles	2017	2016
Total reportable segment liabilities	**88 877 257**	**83 953 994**
Unallocated liabilities	1 263 983	1 252 571
Application of effective interest rate method to fee and commission expenses	(10 029)	(6 885)
Consolidation effect	(155 229)	(135 224)
Total consolidated liabilities	**89 975 982**	**85 064 456**

Unallocated assets include cash, premises and equipment and intangible assets, investment properties and other assets, unallocated liabilities – other liabilities.

Analysis of revenues by products and services

The Group's revenues are analysed by product and service in Notes 21 and 22.

Major customers

The Group does not have customers, revenues from which exceed 10% the total revenues.

27 Financial Risk Management

The risk management function within the Group is carried out in respect of the entire range of financial risks faced by the Group in the course of business. The focus is placed on the following risks: credit, market (including currency, equity and interest rate risk), liquidity, operational, strategic, legal, reputational, macroeconomic and political risks.

27 Financial Risk Management (Continued)

The Bank's risk management function is viewed as a set of activities aimed to protect its assets.

The Group uses the following main risk management tools:

- Limiting accepted risks and risk concentration by setting limits;
- Managing positions;
- Creating collateral;
- Insuring risks;
- Hedging risks;
- Covering risks by adequate reserves level;
- Covering risks by adequate capital level;
- Monitoring compliance with internal procedures and regulations;
- Improving business processes and procedures for transactions, assessments and risk acceptance.

The Bank manages risks on the basis of the document "Risk Management Policy of Public Join-Stock Company Commercial Bank "Center-invest" approved by the Bank's Board of Directors in February 2016. The policy regulates the Bank's risk management strategy, main requirements and strategy implementation procedures; mandatory business lines and types of risks to be monitored; interaction in the process of managing the Bank's risks.

The risk management strategy described in this document includes:

- Balanced risk-taking by the bank based on correlation with the bank's risk appetite and profitability of business lines;
- Priority of lending operations development with a focus on loans to individuals and small and medium-sized businesses engaged in real sectors of economy;
- Mitigation and evaluation of market risks associated with assets on a regular basis;
- Active risk management and consideration of their interdependence in management decision-making;
- Adequate capital and reserves managment.

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

The Bank manages credit risks on the basis of the following principles:

- Avoiding risks through refusing from transactions that fall beyond the Bank's Credit Policy or Risk Management Policy;
- Setting concentration limits, limits per one borrower (a group of related borrowers) covering on-balance sheet and off-balance sheet risks ("one obligor" principle);
- Creating and adequately evaluating collateral;
- Using a system of corporate and personal guarantees;
- Diversifying the loan portfolio;
- Limiting officials' authority in making lending decisions without consideration by collegial bodies (credit committees);
- Improving the methods of reviewing borrowers' financial and business activity enabling adequate evaluation of the level of risk associated with loans and other credit instruments;
- Regular monitoring of borrowers' financial position, condition of collateral and debt servicing;

27 Financial Risk Management (Continued)

- Using same credit policies in relation to contingent liabilities and on-balance sheet financial instruments through established credit approvals, risk control limits, monitoring procedures;
- Using selective approaches and procedures for evaluating credit risks and decision-making procedures with consideration of products, risk levels and aggregate outstanding balances per borrower (a group of borrowers);
- Covering credit risks by an adequate capital and reserves level;
- Performing preventive and efficient work on collection of overdue debts.

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the consolidated statement of financial position. For guarantees, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 31.

Such risks are monitored on a regular basis.

Lending transactions are approved according to individual decision-making limits and through the structure of credit committees:

Large Credit Committee of the Bank's Head Office approves credit limits for borrowers or groups of related borrowers with aggregate outstanding balances in the range from RR 10 million (2016: RR 10 million) (without positive credit history) and RR 20 million (2016: RR 20 million) (with positive credit history) to 25% (2016: 25%) of capital, calculated in accordance with the requirements of the Central Bank of the Russian Federation. It is also responsible for issuing guidance to lower level credit committees. The Committee meets twice a week.

Small Credit Committees of the Bank's Head Office approve loans to borrowers and groups of related borrowers with aggregate outstanding balances less than RR 10 million (2016: RR 10 million) (without positive credit history) and RR 20 million (2016: RR 20 million) (with positive credit history). At present, there are two small credit committees functioning at the Bank's Head Office which approve credit limits for small businesses and retail clients. The Committees meet twice a week.

The Bank's authorised persons take individual decisions on transactions with legal entities and retail clients under the standard lending programmes. The Bank's Executive Board Chairman issues an order to approve a list of the above persons and personal limits for each of them that should not exceed RR 3 million (2016: no more than RR 3 million).

Loan applications from the clients are processed on the basis of standardised procedures and passed on to an individual having a personal decision-making limit or to the relevant Credit Committee for approval of credit limit after completion of preliminary, authorisation and monitoring procedures.

In order to monitor credit risk, credit officers are monitoring the borrowers based on a structured analysis of borrowers' business and financial performance in conformity with the requirements of the Central Bank of the Russian Federation and the Bank's internal regulations. Any significant exposures to customers and groups of related customers with deteriorating creditworthiness are reported to, and reviewed by the appropriate Credit Committees, the Risk Management Committee and the Committee for Problem Loans. The Group uses quality categories in compliance with regulations of the Central Bank of the Russian Federation. The Bank takes preventive actions, performs monitoring and implements a set of measures aimed at collection of overdue debts.

Additionally, in 2013, to minimize credit risks the Bank set up a control group comprised of the most experienced employees of the Head Office and branches. Loans are allocated among them at random and through a random sampling technique on a monthly basis. The control group reviews compliance of an issued loan with the Bank's requirements (decision of an authorised body, correct and full documentation, quality of monitoring, etc.). The Group's credit departments review the ageing analysis of outstanding loans and follow up past due balances. The ageing and other information about credit risk is disclosed in Note 9.

27 Financial Risk Management (Continued)

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as the result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Group uses the same credit policies in assuming conditional obligations as it does for on-balance sheet financial instruments, through established credit approvals, risk control limits and monitoring procedures.

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rates and (c) equity products, all of which are exposed to general and specific market movements.

The Bank manages market risks and monitors corresponding limits on a regular basis. Market risks are managed in respect of each component and in general on the basis of the following principles:

- Ongoing monitoring of trading transactions;
- Setting limits on financial investments;
- Setting limits on homogeneous financial instrument portfolios;
- Monitoring and evaluation of the level of market risk;
- Coverage of market risks through ensuring an adequate capital level.

The management sets limits in respect of the level of capital allocated for coverage of market risk.

At 31 December 2017, the level of market risk was RR 6 229 thousand under a limit of RR 1 712 933 thousand (2016: RR 12 744 thousand under a limit of RR 1 710 333 thousand).

Market risk associated with revaluation of the trading securities portfolio. The Bank accepts equity risk associated with losses resulting from fluctuations of market values of open positions on securities and derivative market instruments. The Bank opens positions on securities for subsequent resale and for investment purposes.

Equity risks are managed through limiting the overall volume of transactions, exposed to such risk, and setting limits on different types of transactions and specific issuers with consideration of risks associated with the issuer's industry (on the basis of regular monitoring and analysis). The Bank uses a wide range of VaR (Value at Risk) methodologies for reviewing and limiting risks associated with market price fluctuations.

Currency risk. The Group is exposed to currency risk associated with losses resulting from fluctuations of market values of open positions in different currencies. Exposure to currency risk is evaluated on the basis of VaR. The size of the currency position is regulated through matching assets and liabilities balances in foreign currencies. The Group seeks to decrease the open currency position, thereby decreasing its exposure to currency risk. The Bank manages its currency position by using currency swaps and forwards in the interbank market and other transactions. The Group is not exposed to the risks associated with changes in precious metals' prices due to the absence of such transactions.

At 31 December 2017, the ten day VAR level was RR 2 076 thousand (2016: RR 4 248 thousand).

27 Financial Risk Management (Continued)

Since VAR is used for management of certain risks, for the purpose of these consolidated financial statements the level of currency risk is examined based on the basis of simple sensitivity, calculated based on open currency position of the Group at the reporting date. The table below summarises the Group's exposure to foreign currency exchange rate risk at the reporting date:

	At 31 December 2017				At 31 December 2016			
In thousands of Russian Roubles	**Monetary financial assets**	**Monetary financial liabilities**	**Foreign exchange spot contracts**	**Net position**	**Monetary financial assets**	**Monetary financial liabilities**	**Foreign exchange spot contracts**	**Net position**
Russian Roubles	94 491 422	(86 207 960)	741 890	**9 025 352**	83 849 361	(77 962 842)	-	**5 886 519**
US Dollars	3 197 805	(2 377 778)	(744 553)	**75 474**	5 467 421	(5 432 402)	-	**35 019**
Euro	786 019	(776 138)	689	**10 570**	1 091 066	(1 076 319)	-	**14 747**
Other	46 117	(16 444)	-	**29 673**	55 091	(34 300)	-	**20 791**
Total	**98 521 363**	**(89 378 320)**	**(1 974)**	**9 141 069**	**90 462 939**	**(84 505 863)**	**-**	**5 957 076**

The above analysis includes only monetary assets and liabilities. The Group's management believes that investments in equities and non-monetary assets will not give rise to any material currency risk.

The following table presents sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied at the end of the reporting period, with all other variables held constant:

	2017		2016	
In thousands or Russian Roubles	**Impact on profit or loss**	**Impact on equity**	**Impact on profit or loss**	**Impact on equity**
US dollar strengthening by 5% (2016: 17%)	3 019	3 019	4 763	4 763
US dollar weakening by 5% (2016: 17%)	(3 019)	(3 019)	(4 763)	(4 763)
Euro strengthening by 8% (2016: 20%)	676	676	2 360	2 360
Euro weakening by 8% (2016: 20%)	(676)	(676)	(2 360)	(2 360)

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the respective entity of the Group.

Interest rate risk. The Group takes on exposure 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 reduce or create losses in the event that unexpected movements arise.

Interest rate risk is managed based on the analysis of the structure of the Group's assets and liabilities by interest repricing dates.

The management monitors exposure to interest rate risk on a quarterly basis and sets limits on the level of interest rate risk that may be undertaken.

The Group evaluates new products from the perspective of their impact on interest rate risk. The Treasury Department of the Group operates daily within approved limits on the level of interest rate risk whereas the Risk Management Department independently monitors compliance of actual level of interest rate to the approved limits.

To manage interest rate risk, the Group uses fixed and floating interest rates for attracted funds.

27 Financial Risk Management (Continued)

The table below summarises the Group's exposure to interest rate risks. The table presents the aggregated amounts of the Group's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates:

In thousands or Russian Roubles	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 6 months**	**From 6 to 12 months**	**Over 1 year**	**Non-interest bearing assets**	**Total**
31 December 2017							
Total financial assets	20 272 375	6 042 311	5 477 689	14 549 559	52 140 297	5 997	98 488 228
Total financial liabilities	(23 719 848)	(2 861 614)	(8 516 415)	(23 491 087)	(30 791 330)	-	(89 380 294)
Net interest sensitivity gap at 31 December 2017	**(3 447 473)**	**3 180 697**	**(3 038 726)**	**(8 941 528)**	**21 348 967**	**5 997**	**9 107 934**

In thousands or Russian Roubles	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 6 months**	**From 6 to 12 months**	**Over 1 year**	**Non-interest bearing assets**	**Total**
31 December 2016							
Total financial assets	18 875 242	6 430 292	6 596 260	14 325 270	44 229 878	5 997	90 462 939
Total financial liabilities	(19 380 334)	(1 823 960)	(5 307 602)	(3 557 167)	(54 436 800)	-	(84 505 863)
Net interest sensitivity gap at 31 December 2016	**(505 092)**	**4 606 332**	**1 288 658**	**10 768 103**	**(10 206 922)**	**5 997**	**5 957 076**

All of the Group's debt instruments reprice within 5 years (2016: all reprice within 5 years).

At 31 December 2017, if interest rates had been 200 basis points lower/higher, with all other variables held constant, profit for the year would have been RR 211 818 thousand (2016: if interest rates had been 200 basis points higher/lower, profit would have been RR 115 996 thousand) higher/lower, due to the structure and repricing timing of attracted and invested funds.

27 Financial Risk Management (Continued)

The Group monitors interest rates for its financial instruments. The table below summarises interest rates based on reports reviewed by key management personnel of the Group.

	2017				2016			
In % p.a.	RR	USD	Euro	Other	RR	USD	Euro	Other
Assets								
Cash balances with the CBRF	-	-	-	-	-	-	-	-
Correspondent accounts and overnight placements with other banks	-	1.3	-	0.3	0.2	0.8	-	0.3
Due from other banks								
- Placements with the Central Bank of the Russian Federation	7.7	-	-	-	9.7	-	-	-
Loans and advances to customers:								
- Corporate loans	11.9	4.0	-	-	11.9	4.0	-	-
- Loans to SME	12.5	7.5	-	-	13.7	7.7	6.5	-
- Loans to individuals - consumer loans	15.1	4.0	-	-	17.4	4.6	-	-
- Loans to individuals – car loans	13.6	-	-	-	14.4	-	-	-
- Loans to individuals – mortgage loans	11.4	12.4	-	-	12.8	12.7	-	-
Finance lease receivables	20.4	-	-	-	18.5	-	-	-
Liabilities								
Due to other banks.	-	-	-	-	9.1	-	-	-
Customer accounts								
- Current accounts of legal entities	0.7	-	-	-	0.5	-	-	-
- Demand deposits of individuals	0.2	0.1	-	0.1	0.2	0.1	0.1	0.1
- Term deposits of legal entities	5.7	1.4	-	-	7.3	1.8	2.2	-
- Term deposits of individuals	7.8	1.2	0.2	0.2	9.7	0.9	0.4	0.2
Promissory notes issued	7.2	-	-	-	8.6	0.0	-	-
Bonds issued	9.4	-	-	-	10.0	-	-	-
Loans from international financial institutions.	10.2	-	-	-	10.5	-	-	-
Subordinated debt	-	-	-	-	-	7.4	-	-

The sign "-" in the table above means that the Group does not have the respective assets or liabilities in the corresponding currency.

Other price risk. The Group has limited exposure to equity price risk.

The Group is exposed to prepayment risk through providing fixed or variable rate loans, including mortgages, which give the borrower the right to early repay the loans. The Group's current year profit or loss and equity for the year and at the current reporting date would not have been significantly impacted by changes in early repayment rates because such loans are carried at amortised cost and the early repayment amount is at or close to the amortised cost of loans to customers.

27 Financial Risk Management (Continued)

Geographical risk concentrations. The geographical concentration of the Group's financial assets and liabilities at 31 December 2017 is set out below:

In thousands or Russian Roubles	Russia	USA	Europe	Other countries	Total
Assets					
Cash and cash equivalents	8 024 832	127 316	215 378	2 211	8 369 737
Mandatory cash balances with CBRF	662 931	-	-	-	662 931
Due from other banks	8 607 390	-	-	-	8 607 390
Loans and advances to customers and finance lease receivables	79 542 206	-	603 748	647	80 146 601
Other financial assets	696 417	-	-	5 152	701 569
Total financial assets	97 533 776	127 316	819 126	8 010	98 488 228
Liabilities					
Customer accounts	87 075 535	3 307	44 084	95 010	87 217 936
Debt securities in issue	1 062 172	-	-	-	1 062 172
Borrowings from international financial institutions	-	-	996 297	-	996 297
Other financial liabilities	103 889	-	-	-	103 889
Total financial liabilities	**88 241 596**	**3 307**	**1 040 381**	**95 010**	**89 380 294**
Net position	**9 292 180**	**124 009**	**(221 255)**	**(87000)**	**9 107 934**
Credit related commitments (Note 31)	**10 218 969**	**-**	**-**	**-**	**10 218 969**

Assets, liabilities and credit related commitments have been classified based on the country in which the counterparty is located. Cash on hand and premises and equipment have been allocated based on the country in which they are physically held.

27 Financial Risk Management (Continued)

The geographical concentration of the Group's assets and liabilities at 31 December 2016 is disclosed in table below:

In thousands or Russian Roubles	Russia	USA	Europe	Other countries	Total
Assets					
Cash and cash equivalents	6 898 957	2 432 277	294 269	4 178	9 629 681
Mandatory cash balances with CBRF	611 606	-	-	-	611 606
Due from other banks	6 004 323	-	10 210	-	6 014 533
Loans and advances to customers and finance lease receivables	72 960 185	-	685 914	727	73 646 826
Other financial assets	555 017	-	4 323	953	560 293
Total financial assets	**87 030 088**	**2 432 277**	**994 716**	**5 858**	**90 462 939**
Liabilities					
Due to other banks.	295 407	-	-	-	295 407
Customer accounts	80 340 311	2 712	22 323	68 019	80 433 365
Debt securities in issue	427 032	-	-	-	427 032
Borrowings from international financial institutions	-	-	182 116	-	182 116
Subordinated debt	-	-	3 077 640	-	3 077 640
Other financial liabilities	90 303	-	-	-	90 303
Total financial liabilities	**81 153 053**	**2 712**	**3 282 079**	**68 019**	**84 505 863**
Net position	**5 877 035**	**2 429 565**	**(2 287 363)**	**(62 161)**	**5 957 076**
Credit related commitments (Note 31)	**9 991 184**	**-**	**-**	**-**	**9 991 184**

Other risk concentrations. Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to borrowers with aggregated loan balances in excess of 10% of the capital. Refer to Note 9.

Liquidity risk. Liquidity risk is determined as the risk of facing difficulties associated with the transformation of assets into cash required for repayment of liabilities upon maturity, the real cost of the asset remaining unchanged.

The Asset and Liability Committee of the Bank is a regulatory and consultative body in charge of liquidity risk management. It coordinates actions of the Bank's units that have a direct or indirect impact on liquidity and cooperates with the Credit Committee in respect of liquidity issues.

Operational liquidity management is carried out by the Bank's Treasury on a daily basis through maintaining the overall liquidity reserve, consisting of balances on the Bank's correspondent accounts, cash on hand, due from other banks – primary liquidity reserve, and high liquid securities – secondary liquidity reserve. The Treasury monitors the Bank's payment position on a daily basis.

Efficient liquidity management is ensured through forecasting and reviewing liquidity gaps calculated as the difference between assets and liabilities (including off-balance sheet positions) by maturity. Based on forecast data, the Bank prepares a schedule of future cash receipts and payments and sets its own liquidity surplus (deficit) ratios. These are approved by the Audit and Compliance Committee at the Board of Directors, regularly controlled by the Asset and Liability Committee and are used in the current operations of the Bank.

27 Financial Risk Management (Continued)

The table below shows liabilities at 31 December 2017 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows. Such undiscounted cash flows differ from the amount included in the consolidated statement of financial position because the amounts in the consolidated statement of financial position are based on discounted cash flows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

In thousands or Russian Roubles	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 6 months**	**From 6 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Liabilities							
Customer accounts	23 023 281	3 197 399	8 764 050	24 733 162	31 858 387	-	91 576 279
Debt securities in issue	760 068	66 480	227 196	36 419	-	-	1 090 163
Borrowings from international financial institutions	-	-	250 673	241 156	660 733	-	1 152 562
Gross settled forwards	751 023	-	-	-	-	-	751 023
Other credit related commitments	242 503	2 032 010	1 471 322	3 692 878	2 780 256	-	10 218 969
Other financial liabilities	63 014	5 832	14	-	-	-	68 860
Total potential future payments for financial obligations	**24 839 889**	**5 301 721**	**10 713 255**	**28 703 615**	**35 299 376**	**-**	**104 857 856**

Liquidity requirements to support calls under guarantees are considerably less than the amount of the commitment disclosed in the above maturity analysis because the Group does not generally expect the third party to draw funds under the agreement. Contingent liabilities are disclosed in Note 29.

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

In thousands or Russian Roubles	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 6 months**	**From 6 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Liabilities							
Due to other banks	9	88 103	128 419	31 960	19 388	63 197	331 076
Customer accounts	19 065 423	2 122 207	2 835 980	4 794 807	61 118 940	-	89 937 357
Debt securities in issue	207 447	-	109 830	126 259	-	-	443 536
Borrowings from international financial institutions	-	184 755	-	-	-	-	184 755
Subordinated debt	-	-	111 504	112 710	3 257 649	-	3 481 863
Contingent credit related commitments	294 517	1 833 748	1 204 342	4 066 086	2 592 490	-	9 991 183
Other financial liabilities	36 513	8 722	-	-	-	-	45 235
Total potential future payments for financial obligations	**19 603 909**	**4 237 535**	**4 390 075**	**9 131 822**	**66 988 467**	**63 197**	**104 415 005**

27 Financial Risk Management (Continued)

Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with Russian Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

The Group does not use the above maturity analysis to manage liquidity. Instead, the Group monitors expected maturities, which may be summarised as follows at 31 December 2017.

In thousands or Russian Roubles	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 6 months**	**From 6 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**No defined maturity**	**Total**
Assets								
Cash and cash equivalents	8 369 737	-	-	-	-	-	-	8 369 737
Mandatory cash balances with the Central Bank of Russian Federation	662 931	-	-	-	-	-	-	662 931
Due from other banks	8 607 390	-	-	-	-	-	-	8 607 390
Loans and advances to customers and finance lease receivables	1 921 806	4 311 159	5 122 396	13 828 970	34 706 814	20 255 456	-	80 146 601
Investment in associate	-	-	-	-	-	-	305 468	305 468
Investment properties	-	-	-	-	296 149	-	126 822	422 971
Premises, equipment and intangible assets	-	-	-	-	-	-	2 807 326	2 807 326
Other financial assets	184 742	74 090	3 957	122 190	310 593	-	5 997	701 569
Other assets	16 923	26 782	9 148	246 148	293 508	-	-	592 509
Total assets	**19 763 529**	**4 412 031**	**5 135 501**	**14 197 308**	**35 607 064**	**20 255 456**	**3 245 613**	**102 616 502**
Liabilities								
Customer accounts	10 596 655	2 795 815	8 094 917	23 248 142	42 482 407	-	-	87 217 936
Debt securities in issue	756 336	55 553	214 952	35 331	-	-	-	1 062 172
Borrowings from international financial institutions	-	-	204 511	200 000	591 786	-	-	996 297
Other financial liabilities	65 140	10 246	2 035	7 614	18 854	-	-	103 889
Other liabilities							320 549	320 549
Deferred income tax liability	86 768	141 861	84	15 193	31 233	-	-	275 139
Total liabilities	**11 504 899**	**3 003 475**	**8 516 499**	**23 506 280**	**43 124 280**	**-**	**320 549**	**89 975 982**
Net liquidity gap at 31 December 2017	**8 258 630**	**1 408 556**	**(3 380 998)**	**(9 308 972)**	**(7 517 216)**	**20 255 456**	**2 925 064**	**12 640 520**
Cumulative liquidity gap as at 31 December 2017	**8 258 630**	**9 667 186**	**6 286 188**	**(3 022 784)**	**(10 540 000)**	**9 715 456**	**12 640 520**	

27 Financial Risk Management (Continued)

The above analysis is based on expected maturities. Therefore, a part of customer accounts was categorised as later maturities because diversification of customer accounts by size and type of balances and constant inflow of new balances shows that customer accounts represent a long-term and stable source of finance. The expected negative gap in the table above is planned to be covered by continuous attracting of customer accounts. The Bank also has opened credit lines with the Bank of Russia that can be used in case of the need.

The maturity analysis at 31 December 2016 is as follows:

In thousands or Russian Roubles	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 6 months**	**From 6 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**No defined maturity**	**Total**
Assets								
Cash and cash equivalents	9 629 681	-	-	-	-	-	-	9 629 681
Mandatory cash balances with the Central Bank of Russian Federation	611 606	-	-	-	-	-	-	611 606
Due from other banks	6 004 323	-	-	10 210	-	-	-	6 014 533
Loans and advances to customers and finance lease receivables	2 063 515	4 598 239	5 405 609	14 135 483	32 520 407	14 923 573	-	73 646 826
Investment in associate	-	-	-	-	-	-	315 409	315 409
Investment properties	-	-	-	-	2 482 251	-	126 822	2 609 073
Premises, equipment and intangible assets	-	-	-	-	-	-	2 770 444	2 770 444
Other financial assets	296 371	111 825	1 244	87 739	57 117	-	5 997	560 293
Other assets	75 733	108 103	17 766	70 570	145 652	-	-	417 824
Total assets	**18 681 229**	**4 818 167**	**5 424 619**	**14 304 002**	**35 205 427**	**14 923 573**	**3 218 672**	**96 575 689**
Liabilities								
Due to other banks	9	83 332	124 998	28 847	-	58 221	-	295 407
Customer accounts	6 596 265	1 628 831	2 130 109	3 423 552	66 654 608	-	-	80 433 365
Debt securities in issue	207 447	-	98 497	121 088	-	-	-	427 032
Borrowings from international financial institutions	-	182 116	-	-	-	-	-	182 116
Subordinated debt	-	-	1 865 308	-	1 212 332	-	-	3 077 640
Other financial liabilities	37 719	13 013	1 356	12 527	25 688	-	-	90 303
Other liabilities	59 164	392 165	6	17 051	24 288	-	-	492 674
Deferred income tax liability	-	-	-	-	-	-	65 919	65 919
Total liabilities	**6 900 604**	**2 299 457**	**4 220 274**	**3 603 065**	**67 916 916**	**58 221**	**65 919**	**85 064 456**
Net liquidity gap at 31 December 2016	**11 780 625**	**2 518 710**	**1 204 345**	**10 700 937**	**(32 711 489)**	**14 865 352**	**3 152 753**	**11 511 233**
Cumulative liquidity gap as at 31 December 2016	**11 780 625**	**14 299 335**	**15 503 680**	**26 204 617**	**(6 506 872)**	**8 358 480**	**11 511 233**	

27 Financial Risk Management (Continued)

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses recognition. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates.

The management of the Group believes that in spite of a substantial liquidity gap, diversification of liabilities by number and type of creditors, the past experience and liability dynamics in 2017 would indicate that these funds provide a stable source of funding for the Group.

Operational risk. To ensure efficient risk management, the Bank has created an operational risk monitoring and management system. Currently, the Bank uses the Base Indicative Approach (BIA) to operational risk evaluation. Operational risks are managed on the basis of the regulation approved by the Bank’s Executive Board. This activity includes the following:

- ongoing collecting and analysing information on operating losses;
- identifying sources of operational risk in the credit institution’s activity;
- identifying and preventing fraud in banking transactions;
- developing regulations and actions for decreasing the level of operational risk;
- coverage of risks by maintenance of adequate capital level.

The Bank implemented an efficient system for identifying and preventing fraud transactions with plastic cards and in remote banking service systems. The Bank’s information security and continuity are ensured by the Bank’s Information Security Policy developed on the basis of ISO and approved by the Board of Directors. The Bank has adopted the set of documents on the Bank of Russia's standardisation “Ensuring Information Security of the Banking System of the Russian Federation”. The Bank has a policy that insures its property interests associated with ownership, use and disposal of the Bank’s property and also with unforeseen expenses (losses) incurred by the Bank in its operations.

Offsetting financial assets and financial liabilities. Repurchase receivables are subject to offsetting with liabilities from sale and repurchase agreements in case of non-fulfilment of contractual obligations.

28 Management of Capital

The Group’s objectives when managing capital are: (i) to comply with the capital requirements set by the Central Bank of the Russian Federation, (ii) to safeguard the Group’s ability to continue as a going concern and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio based on the Basel Accord of at least 8%. Compliance with capital adequacy ratios set by the Central Bank of the Russian Federation is monitored monthly, with reports outlining their calculation reviewed and signed by the Bank’s Chairman of the Executive Board and Chief Accountant. Other objectives of capital management are evaluated annually.

28 Management of Capital (Continued)

The Group and the Bank are also subject to minimum capital requirements established by covenants stated in loan agreements, including capital adequacy levels calculated in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and the Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel I. The composition of the Group's capital calculated in accordance with the Basel I is as follows:

In thousands or Russian Roubles	**2017**	**2016**
Tier 1 capital		
Share capital	1 326 277	1 326 277
Share premium	2 078 860	2 078 860
Retained earnings	7 929 231	6 752 956
Total tier 1 capital	**11 334 368**	**10 158 093**
Tier 2 capital		
Revaluation reserve for land and premises	1 306 152	1 353 140
Subordinated debt	-	1 086 769
Total tier 2 capital	**1 306 152**	**2 439 909**
Total capital	**12 640 520**	**12 598 002**

At 31 December 2017, the Bank's capital adequacy ratio, calculated in accordance with Basel I is 16.9% (2016: 17.0%).

The management of the Bank believes that the Group and the Bank complied with all regulatory capital requirements throughout 2017 and 2016. Information on covenants related to borrowings is disclosed in Note 31.

29 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Group may be received. At 31 December 2017, the Group was engaged in litigation proceedings in relation to claims from borrowers and lessees. A provision of RR 10 657 thousand (2016: RR 10 766 thousand) has been made as internal professional advice has indicated that it is likely that a loss will eventuate.

Tax legislation. Russian tax legislation which was enacted or substantively enacted at the end of the reporting period is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be challenged tax authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year when decision about review was made. Under certain circumstances reviews may cover longer periods.

The Russian transfer pricing legislation is generally aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD) but has specific characteristics. This legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm's length. Management has implemented internal controls to be in compliance with this transfer pricing legislation. Tax liabilities arising from transactions between related companies are determined using actual transaction prices. It is possible, with the evolution of the practical application of the transfer pricing rules, that such prices could be challenged. The impact of such developments cannot be reliably estimated, however it may be significant in terms of the Bank's financial position and/or business activities in general.

29 Contingencies and Commitments (Continued)

In addition to the above matters, management estimates that the Group has other possible obligations from exposure to other than remote tax risks of RR 1 520 thousand (2016: RR 7 285 thousand). These tax risks relate to potential additional calculation of income tax on income of foreign entities, which the Bank should have charged as a tax agent when making interest payments to non-resident banks under interest-bearing loans received in previous periods (Notes 17, 18).

These exposures are estimates that result from uncertainties in interpretation of applicable legislation and related documentation requirements. Management will vigorously defend the entity's positions and interpretations that were applied in determining taxes recognised in these financial statements if these are challenged by the authorities.

Capital expenditure commitments. At 31 December 2017 and 2016, the Group did not have contractual capital expenditure commitments in respect of premises and equipment, and software and other intangible assets.

Compliance with covenants. The Group is subject to certain covenants relating to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and a claim on early repayment of the loan.

At 31 December 2017, the Group was in compliance with all covenants. At 31 December 2016, the Group did not comply with covenants with regard to the open credit risk ratio (impaired debt less provision to the Group's capital). The issue was subsequently settled with creditors without penalties.

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by cash deposits and therefore carry less risk than a direct borrowing.

The Group monitors the term to maturity of credit related commitments, because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

In thousands or Russian Roubles	**2017**	**2016**
Total guarantees issued to customers, including those	**2 991 667**	**3 002 648**
- in Russian Roubles	2 811 237	2 845 086
- in US Dollars	161 147	144 162
- in Euro	19 283	13 400

The total outstanding contractual amount of undrawn guarantees and warranties does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. The fair value of guarantees and warranties was RR 33 358 thousand of commitments at 31 December 2017 (2016: RR 45 287 thousand of commitments).

The Group has loan commitments of RR 7 227 302 thousand (2016: RR 6 988 536 thousand). All undrawn credit facilities can be automatically closed upon failure by the borrower to meet the requirements of the loan agreement. The fair value of such commitments is equal to zero.

Assets pledged and restricted. The Group had assets pledged as collateral with the following carrying value:

In thousands or Russian Roubles	**Notes**	**31 December 2017**		**31 December 2016**	
		Asset pledged	**Related liability**	**Asset pledged**	**Related liability**
Loans and advances to customers	9	-	-	430 413	295 398
Total		-	-	**430 413**	**295 398**

29 Contingencies and Commitments (Continued)

At 31 December 2017, due from other banks balances and “overnight” deposits with other banks of RR 99 072 thousand (2016: RR 96 017 thousand) are placed as a cover for international payment cards transactions. In addition, mandatory cash balances with the CBRF of RR 662 931 thousand (2016: RR 611 606 thousand) represent mandatory reserve deposits which are not available to finance the Bank’s day to day operations.

30 Foreign Exchange Spot Contracts

The table below sets out fair values at the end of the reporting period of currencies receivable or payable under foreign exchange spot contracts entered into by the Group. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the end of the respective reporting period. The contracts are short term in nature.

	2017		2016	
In thousands or Russian Roubles	**Contracts with positive fair value**	**Contracts with negative fair value**	**Contracts with positive fair value**	**Contracts with negative fair value**
Foreign exchange spot contracts: fair value at the end of the reporting period				
- USD receivable on settlement (+)	2 888	-	-	-
- USD payable on settlement (-)	-	(747 441)	-	-
- EUR receivable on settlement (+)	-	689	-	-
- RR receivable on settlement (+)	-	745 471	-	-
- RR payable on settlement (-)	(2 888)	(693)	-	-
Net fair value of foreign exchange spot contracts	**-**	**(1 974)**	**-**	**-**

Foreign exchange spot contracts entered into by the Group are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions. The contracts have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of foreign exchange spot contracts can fluctuate from time to time.

31 Fair Value

Fair value measurements are analysed by level in the fair value hierarchy as follows: (1) Level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (2) Level two measurements are valuation techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (3) Level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies professional judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement (Notes 11, 12) The significance of a valuation input is assessed against the fair value measurement in its entirety.

31 Fair Value (Continued)

(a) Recurring fair value measurements

Recurring fair value measurements are those that the other IFRS require or permit in the consolidated statement of financial position at the end of each reporting period. The level in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

In thousands or Russian Roubles	31 December 2017				31 December 2016			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets at fair value								
Financial assets								
Other financial assets								
Other securities at fair value through profit or loss	-	-	5 997	5 997	-	-	5 997	5 997
Non-financial assets								
- Investment in associate	-	-	305 468	305 468	-	-	315 409	315 409
- Investment properties	-	-	422 971	422 971	-	-	2 609 073	2 609 073
- Premises and land (Note 4)	-	-	2 335 712	2 335 712	-	-	2 350 186	2 350 186
Total assets recurring fair value measurements	**-**	**-**	**3 070 148**	**3 070 148**	**-**	**-**	**5 280 665**	**5 280 665**
Liabilities at fair value								
Financial liabilities								
Other financial liabilities								
- Spot transactions	-	1 974	-	1 974	-	-	-	-
Total liabilities recurring fair value measurements	**-**	**1 974**	**-**	**1 974**	-	-	-	-

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

Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value are as follows:

In thousands or Russian Roubles	31 December 2017			
	Level 1	**Level 2**	**Level 3**	**Carrying value**
Financial assets				
Cash and cash equivalents	3 724 781	4 644 956	-	8 369 737
Mandatory cash balances with the Central Bank of Russian Federation	-	662 931	-	662 931
Due from other banks	-	8 607 390	-	8 607 390
Loans and advances to customers and finance lease receivables	-	-	82 467 975	80 146 601
- Loans to small and medium businesses	-	-	*26 091 487*	*26 067 530*
- Corporate loans	-	-	*7 255 403*	*7 254 309*
- Loans to individuals – consumer and car loans	-	-	*21 041 563*	*20 603 488*
- Mortgage loans	-	-	*27 846 182*	*25 988 393*
- Finance lease receivables	-	-	*233 340*	*232 881*
Other financial assets	-	-	695 572	695 572
TOTAL	**3 724 781**	**13 915 277**	**83 163 547**	**98 482 231**

31 Fair Value (Continued)

In thousands or Russian Roubles	31 December 2016 Level 1	Level 2	Level 3	Carrying value
Financial assets				
Cash and cash equivalents	3 755 481	5 874 200	-	9 629 681
Mandatory cash balances with the Central Bank of Russian Federation	-	611 606	-	611 606
Due from other banks	-	6 014 533	-	6 014 533
Loans and advances to customers and finance lease receivables	-	-	73 962 559	73 646 826
- Loans to small and medium businesses	-	-	*26 700 764*	*26 858 965*
- Corporate loans	-	-	*6 925 608*	*6 918 588*
- Loans to individuals – consumer and car loans	-	-	*20 600 045*	*19 997 289*
- Mortgage loans	-	-	*19 469 887*	*19 605 712*
- Finance lease receivables	-	-	*266 255*	*266 272*
Other financial assets	-	-	554 296	554 296
TOTAL	**3 755 481**	**12 500 339**	**74 516 855**	**90 456 942**

Mandatory cash balances with the CBRF are classified into the second level in the fair value hierarchy, since they have credit risk other than zero.

Fair values analysed by level in the fair value hierarchy and carrying value of liabilities not measured at fair value are as follows:

In thousands or Russian Roubles	31 December 2017 Level 1	Level 2	Level 3	Carrying amount
Financial liabilities				
Customer accounts	-	-	87 217 936	87 217 936
Debt securities in issue	590 145	-	472 520	1 062 172
- Promissory notes	-	-	*472 520*	*472 520*
- Bonds issued on domestic market	*590 145*	-	-	*589 652*
Borrowings from international financial institutions	-	-	996 297	996 297
Other financial liabilities	-	-	101 915	101 915
TOTAL	**590 145**	**-**	**88 788 668**	**89 378 320**

In thousands or Russian Roubles	31 December 2016 Level 1	Level 2	Level 3	Carrying amount
Financial liabilities				
Due to other banks	-	-	295 407	295 407
Customer accounts	-	-	80 433 365	80 433 365
Debt securities in issue	110 704	-	321 583	427 032
- Promissory notes	-	-	*321 583*	*321 583*
- Bonds issued on domestic market	*110 704*	-	-	*105 449*
Borrowings from international financial institutions	-	-	182 116	182 116
Subordinated debt	-	-	3 077 640	3 077 640
Other financial liabilities	-	-	90 303	90 303
TOTAL	**110 704**	**-**	**84 400 414**	**84 505 863**

The fair values in level 2 and level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

31 Fair Value (Continued)

Discount rates used depend on the currency, maturity of the instrument and credit risk of the counterparty. These main discount rates are analysed below:

	2017	2016
RR		
Loans and advances to customers		
Loans to small and medium-sized businesses	10.1% - 13.0%	12.9% - 15.1%
Corporate loans	10.5% - 11.9%	12.6% - 13.7%
Loans to individuals - consumer loans	13.7% - 13.9%	14.3% - 15.5%
Loans to individuals – car loans	10.5% - 13.7%	12.0% – 15.3%
Loans to individuals – mortgage loans	10,0%	12.2% - 12.3%
Finance lease receivables	16.1% - 22.6%	18.4% - 22.4%
Customer accounts		
Term deposits of individuals	2.0% - 10.0%	2.0% - 11.3%
Term deposits of enterprises	3.5% - 7.8%	4.0% - 11.3%
Borrowings from international financial institutions	10.2%	10.5%
Currency		
Loans and advances to customers		
- Corporate loans and loans to SME	4.0% - 7.7%	4.0% - 7.2%
Loans to individuals - consumer loans	4.0%	10.0%
Mortgage loans	4.0%	9.0%
Customer accounts		
Term deposits of individuals	0.1% - 1.7%	0.1% - 2.5%
Subordinated debt	-	7.4%

Current rates on the Group's liabilities approximate market rates as they relate to short-term instruments or instruments with floating rates.

The Group’s liabilities to its customers are subject to state deposit insurance scheme as described in Note 1. The fair value of these liabilities reflects these credit enhancements.

32 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IAS 39 “Financial Instruments: Recognition and Measurement”, classifies financial assets into the following categories: (1) loans and receivables; (2) available-for-sale financial assets; (3) financial assets held to maturity and (4) financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss have two sub-categories: (1) assets designated as such upon initial recognition, and (2) financial assets held for trading.

As at 31 December 2017 and 31 December 2016, all financial assets were designated as “Loans and receivables” except for foreign exchange spot contracts and other securities at fair value through profit and loss. All financial liabilities of the Group are carried at amortised cost.

33 Related Party Transactions

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

The Group’s policy is to lend funds to related parties if they have an appropriate credit history and provide sufficient guarantees from third parties or pledge collateral valued in excess of the committed credit lines.

33 Related Party Transactions (Continued)

The consolidated financial statements of the Group include the following transactions and balances with related parties:

	2017			2016		
In thousands or Russian Roubles	**Major share-holders**	**Associate**	**Executive Board and Board of Directors**	**Major share-holders**	**Associate**	**Executive Board and Board of Directors**
- Correspondent accounts with banks	172 099	-	-	224 311	-	-
Gross amount of loans and advances to customers (contractual interest rate: 2017: 9.5% – 13.5%; 2016: 9.9% – 14.5%)	-	78 408	6 064	-	131 149	8 050
Customer accounts (contractual interest rate: 2017: 0.01% – 8.3%; 2016: 0.1% – 11.0%)	-	4 508	73 353	-	578	52 050
Subordinated loans (contractual interest rate: 2017: -; 2016: 7.4%)	-	-	-	3 077 640	-	-

	2017			2016		
In thousands of Russian Roubles	**Major share-holders**	**Associate**	**Executive Board and Board of Directors**	**Major share-holders**	**Associate**	**Executive Board and Board of Directors**
Interest income	-	12 798	631	-	20 622	760
Interest expense	(109 395)	-	(3 852)	(321 369)	-	(4 315)
Fee and commission income	-	1 117	17	-	1 096	26
Administrative expenses excluding management remuneration	-	-	(4 310)	-	-	(2 991)

Major shareholders mean shareholders holding over five percent of the Bank's voting shares. The major shareholders of the Bank at 31 December 2017 and 31 December 2016 are as follows:

	2017		2016	
Shareholder	**Equity share, %**	**Voting rights, %**	**Equity share, %**	**Voting rights, %**
European Bank for Reconstruction and Development	17.82	19.74	22.80	25.25
DEG (Deutsche Investitions und Entwicklungsgesellschaft GmbH)	14.57	16.14	18.65	20.65
Vasiliy Vasilievich Vysokov	11.10	12.30	11.10	12.30
Tatiana Nikolaevna Vysokova	10.96	12.13	10.96	12.13
ResponsAbility Participations AG, ResponsAbility SICAV (Lux) Micro and SME Finance Leaders	9.05	10.03	-	-
Erste Bank	9.09	9.01	9.09	9.01
Firebird Funds	8.22	9.11	8.22	9.11
Rekha Holdings Limited	6.77	7.49	6.77	7.49

33 Related Party Transactions (Continued)

Compensation and benefits to members of the Executive Board and Board of Directors are presented below:

	2017		2016	
In thousands of Russian Roubles	**Expense**	**Accrued liability**	**Expense**	**Accrued liability**
Short-term benefits:				
- Salaries	33 106	-	70 994	-
- Short-term and other bonuses	58 316	-	48 048	-
Long-term bonus scheme	12 391	32 601	2 758	20 210
Total	**103 813**	**32 601**	**121 800**	**20 210**

Short-term bonuses fall due wholly within twelve months after the end of the period in which management rendered the related services. Long-term bonuses fall due within three years after their accrual, provided the qualified employees reach the targets set. The liability accrued as at 31 December 2017 falls due in the years 2018, 2019 and 2020.

In 2017, the Board of Directors consisted of seven persons (2016: seven persons). As at the end of 2017, the Group's Executive Board consisted of five persons (2016: five persons).