PJSC “BANK SAINT PETERSBURG” Group

International Financial Reporting Standards
Consolidated Financial Statements and
Independent Auditors’ Report

31 December 2017

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Independent Auditors' Report

To the Shareholders and Supervisory Board of PJSC "Bank Saint Petersburg"

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of PJSC "Bank Saint Petersburg" (the "Bank") and its subsidiaries (the "Group")), which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

Basis for Opinion

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

Audited entity: PJSC "Bank Saint Petersburg".

Registration No. in the Unified State Register of Legal Entities 1027800000140.

Saint Petersburg, Russian Federation.

Independent auditor: JSC "KPMG", a company incorporated under the Laws of the Russian Federation, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Registration No. in the Unified State Register of Legal Entities 1027700125628.

Member of the Self-regulated organisation of auditors "Russian Union of auditors" (Association). The Principal Registration Number of the Entry in the Register of Auditors and Audit Organisations: No. 11603053203.

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.

Allowance for impairment of loans and advances to legal entities

Please refer to the Notes 4 and 11 in the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
The Group has significant balances of loans and advances to legal entities that represent 40% from total assets. Allowance for impairment represents management's best estimate of the losses incurred within loans and advances to legal entities as at 31 December 2017. They are calculated on a collective basis for loans and advances without individual signs of impairment that have a similar credit risk nature and on an individual basis for loans and advances with specific indicators of impairment. Collective allowance for impairment is calculated using statistical model of history of losses. The inputs to the model are subject to management's professional judgment. Assessment of allowance for impairment on individual basis requires application of significant judgments to determine when impairment event has occurred and then to estimate the expected future cash flows. Based on the above we believe that allowance for impairment of loans and advances to legal entities is a key audit risk.	We assessed and tested the design and operating effectiveness of the controls over impairment identification for loans and advances to legal entities. With respect to collective impairment, we compared collective allowance for impairment calculated by management with results of our own assessment and our re-calculation made based on historical losses of loan portfolio. For a sample of exposures that were subject to an individual impairment assessment, and focusing on those with the most significant potential impact on the consolidated financial statements, we challenged the assumptions on the expected future cash flows, including the value of realisable collateral based on our own understanding and available market information. We also assessed whether the consolidated financial statement disclosures appropriately reflect the Group's exposure to credit risk.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

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

— Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

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

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

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

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

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

Our findings from the procedures performed are reported below.

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

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

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

  - as at 31 December 2017, the Bank's Internal Audit function was subordinated to, and reported to, the Supervisory Board, and the risk management function was not subordinated to, and did not report to, divisions taking relevant risks in accordance with the regulations and recommendations issued by the Bank of Russia;
  - the Bank's internal documentation, effective on 31 December 2017, establishing the procedures and methodologies for identifying and managing the Group's significant credit, operational, market, interest rate, legal, liquidity and reputational risks, and for stress-testing, was approved by the authorised management bodies of the Bank in accordance with the regulations and recommendations issued by the Bank of Russia;
  - as at 31 December 2017, the Bank maintained a system for reporting on the Group's significant credit, operational, market, interest rate, legal, liquidity and reputational risks, and on the Group's capital;
  - the frequency and consistency of reports prepared by the Bank's risk management and Internal Audit functions during 2017, which cover the Group's credit, operational, market, interest rate, legal, liquidity and reputational risk management, was in compliance with the Bank's internal documentation. The reports included observations made by the Bank's risk management and Internal Audit functions as to their assessment of the effectiveness of the Group's procedures and methodologies, and recommendations for improvement;
  - as at 31 December 2017, the Supervisory Board and Executive Management of the Bank had responsibility for monitoring the Group's compliance with the risk limits and capital adequacy ratios established in the Bank's internal documentation. In order to monitor the effectiveness of the Group's risk management procedures and their consistent application during 2017, the Supervisory Board and Executive Management of the Bank periodically discussed the reports prepared by the risk management and Internal Audit functions, and considered the proposed corrective actions.

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

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

Lukashova N.V.
JSC "KPMG"
Moscow, Russian Federation
20 March 2018

АКЦИОНЕРНОЕ ОБЩЕСТВО ОГРН 1027700125628 КПМГ KPMG МОСКВА

In thousands of Russian Roubles	Note	2017	2016
ASSETS			
Cash and cash equivalents	6	39 198 510	33 881 204
Mandatory reserve deposits with the Central Bank of the Russian Federation		3 020 485	3 220 803
Trading securities	7	17 372 259	17 126 047
Securities pledged under sale and repurchase agreements and loaned	8	73 549 639	61 800 246
Reverse sale and repurchase agreements	9	67 809 093	58 499 452
Derivative financial assets		1 217 534	5 537 975
Due from banks	10	34 939 256	33 371 758
Loans and advances to customers			
- loans and advances to legal entities	11	245 238 842	256 602 220
- loans and advances to individuals	11	72 977 068	58 108 845
Investment securities available-for-sale	12	22 512 774	26 477 508
Investment property	13	8 102 997	5 726 225
Premises, equipment and intangible assets	14	14 670 596	14 304 980
Other assets	15	5 704 305	4 553 272
Long-term assets held-for-sale	16	546 013	1 076 985
TOTAL ASSETS		**606 859 371**	**580 287 520**
LIABILITIES			
Due to banks	17	148 924 730	131 721 767
Customer accounts	18	352 972 148	349 944 868
Financial liabilities at fair value	9	12 511 033	4 223 164
Derivative financial liabilities		1 661 351	2 929 752
Bonds issued	19	7 137 892	15 882 715
Promissory notes and deposit certificates issued	20	7 253 345	7 882 284
Other borrowed funds	21	1 903 744	2 504 143
Other liabilities	22	3 584 999	4 329 861
TOTAL LIABILITIES		**535 949 242**	**519 418 554**
EQUITY			
Share capital	23	3 781 734	3 721 734
Share premium	23	24 513 878	21 393 878
Revaluation reserve for premises		3 651 455	3 820 496
Revaluation reserve for investment securities available-for-sale		1 264 691	1 793 138
Foreign currency translation reserve		(1 451)	-
Retained earnings		37 109 430	30 139 720
TOTAL EQUITY ATTRIBUTABLE TO:			
EQUITY HOLDERS OF THE BANK		**70 319 737**	**60 868 966**
NON-CONTROLLING INTEREST		**590 392**	**-**
TOTAL EQUITY		**70 910 129**	**60 868 966**
TOTAL LIABILITIES AND EQUITY		**606 859 371**	**580 287 520**

Approved for issue and signed on behalf of the Management Board on 20 March 2018.

A.V. Savelyev
Chairman of the Management Board

N.G. Tomilina
Chief Accountant

In thousands of Russian Roubles	Note	2017	2016
Interest income	24	47 169 918	51 851 810
Interest expense	24	(26 621 953)	(29 706 921)
Net interest income		**20 547 965**	**22 144 889**
Provision for loan impairment	10,11	(9 574 834)	(12 490 106)
Net interest income after allowance for loan impairment		**10 973 131**	**9 654 783**
Net (losses) gains from trading securities		(238 461)	577 752
Net gains from investment securities available-for-sale		1 198 694	982 912
Net gains from trading in foreign currencies and foreign exchange translations		14 670 562	5 139 695
Net losses from derivatives		(9 385 486)	(2 531 542)
Fee and commission income	25	6 607 079	5 830 457
Fee and commission expense	25	(1 396 006)	(1 130 938)
Allowance for impairment of fixed assets	14	(29 487)	-
Allowance for impairment of long-term assets held-for-sale and investment property	13,16	(308 993)	(18 470)
Provision for credit related commitments and non-financial commitments	22	(460 278)	(707 239)
Loss from disposal of long-term assets held-for-sale		-	(261 014)
Other net operating income		1 212 770	335 461
Administrative and other operating expenses:			
- Staff costs	26	(5 970 557)	(5 628 561)
- Costs related to premises and equipment		(1 775 543)	(1 673 593)
- Other administrative and operating expenses		(5 742 106)	(5 436 448)
Profit before tax		**9 355 319**	**5 133 255**
Income tax expense	27	(1 864 263)	(855 445)
Profit for the year attributable to:			
Equity holders of the Bank		7 429 077	4 277 810
Non-controlling interest		61 979	-
Profit for the year		**7 491 056**	**4 277 810**

In thousands of Russian Roubles	Note	2017	2016
Other comprehensive (loss) income			
Items of comprehensive (loss) income that are or will be reclassified subsequently to profit or loss			
Revaluation of investment securities available-for-sale transferred to profit or loss upon disposal		(1 198 694)	(982 912)
Net gains from revaluation of investment securities available-for-sale		538 135	1 228 977
Deferred income tax recognised in equity related to components of other comprehensive income (loss)		132 112	(49 213)
Exchange difference on translation		(1 451)	-
Components of comprehensive (loss) income, that will not be reclassified to profit or loss			
Change in fixed assets revaluation reserve		(205 831)	-
Deferred income tax recognised in equity related to componets of other comprehensive income (loss)		41 166	-
Other comprehensive (loss) income for the year, net of income tax		**(694 563)**	**196 852**
Total comprehensive income for the year attributable to:			
Equity holders of the Bank		6 734 514	4 474 662
Non-controlling interest		61 979	-
Total comprehensive income for the year		**6 796 493**	**4 474 662**
Basic and diluted earnings per share (in Russian Roubles per share)	28	**15,95**	**9,76**

A.V. Savelyev
Chairman of the Management Board

N.G. Tomilina
Chief Accountant

In thousands of Russian Roubles	Note	Share capital	Share premium	Revaluation reserve for premises	Revaluation reserve for investment securities available-for-sale	Foreign currency translation reserve	Retained earnings	Total equity attributable to equity holders of the Bank	Non-controlling interest	Total equity
Balance as at 1 January 2016		**3 721 734**	**21 393 878**	**3 820 496**	**1 596 286**	**-**	**26 251 090**	**56 783 484**	**-**	**56 783 484**
Other comprehensive income recognised in equity		-	-	-	196 852	-	-	196 852	-	196 852
Profit for the year		-	-	-	-	-	4 277 810	4 277 810	-	4 277 810
Total comprehensive income for 2016		-	-	-	**196 852**	**-**	**4 277 810**	**4 474 662**	**-**	**4 474 662**
Purchase of treasury shares	23	-	-	-	-	-	(580 202)	(580 202)	-	(580 202)
Sales of treasury shares	23	-	-	-	-	-	652 546	652 546	-	652 546
Dividends declared										
- ordinary shares	29	-	-	-	-	-	(459 313)	(459 313)	-	(459 313)
- preference shares	29	-	-	-	-	-	(2 211)	(2 211)	-	(2 211)
Balance as at 31 December 2016		**3 721 734**	**21 393 878**	**3 820 496**	**1 793 138**	**-**	**30 139 720**	**60 868 966**	**-**	**60 868 966**

In thousands of Russian Roubles	Note	Share capital	Share premium	Revaluation reserve for premises	Revaluation reserve for investment securities available-for-sale	Foreign currency translation reserve	Retained earnings	Total equity attributable to equity holders of the Bank	Non-controlling interests	Total equity
Balance as at 1 January 2017		**3 721 734**	**21 393 878**	**3 820 496**	**1 793 138**	**-**	**30 139 720**	**60 868 966**	**-**	**60 868 966**
Other comprehensive loss recognised in equity		-	-	(169 041)	(528 447)	(1 451)	4 376	**(694 563)**	-	**(694 563)**
Profit for the year		-	-	-	-	-	7 429 077	**7 429 077**	61 979	**7 491 056**
Total comprehensive income for 2017		**-**	**-**	**(169 041)**	**(528 447)**	**(1 451)**	**7 433 453**	**6 734 514**	**61 979**	**6 796 493**
Shares issue	23	60 000	3 120 000	-	-	-	-	**3 180 000**	-	**3 180 000**
Dividends declared										
- ordinary shares	29	-	-	-	-	-	(461 532)	**(461 532)**	-	**(461 532)**
- preference shares	29	-	-	-	-	-	(2 211)	**(2 211)**	-	**(2 211)**
Acquisition of a subsidiary	36	-	-	-	-	-	-	**-**	528 413	**528 413**
Balance as at 31 December 2017		**3 781 734**	**24 513 878**	**3 651 455**	**1 264 691**	**(1 451)**	**37 109 430**	**70 319 737**	**590 392**	**70 910 129**

A.V. Savelyev
Chairman of the Management Board

N.G. Tomilina
Chief Accountant

In thousands of Russian Roubles	Note	2017	2016
Cash flows from operating activities			
Interest received on loans and correspondent accounts		36 136 932	40 850 688
Interest received on securities		7 765 881	9 617 277
Interest received on amounts receivable under reverse sale and repurchase agreements		3 127 780	1 969 344
Interest paid on due to banks		(10 098 135)	(11 043 718)
Interest paid on customer accounts		(14 928 913)	(17 490 154)
Interest paid on other debt securities issued		(355 842)	(641 880)
Net losses from transactions with trading securities		(768 694)	(96 510)
Net gains from transactions with foreign currencies		10 387 048	9 173 548
Net losses from transactions with derivatives		(6 333 446)	(663 631)
Fees and commissions received		6 616 968	5 805 878
Fees and commissions paid		(1 396 006)	(1 130 938)
Other operating income received		1 200 383	334 997
Staff costs		(6 159 151)	(5 352 206)
Premises and equipment costs		(595 272)	(768 815)
Administrative and other operating expenses		(5 978 321)	(5 542 069)
Income tax paid		(1 837 045)	(3 271 264)
Cash flows from operating activities before changes in operating assets and liabilities		**16 784 167**	**21 750 547**
Changes in operating assets and liabilities			
Net decrease (increase) in mandatory reserve deposits with the Central Bank of the Russian Federation		200 318	(832 665)
Net increase in trading securities		(24 239 906)	(21 676 598)
Net increase in reverse sale and repurchase agreements		(9 735 240)	(44 290 141)
Net (increase) decrease in due from banks		(1 591 109)	1 203 370
Net increase in loans and advances to customers		(16 553 898)	(5 966 367)
Net (increase) decrease in other assets		(1 122 180)	297 235
Net increase in due to banks		18 922 824	1 067 635
Net increase in customer accounts		4 253 714	40 071 025
Net increase in financial liabilities at fair value		8 287 869	3 352 902
Net decrease in promissory notes and deposit certificates issued		(510 015)	(7 673 167)
Net (decrease) increase in other liabilities		(80 138)	863 914
Net cash used in operating activities		**(5 383 594)**	**(11 832 310)**
Cash flows from investing activities			
Acquisition of premises and equipment and intangible assets	14	(928 020)	(1 287 725)
Proceeds from disposal of premises and equipment and intangible assets		20 271	1 149
Net decrease in investment securities available-for-sale		15 095 330	14 604 978
Net proceeds from disposal of investment securities available-for-sale		1 198 694	982 912
Acquisition of investment property		(373 443)	-
Proceeds from disposal of long-term assets held-for-sale		895 833	1 024 389
Net cash paid for acquisition of a subsidiary		(407 844)	-
Net cash paid for acquisition of an associate		(395 798)	-
Dividends received		5 488	3 564
Net cash received from investing activities		**15 110 511**	**15 329 267**

In thousands of Russian Roubles	Note	2017	2016
Cash flows from financing activities			
Issue of ordinary shares:			
Share capital	23	60 000	-
Share premium	23	3 120 000	-
Purchase of treasury shares	23	-	(580 202)
Sale of treasury shares	23	-	652 546
Proceeds from other borrowed funds		-	568 387
Repayment of other borrowed funds		(629 748)	(486 721)
Proceeds from bonds issued		-	1 004 300
Redemption of bonds issued		(8 127 057)	(1 128 125)
Interest paid on bonds issued		(1 369 725)	(1 756 424)
Interest paid on other borrowed funds		(119 260)	(128 681)
Dividends paid	29	(463 233)	(461 255)
Net cash used in financing activities		**(7 529 023)**	**(2 316 175)**
Effects of exchange rate changes on cash and cash equivalents		**3 119 412**	**(3 858 495)**
Net increase (decrease) in cash and cash equivalents		**5 317 306**	**(2 677 713)**
Cash and cash equivalents at the beginning of the year		33 881 204	36 558 917
Cash and cash equivalents at the end of the year	6	**39 198 510**	**33 881 204**

A.V. Savelyev
Chairman of the Management Board

N.G. Tomilina
Chief Accountant

1 Background

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2017 for PJSC “Bank Saint Petersburg” (the “Bank”) and its subsidiaries, together referred to as the “Group” or “PJSC “Bank Saint Petersburg” Group””. A list of subsidiaries is disclosed in note 36.

The Bank was formed in 1990 as an open joint stock company under the Laws of the Russian Federation as the result of the corporatisation process of the former Leningrad Regional Office of Zhilsotsbank. In 2014 the Bank was reorganised from the Open Joint-Stock Company “Bank Saint Petersburg” to the Public Joint-Stock Company “Bank Saint Petersburg” following the resolution passed at the extraordinary Shareholders’ Meeting.

As at 31 December 2017, management of the Bank controls 50.64% of the ordinary shares of the Bank (2016: 52.50%), including: 24.95% of the ordinary shares of the Bank are controlled by Mr. A.V. Savelyev (2016: 23.70%), 25.69% of the ordinary shares are controlled by management of the Bank, including 25.53% of the ordinary shares of the Bank owned by LLC "Vernye Druzya" Management Company” (2016: 28.80% of the ordinary shares are controlled by management of the Bank, including 28.74% of the ordinary shares of the Bank owned by LLC "Vernye Druzya” Management Company”). NOROYIA ASSETS LIMITED, ZERILOD HOLDINGS LIMITED and CARISTAS LIMITED companies own 26.58% of the share capital of LLC "Vernye Druzya" Management Company” each (2016: NOROYIA ASSETS LIMITED, ZERILOD HOLDINGS LIMITED and CARISTAS LIMITED own 26.58% of the share capital of LLC "Vernye Druzya" Management Company” each).

Ms. O.A. Savelyeva indirectly owns 19.95% of LLC "Vernye Druzya" Management Company” and has a perpetual option to purchase a 100% interest in NOROYIA ASSETS LIMITED, ZERILOD HOLDINGS LIMITED and CARISTAS LIMITED companies (2016: Ms. O.A. Savelyeva indirectly owned 19.95 % of LLC "Vernye Druzya" Management Company” and had the option to purchase a 100% interest in NOROYIA ASSETS LIMITED, ZERILOD HOLDINGS LIMITED and CARISTAS LIMITED companies). The ultimate owners of NOROYIA ASSETS LIMITED, ZERILOD HOLDINGS LIMITED and CARISTAS LIMITED are the representatives of the Bank’s management: K.B. Mironova, P.V. Filimonenok, V.G. Reutov. (2016: the ultimate owners of NOROYIA ASSETS LIMITED, ZERILOD HOLDINGS LIMITED and CARISTAS LIMITED companies were the representatives of the Bank’s management: K.B. Mironova, P.V. Filimonenok, V.G. Reutov).

The remaining ordinary shares of the Bank are owned as follows: 6.69% of the ordinary shares are owned by East Capital Group (2016: 7.40%), 4.83% of the ordinary shares are owned by the EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT (EBRD) (2016: 5.49%).

The remaining 37.84% of the ordinary shares are widely held (2016: 34.61%).

Principal activity. The Bank’s principal business activity is commercial banking operations within the Russian Federation. The Bank has operated under a general banking license issued by the Central Bank of the Russian Federation (the “CBRF”) since 1997. The Bank takes part in the state deposit insurance system introduced by Federal Law No.177-FZ dated 23 December 2003 *On Retail Deposit Insurance in the Russian Federation*. The state deposit insurance system guarantees payment in the amount of 100% of total deposits placed with a bank, but limited to RR 1 400 000, in the event the bank’s license is revoked or the CBRF imposes a moratorium on payments.

As at 31 December 2017, the Bank had four branches within the Russian Federation: three branches located in the North-West region of Russia, one branch in Moscow and sixty three outlets (2016: four branches within the Russian Federation: three branches located in the North-West region of Russia, one branch in Moscow and sixty three outlets).

Registered address and place of business. The Bank’s registered address and place of business is 64A Malookhtinsky Prospect, 195112, Saint Petersburg, Russian Federation.

1 Background (continued)

Presentation currency. These consolidated financial statements are presented in thousands of Russian Roubles (RR thousands).

2 Operating Environment of the Group

Russian Federation.

2017 was a year of economic recovery for the Russian market. According to the results of 2017 the GDP growth in Russia in annual terms was 1.5% after decline by 0.2% in 2016. The economy has successfully adapted to the low oil prices and floating exchange rate of the rouble though the dynamics of production by sector remained extremely uneven.

Against the background of moderately stringent monetary policy of the CBRF and population tendency to saving behavior pattern in combination with local factors (strong rouble, high yield) an inflation slowed down significantly: from 5.4% at the end of 2016 to 2.5% according to the results of 2017. A CBRF key rate reduced from 10% by the end of 2016 to 7.75% by the end of 2017.

Meanwhile the Russian stock indices remained under pressure. So, by the end of 2017 index RTS showed zero dynamics after growth by 52.2% in 2016 and index MICEX reduced by 5.5% after growth by 26.8% in 2016.

In 2017 USD exchange rate varied within the range 56-61 RR/USD, the annual average price of Brent oil made up USD 54.7 per barrel. High level of effective interest rates, positive dynamics of oil quotations, USD depreciation in the global market and mitigation of expectations regarding monetary policy of FRS USA made Russian assets particularly attractive for non-residents, allowing investors to trade on interest rates. Capital inflow into the country due to high demand for Russian assets led to notable decrease in RR dependence on oil.

To reduce the dependence of revenue on changes in oil prices, the Ministry of Finance has developed a new budget regulation under which the CBRF on behalf of the Ministry bought currency to the extent of supplementary oil and gas income of the federal budget in case URALS oil prices exceeded USD 40 per barrel that had a significant influence on RR rate.

The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. In addition, the recent contraction in the capital and credit markets have further increased the level of economic uncertainty. In general, the current economic environment the Group operates in is characterised by significant growth of risks of different nature and general uncertainty, bounding the strategic horizon for market participants and aggregated risk appetite.

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

Management of the Group believes that it takes all the necessary efforts to support the economic stability of the Group in the current environment.

3 Basis of Preparation and Significant Accounting Policies

Basis of Preparation. These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (the “IFRS”) under the historical cost convention, as modified by initial recognition of financial instruments at fair value and revaluation of premises, trading securities, investment securities available-for-sale and derivative financial instruments. The principle accounting policies applied in the preparation of these consolidated financial statements are set out below, except changes in accounting policies related to the amendments to IFRS described below.

3 Basis of Preparation and Significant Accounting Policies (continued)

Disclosure Initiative (Amendments to IAS 7). IAS 7 *Statement of Cash Flows* has been amended as part of the IASB's broader disclosure initiative to improve presentation and disclosure in financial statements. The amendment requires disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. One way to meet this new disclosure requirement is to provide a reconciliation between the opening and closing balances for liabilities arising from financing activities. However, the objective could also be achieved in other ways.

Recognition of Deferred Tax Asset for Unrealised Losses (Amendments to IAS 12). The amendments to IAS 12 *Income Taxes* clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. Therefore, assuming that the tax base remains at the original cost of the debt instrument, there is a temporary difference. The amendments show that the entity can recognise a deferred tax asset if the future bottom line of its tax return is expected to be a loss if certain conditions are met.

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

Subsidiaries are accounted for in the consolidated financial statements using the acquisition method. Acquired identifiable assets, liabilities and contingencies as a result of business combination are stated at fair value as at the acquisition date irrespective of non-controlling interest.

The Group measures goodwill at the acquisition date as the fair value of the consideration transferred (including the fair value of any previously-held equity interest in the acquiree if the business combination is achieved in stages) and the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed. If the amount is negative ("negative goodwill") it is recognised in profit or loss after the management has assessed whether all acquired assets and all assumed liabilities and contingencies are identified and analysed correctness of their estimate.

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

Intercompany transactions, balances and unrealised gains arising from intercompany transactions are eliminated.

Unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

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

3 Basis of Preparation and Significant Accounting Policies (continued)

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs. 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 paid to regulatory agencies and stock exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Fair value is the price that would be received for sale of an asset or paid to transfer a liability in an orderly transaction between market participants in the principal market at the measurement date. Fair value of an instrument is best evidenced by the quoted price for that instrument in an active market. Fair value is the current bid price for financial assets and current asking price for financial liabilities that are quoted in an active market. For assets and liabilities with offsetting market risks, the Group may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or the current value of an investee are used for determination of the fair value of financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data.

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

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (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 discounted value calculation includes all fees and charges paid and received between the parties to the contract that form an integral part of the effective interest rate (refer to Income and Expense Recognition Policy).

Initial recognition of financial instruments. Trading securities and derivative financial instruments are initially recorded at fair value. All other financial instruments are initially recorded at fair value including transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss at 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 when the Group commits to buy or sell a financial asset. All other acquisition transactions are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

3 Basis of Preparation and Significant Accounting Policies (continued)

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 transfer arrangement while (i) also transferring substantially all the risks and benefits of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and benefits of ownership but not retaining control of the assets. 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 imposing additional restrictions on the sale.

Foreign currency translation. The functional currency of the Group is the currency of the primary economic environment in which the Group operates. The Bank’s and the majority of its subsidiaries’ functional currency and the presentation currency of the Group’s consolidated financial statements is the national currency of the Russian Federation, i.e. Russian Rouble.

Monetary assets and liabilities are translated into Russian Roubles at the official CBRF exchange rate at the respective reporting date. Foreign exchange gains and losses on monetary assets and liabilities translated at the CBRF official exchange rate as at the end of the year are included in the profit or loss for the year (as foreign exchange translation gains less losses). Non-monetary items are translated at historical rates. Effects of exchange rate differences on the fair value of equity securities are recorded as part of the fair value translation gain or loss.

As at 31 December 2017, the official rates of exchange used for translating foreign currency balances were USD 1 = RR 57.6002 and EURO 1 = RR 68.8668 (2016: USD 1 = RR 60.6569 and EURO 1 = RR 63.8111).

Cash and cash equivalents. Cash and cash equivalents are items which can be converted into cash within a day and are subject to insignificant change in value. All short term interbank placements, including overnight deposits, are included in cash and cash equivalents, all other interbank placements are recognised in due from banks. Amounts that 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 reserve deposits with the CBRF. Mandatory reserve deposits with the CBRF are carried at amortised cost and represent non-interest bearing deposits in the CBRF that are not available to finance day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

Trading securities. Trading securities are included in financial assets at fair value through profit or loss that are classified as held for trading, as they are acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. within the period from one to six months.

Trading securities are carried at fair value. Interest earned on trading securities calculated using the effective interest method is presented in profit or loss as interest income. Dividends are included in other operating income when the Group’s right to receive the dividend payment is established and provided the dividend is likely to be received. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in profit or loss for the year as gains less losses from trading securities in the period in which they arise.

Due from banks. Amounts due from banks are recorded when the Group advances money to counterparty banks with no intention of trading the instrument. Amounts due from banks are carried at amortised cost.

3 Basis of Preparation and Significant Accounting Policies (continued)

Loans and advances to customers. Loans and advances 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 and advances to customers are carried at amortised cost.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of the financial asset and that have an impact on the amount or timing of the estimated future cash flows 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 when assessing whether a financial asset is impaired is its overdue status and realisability of related collateral, if any.

The following principal criteria are also used to determine that there is an 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 significant financial difficulty as evidenced by financial information that the Group obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- 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;
- the value of collateral significantly decreases as a result of deteriorating market conditions;
- implementation of the borrower’s investment plans is delayed; or
- the Group expects difficulties in servicing the borrower’s debt due to volatility of the borrower’s cash flows caused by its cyclic activity or irregularity of proceeds.

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.

Future cash flows in a group of financial assets that are collectively assessed for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted 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.

Impairment losses are recognised through an allowance account to decrease the asset’s carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been currently incurred) discounted at the initial effective interest rate of the asset. The calculation of the discounted value of the 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.

3 Basis of Preparation and Significant Accounting Policies (continued)

Uncollectible assets are written off against the related impairment allowance recorded in the consolidated statement of financial position after all the necessary procedures to recover the asset fully or partially have been completed and the amount of the loss has been determined.

Investment securities available-for-sale. This classification includes investment securities that the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. The Group classifies investments as available for sale at the time of purchase.

Investment securities available-for-sale are carried at fair value. Certain types of investment securities available-for-sale are carried at cost when the Group cannot measure their fair value with sufficient level of reliability. Dividends on available-for-sale equity investments are recognised in profit or loss when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other components of changes in the fair value are recognised directly in equity until the investments are derecognised or impaired, when the cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss for the year.

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events (loss events) that occurred after the initial recognition of investment securities available-for-sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. Accumulated impairment losses calculated as the difference between the acquisition cost and the current fair value less impairment loss for the asset that was initially recognised in profit or loss are transferred from other comprehensive income to profit or loss for the year. Impairment losses on equity instruments are not reversed and subsequent gains are recognised in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss for the year.

Advances receivable. Advances receivable are recognised if the Group makes a prepayment under a contract for services that are not yet provided, and are recorded at amortised cost.

Sale and repurchase agreements. Sale and repurchase agreements ("repo agreements"), which effectively provide a lender's return to the counterparty, are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognised. In such cases they are classified as "Securities pledged under sale and repurchase agreements and loaned". The corresponding liability is presented within amounts due to banks or customer accounts, as appropriate.

Securities purchased under agreements to resell ("reverse repo agreements"), which provide the Group with a creditor's return, are recorded as reverse sale and repurchase agreements. The difference between the sale and repurchase price is treated as interest income and accrued over the life of the reverse repo agreements using the effective interest method.

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

If the assets purchased under a sale and repurchase agreement are sold to third parties, the obligation to return the securities is recorded as a financial liability at fair value in the consolidated statement of financial position.

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

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

3 Basis of Preparation and Significant Accounting Policies (continued)

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

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

Promissory notes purchased. Promissory notes purchased are included in due from banks or loans and advances to customers, based on their economic substance and are recorded and subsequently remeasured and accounted in accordance with the accounting policies for this category of assets.

Premises and equipment. Premises and equipment 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, or revalued amounts, as described below, less accumulated depreciation and impairment (where required).

Group's premises are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the premises being revalued. Any increase in the carrying value as a result of revaluation is recognised in other comprehensive income and in revaluation reserve in equity. Any decrease in value accounted against previous increases of the same asset is recognised in other comprehensive income and reduces the revaluation reserve previously recognised in equity. All other decreases in value are recognised in profit or loss for the year. The revaluation reserve for premises included in equity is transferred directly to retained earnings when the surplus is realised, i.e. either on the retirement or disposal of the asset.

Construction in progress is carried at cost less impairment (where required). Upon completion, assets are transferred to premises and equipment at their carrying amount. Construction in progress is not depreciated until the asset is available for use.

All other items of premises and equipment are stated at cost less accumulated depreciation and impairment losses (if any).

Costs of minor repairs and maintenance are recognised when incurred. Costs of replacing major parts or components of premises and equipment are capitalised and the replaced part is retired.

If impaired, premises and equipment are written down to the higher of their value in use and fair value less costs to sell. The decrease in carrying amount is charged to profit or loss to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years 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.

Gains or losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss for the year.

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 net book values over their estimated useful lives:

Premises: 50 years

Office and computer equipment: 5 years

Leasehold improvements: over the term of the underlying lease.

The net book 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 was already of the age and in the condition expected at the end of its useful life. The net book value of an asset is nil if the Group expects to use the asset to the end of its physical life. The assets' net book values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

3 Basis of Preparation and Significant Accounting Policies (continued)

Intangible assets. All intangible assets of the Group have definite useful lives and primarily include capitalised computer software.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Capitalised computer software is amortised on a straight-line basis over expected useful lives of 3 to 4 years. All other costs associated with computer software, e.g. its maintenance, are recognised when incurred.

Investment property. Investment property is property not occupied by the Group and held either to earn rental income or for capital appreciation or for both.

Investment property is stated at acquisition cost less accumulated amortisation and impairment (if necessary). In case of indications of impairment of investment property the Group evaluates its recoverable amount, which is calculated as the higher of its value in use and fair value less disposal costs. A decrease in carrying value of investment property to its recoverable amount is recognised in profit or loss. Impairment loss recognised in previous years is recovered if there was a change in estimates used to evaluate the recoverable amount of the asset.

Subsequent expenditure is capitalised only when the Group is likely to receive the related future economic benefits and the cost can be reliably measured. All other repair and maintenance costs are recognised as an expense as incurred. If the owner occupies the investment property, it is transferred to the category "Premises and Equipment".

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

Long-term assets held-for-sale. Long-term assets and disposal groups (which may include both long-term and short-term assets) are presented in the consolidated statement of financial position as long-term assets held-for-sale if their carrying amount will be recovered principally through a sale transaction within twelve months after the reporting date. Assets are reclassified to long-term assets held-for-sale when all of the following conditions are met: (a) assets are available for immediate sale in their present condition; (b) management of the Group approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for a sale at a reasonable price; (d) the sale is expected within one year; and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn.

Long-term assets and disposal groups held-for-sale are measured at the lower of carrying amount and fair value less costs to sell. Held-for-sale premises and equipment (included in the disposal group) are not depreciated or amortised.

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

Due to banks. Amounts due to banks are recorded when cash or other assets are advanced to the Group by counterparty banks. The non-derivative financial liability is carried at amortised cost.

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

***Debt securities issued**.* Debt securities issued include bonds, promissory notes and certificates of deposit 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 other income.

3 Basis of Preparation and Significant Accounting Policies (continued)

Other borrowed funds. Other borrowed funds include liabilities to credit and corporate entities and financial institutions attracted for target financing and are carried at amortised cost.

Derivative financial instruments. Derivative financial instruments 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 recognised as gains less losses in accordance with the nature of transaction in profit or loss. The Group does not apply hedge accounting.

Income taxes. Tax expenses are provided for in the consolidated financial statements in accordance with the effective Russian legislation using tax rates and legislative regulations enacted or substantively enacted by the reporting date. The income tax charge comprises current tax charge and deferred tax and is recognised in profit or loss for the year except if it is recognised as other comprehensive income or directly in equity because it relates to transactions that are also recognised in the same or a different period as other comprehensive income or directly in equity.

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

Deferred income tax is calculated on the basis of balance sheet liability method for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax assets and liabilities are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply in the period when the temporary differences or deferred tax losses will be realised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Uncertain tax positions. Uncertain tax positions of the Group are reassessed by management at every reporting date. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the reporting date 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 reporting date.

Provisions for liabilities and future expenses. Provisions for liabilities and future expenses are non-financial liabilities of uncertain timing or amount. Related provisions are provided for in the consolidated financial statements where the Group has liabilities (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Payables. Payables are accrued when the counterparty performed its obligations under the contract and are carried at amortised cost.

3 Basis of Preparation and Significant Accounting Policies (continued)

Credit and non-credit related commitments. The Group enters into credit related commitments, including commitments to provide loans, letters of credit and financial guarantees. Financial guarantees and letters of credit represent irrevocable commitments 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 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, other than the commitment to originate loans, if there is a probability that the Group concludes certain loan agreements and is not planning to disburse the loan immediately. Such commission income related to loan origination commitment is recognised as future period profit and is included in the loan's carrying amount upon initial recognition. At each reporting date, the commitments are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the reporting date.

Non-credit related commitment mainly include guarantees for the performance obligation - these are contracts that provide for compensation, if the other party does not fulfill the obligation provided by the contract. Such contracts do not transfer credit risk. Guarantees for the performance obligations are initially recognised at fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight-line basis over the term of the contract. At the end of each reporting period, gurantess for the perforamcne obligation are valued at the higher of (i) the unamortised balance of the amount at initial recognition; and (ii) the best estimate of the costs required to settle the obligation as of the end of the reporting period, discounted to the present value. If the Bank has a contractual right to apply to the customer for reimbursement of the amounts paid for the settlement of performance guarantee contracts, these amounts should be recognised as loans and receivables in other assets after the transfer of compensation for the loss to the beneficiary under the guarantee. In cases where the amount of remuneration is received on a periodic basis, the remuneration received is recognised as income evenly during the term of the contract.

Share premium. When shares are issued, the excess of contributions received, net of transaction costs, over the nominal value of the shares issued is recorded as share premium in equity.

Preference shares. Preference shares that are not mandatorily redeemable and with discretionary dividends, are classified as equity.

Dividends. Dividends in relation to own equity instruments are recorded in equity in the period in which they are declared. Dividends declared after the reporting date and before the consolidated financial statements are approved for issue are disclosed in the *Events after the reporting period* note. The statutory accounting reports are the basis for payment of dividends and other profit distribution. In accordance with the requirements of the Russian legislation, the distribution of profits is based on the net profit of the current year on the financial statements prepared in accordance with the requirements of Russian legislation.

Income and expense recognition. Interest income and expense are recorded for all debt instruments on an accrual basis using the effective interest method. This method includes as part of interest income and expense all fees and charges paid and received between the parties to the contract that form an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fee and commission income/expenses attributable to the effective interest rate include fees received or paid in connection with the origination 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 does not expect to sell the resulting loan shortly after origination.

When loans issued or other debt instruments become doubtful of timely collection, they are written off to recoverable value with subsequent recognition of interest income based on the effective interest rate that was used to discount future cash flows with the purpose of determination of recoverable value.

3 Basis of Preparation and Significant Accounting Policies (continued)

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.

Fiduciary assets. Assets held by the Group in its own name, but on the account and at the expense of third parties, are not reported in the consolidated statement of financial position. The analysis of such balances and transactions is presented in note 33. Commissions received from fiduciary activities are shown in fee and commission income.

Offsetting. Financial assets and liabilities are offset and the net amount is reported 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 settle the liability simultaneously.

The Group currently has a legally enforceable right to set off if that right is not contingent on a future event and is enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the Group and any of its counterparties.

Accounting for the effects of hyperinflation. The Russian Federation previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 *Financial Reporting in Hyperinflationary Economies* (IAS 29). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the reporting date.

The characteristics of the economic environment of the Russian Federation indicate that hyperinflation ceased from 1 January 2003. Restatement procedures of IAS 29 are therefore only applied to assets acquired or revalued and liabilities incurred or assumed prior to that date. For these balances, the amounts expressed in the measuring unit current as at 31 December 2002 are the basis for the carrying amounts in these consolidated financial statements. The restatement was calculated using the conversion factors derived from the Russian Federation Consumer Price Index, published by the Russian Statistics Agency, and from indices obtained from other sources for years prior to 1992.

Staff costs and related contributions. Wages, salaries, contributions to insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued as far as the associated services are rendered by the Group’s employees.

Segment reporting**.** Segment reporting is prepared based on the internal management reports regularly reviewed by the Group’s chief operating decision maker. Segments with an income, financial results or total assets equal to at least ten percent of those from all the segments are reported separately.

The Group’s operations are neither seasonal nor cyclic by nature.

4 Significant Accounting Estimates and Judgments in Applying Accounting Policies

The Group makes estimates and assumptions that affect the amounts of assets and liabilities recognised in the consolidated financial statements. Estimates and judgments 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 professional judgments and estimates in the process of applying the accounting policies. Judgments 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:

4 Significant Accounting Estimates and Judgments in Applying Accounting Policies (continued)

Impairment losses on loans and advances. The Group regularly reviews its loan portfolio to assess impairment. In determining whether an impairment loss should be recorded in the profit or loss for the period, the Group makes professional judgments 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. To the extent that a one month delay in repayment of principal and interest on 5% of the total loans and advances to customers occurred, the allowance would be approximately RR 135 814 thousand higher (2016: RR 156 328 thousand higher).

Revaluation of investment securities available-for-sale. Investment securities available-for-sale are recorded based on fair value.

In the event it does not appear possible to assess fair value of certain types of equity securities falling into such category with an adequate degree of assurance (lack of active market quotes, as well as observable data such as price for similar instruments on the active market), such type of security is recorded based on historical cost less impairment.

Revaluation of premises. The fair values of the Group's premises are determined by using valuation methods and are based on their market value. Market values of premises are estimated by an independent appraiser, who holds a recognised and relevant professional qualification and who has recent experience in valuation of premises of similar location and category. The market value was assessed using the sales comparison approach, i.e. comparison with other premises that were sold or are offered for sale. To the extent that the assessed fair value of premises differs by 10%, its carrying value would change by RR 1 233 449 thousand (before deferred tax) as at 31 December 2017 (2016: by RR 1 215 342 thousand).

5 Standards and Interpretations Not Yet Adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2017, and are not applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the financial position and performance. The Group plans to adopt these pronouncements when they become effective.

IFRS 9 *Financial Instruments*, published in July 2014, replaces the existing guidance in IAS 39 "Financial Instruments: Recognition and Measurement", and includes requirements for classification and measurement of financial instruments, impairment of financial assets and hedge accounting. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018. The Group decided not to adopt the standard earlier.

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 includes three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). It eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of IFRS 9 are not separated. Instead, the hybrid financial instrument as a whole is assessed for classification. Equity instruments are measured at fair value.

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

5 Standards and Interpretations Not Yet Adopted (continued)

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an ‘expected credit loss’ model. The new impairment model applies to financial assets measured at amortised cost and FVOCI, lease receivables, certain loan commitments and financial guarantee contracts. The new impairment model generally requires to recognise expected credit losses in profit or loss for all financial assets, even those that are newly originated or acquired. Under IFRS 9, impairment is measured as either expected credit losses resulting from default events on the financial instrument that are possible within the next 12 months (‘12-month ECL’) or expected credit losses resulting from all possible default events over the expected life of the financial instrument (‘lifetime ECL’). Initial amount of expected credit losses recognised for a financial asset is equal to 12-month ECL (except for certain trade and lease receivables, and contract assets, or purchased or originated credit-impaired financial assets). If the credit risk on the financial instrument has increased significantly since initial recognition, the loss allowance is measured at an amount equal to lifetime ECL.

Financial assets for which 12-month ECL is recognised are considered to be in stage 1; financial assets that have experienced a significant increase in credit risk since initial recognition, but are not defaulted are considered to be in stage 2; and financial assets that are in default or otherwise credit-impaired are considered to be in stage 3.

Measurement of expected credit losses is required to be unbiased and probability-weighted, should reflect the time value of money and incorporate reasonable and supportable information that is available without undue cost or effort about past events, current conditions and forecasts of future economic conditions. Under IFRS 9, credit losses are recognised earlier than under IAS 39, resulting in increased volatility in profit or loss. It will also tend to result in an increased impairment allowance, since all financial assets will be assessed for at least 12-month ECL and the population of financial assets to which lifetime ECL applies is likely to be larger than the population with objective evidence of impairment identified under IAS 39.

Calculation of expected credit losses made by the Group is mainly to be based on the PDxLGDxEAD approach (at least for some portfolios), depending on the type of the exposure, stage at which the exposure is classified under IFRS 9, collective or individual assessment, etc.

The most significant impact on the Group's consolidated financial statements from implementation of IFRS 9 is expected to be from new impairment requirements. The application of a new impairment model in accordance with IFRS 9 will result in an increase of impairment losses, as well as to their greater volatility. The Group estimates that when applying IFRS 9 as of January 1, 2018, the allowance for expected credit losses of loans and advances to customers will with a high degree of probability increase (before tax) by RR 2 452 million. The new impairment requirements will have the greatest impact on allowance for investment loans.

The general hedge accounting requirements aim to simplify hedge accounting, aligning the hedge accounting more closely with risk management strategies. The standard does not explicitly address macro hedge accounting, which is being considered in a separate project. IFRS 9 includes an accounting policy choice to continue to apply the hedge accounting requirements of IAS 39. The Group does not expect any influence of changes in hedge accounting due to the absence of this type of transaction.

IFRS 9 includes the requirements of IAS 39 for derecognition of financial assets and financial liabilities without material amendments. However, it contains a separate accounting guide when a modification of a financial instrument not measured at fair value through profit or loss does not lead to a derecognition. In accordance with IFRS 9, the Group must restate the gross carrying amount of the financial asset (or the amortised cost of the financial liability) by discounting the modified contractual cash flows at the original effective interest rate and recognise any resulting adjustment as income or expense from the modification in profit or loss. In accordance with IAS 39, the Group does not recognise income or expense in profit or loss as a result of modifications to financial liabilities and non-impaired financial assets that do not result in derecognition. The Group estimates that the approximate effect of the application of these requirements should not exceed RR 760 million, a decrease in the Group's equity (before tax).

5 Standards and Interpretations Not Yet Adopted (continued)

The Group is currently finalising an assessment of the impact of potential changes in the classification of assets, it is generally expected that loans and advances to customers and banks will be measured at amortised cost in accordance with IFRS 9, with the exception of separate loans to be classified as being measured at fair value through profit or loss, based on the characteristics of cash flows of the contract.

The assessment indicated above is preliminary, since the transition to the new standard has not yet been completed. The actual impact of IFRS 9 application as of 1 January 2018 may change, because:

- IFRS 9 requires the Group to review the accounting and internal control processes, and these changes have not yet been completed;
- Despite the fact, that parallel accounting took place in the second half of 2017, new systems and associated monitoring systems did not function for a longer period;
- The Group has not completed testing and evaluating the controls of its new information systems;
- The Group is improving and further developing its models to calculate expected credit losses; and
- New accounting policies, applied assumptions, judgments and valuation techniques may change until the Group completes the process of preparing its first consolidated financial statements, including the date of initial application.

In application IFRS 9, the classification and measurement and impairment requirements are generally applied retrospectively (with some exemptions) by adjusting the opening retained earnings and reserves at the date of initial application, as at 1 January 2018, with no requirement to restate comparative periods.

IFRS 16 *Leases* replaces the existing lease accounting guidance in IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-*15 Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial application of IFRS 16.

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

The Group has completed the initial assessment of the possible impact of IFRS 16 application on its consolidated financial statements, but has not yet completed a detailed assessment. The actual impact of IFRS 16 application on the consolidated financial statements during the initial period will depend on future economic conditions, including the Group's borrowing rate effective as at 1 January 2019,on the Group's lease portfolio as at that date, whether it intends to exercise the rights to prolong the lease and which of the standard simplifications of practical nature and exemption from recognition the Group decides to apply.

As a lessee, the Group can either apply the standard using a:

- retrospective approach; or
- modified retrospective approach with optional practical expedients.

The lessee applies the selected approach consistently to all of its leases.

The Group currently plans to apply IFRS 16 initially on 1 January 2019. The Group is in the process of assessing the effect of the application of new requirements on consolidated financial statements.

5 Standards and Interpretations Not Yet Adopted (continued)

As a lessor, the Group is not required to make any adjustments for leases in which it is a lessor except where it is an intermediate lessor in a sub-lease.

IFRS 15 was not early adopted in the Group’s consolidated financial statements for the year ended 31 December 2017.

The following amendments to standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements: Annual improvements to IFRS Standards 2014-2016 cycle, - amendments to IFRS 1 and IAS 28; Share-based Payment in relation to the classification and measurement of share-based payment transactions (Amendments to IFRS 2); Transfers of Investment Property (Amendments to IAS 40); Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28); IFRIC 22 *Foreign Currency Transactions and Advance Consideration*; IFRIC 23 *Uncertainty over Income Tax Treatments*.

6 Cash and Cash Equivalents

In thousands of Russian Roubles	**2017**	**2016**
Cash on hand	7 057 891	7 728 438
Cash balances with the CBRF (other than mandatory reserve deposits)	17 601 108	12 655 043
Correspondent accounts and overnight placements with banks of		
- the Russian Federation	345 615	5 855 219
- other countries	2 144 843	1 477 061
Settlement accounts with trading systems	12 049 053	6 165 443
Total cash and cash equivalents	**39 198 510**	**33 881 204**

Correspondent accounts and overnight placements with banks of the Russian Federation and settlement accounts with trading systems are mainly represented by balances with Russian stock exchanges and clearing houses.

Currency and interest rate analyses of cash and cash equivalents are disclosed in note 31.

7 Trading Securities

In thousands of Russian Roubles	2017	2016
Corporate bonds	9 853 721	12 957 090
Corporate Eurobonds	5 996 183	3 341 132
Municipal bonds	181 186	496 343
Federal loan bonds	95 068	41 346
Total debt securities	**16 126 158**	**16 835 911**
Corporate shares	1 246 101	290 136
Total trading securities	**17 372 259**	**17 126 047**

Debt trading securities of the Group are divided by credit rating of the issuer assigned by rating agencies Moody’s, S&P and Fitch into the following groups:

Group A - debt securities with credit rating of the issuer at least BBB-, according to S&P rating agency or equivalent rating of other agencies.

Group B - debt securities with credit rating of the issuer between BB- and BB+, according to S&P rating agency or equivalent rating of other agencies.

Group C - debt securities with credit rating of the issuer between B- and B+, according to S&P rating agency or equivalent rating of other agencies.

Group D - debt securities with credit rating of the issuer below B-, according to S&P rating agency or equivalent rating of other agencies or without credit rating.

Analysis by credit quality of debt trading securities outstanding at 31 December 2017 is as follows:

In thousands of Russian Roubles	Corporate bonds	Corporate Eurobonds	Municipal bonds	Federal loan bonds	Total
Not overdue or impaired					
Group A	438 712	6 089	-	-	444 801
Group B	8 758 725	5 183 393	159 427	95 068	14 196 613
Group C	-	174 722	16 590	-	191 312
Group D	656 284	631 979	5 169	-	1 293 432
Total debt trading securities	**9 853 721**	**5 996 183**	**181 186**	**95 068**	**16 126 158**

7 Trading Securities (continued)

Analysis by credit quality of debt trading securities outstanding at 31 December 2016 is as follows:

In thousands of Russian Roubles	Corporate bonds	Corporate Eurobonds	Municipal bonds	Federal loan bonds	Total
Not overdue or impaired					
Group A	806 950	154 869	-	-	961 819
Group B	10 529 569	2 816 708	418 727	41 346	13 806 350
Group C	513 183	-	43 186	-	556 369
Group D	1 107 388	369 555	34 430	-	1 511 373
Total debt trading securities	**12 957 090**	**3 341 132**	**496 343**	**41 346**	**16 835 911**

The Bank is licensed by the Federal Agency of the Russian Federation for Financial Markets for trading in securities.

Currency, maturity and interest rate analyses of trading securities are disclosed in note 31.

In December 2014 the Group reclassified certain financial assets for which there was no active market from trading securities to due from banks, loans and advances to customers, and financial assets for which there was an active market from trading securities to investment securities available-for-sale. See notes 10, 11, 12.

Management believes that significant deterioration of the situation in the domestic currency market in the fourth quarter of 2014, which led to a sharp increase of the key rate of the CBRF, is a rare, unpredictable and extraordinary event, since it does not correspond to the general trend and volatility observed in the financial markets during previous periods.

The Group determined that this anti-crisis change of the key rate of the CBRF, which occurred on 15 December 2014, is an example of a "rare event", which provides the basis for reclassification from the category of trading securities.

The carrying and fair values of all financial assets reclassified from trading securities are as follows:

	2017		2016	
In thousands of Russian Roubles	Carrying value	Fair value	Carrying value	Fair value
Loans and advances to customers	586 074	596 396	963 529	1 026 817
Due from banks	-	-	3 084 946	3 259 938
Investment securities available-for-sale	1 953 355	1 953 355	4 187 584	4 187 584
Total	**2 539 429**	**2 549 751**	**8 236 059**	**8 474 339**

8 Securities Pledged Under Sale and Repurchase Agreements and Loaned

In thousands of Russian Roubles	**2017**	**2016**
Trading debt securities pledged under sale and repurchase agreements and loaned		
Corporate Eurobonds	26 631 821	18 580 867
Corporate bonds	19 528 814	4 153 814
Federal loan bonds	127 588	550
Total debt trading securities pledged under sale and repurchase agreements and loaned	**46 288 223**	**22 735 231**
Corporate shares	823 471	194 612
Total trading securities pledged under sale and repurchase agreements and loaned	**47 111 694**	**22 929 843**
Debt investment securities available-for-sale pledged under sale and repurchase agreements and loaned		
Corporate Eurobonds	15 822 748	6 493 109
Corporate bonds	10 351 581	32 026 175
Federal loan bonds	263 616	351 119
Total debt investment securities available-for-sale pledged under sale and repurchase agreements and loaned	**26 437 945**	**38 870 403**
Total securities pledged under sale and repurchase agreements and loaned	**73 549 639**	**61 800 246**

8 Securities Pledged Under Sale and Repurchase Agreements and Loaned (continued)

Analysis of debt securities pledged under sale and repurchase agreements and loaned outstanding at 31 December 2017 by their credit quality is as follows:

In thousands of Russian Roubles	**Corporate Eurobonds**	**Corporate bonds**	**Federal loan bonds**	**Total**
Debt trading securities pledged under sale and repurchase agreements and loaned				
Not overdue or impaired				
Group A	1 057 833	418 179	-	1 476 012
Group B	24 408 598	18 392 002	127 588	42 928 188
Group D	1 165 390	718 633	-	1 884 023
Total debt trading securities pledged under sale and repurchase agreements and loaned	**26 631 821**	**19 528 814**	**127 588**	**46 288 223**
Debt investment securities available-for-sale pledged under sale and repurchase agreements and loaned				
Not overdue or impaired				
Group B	10 351 581	15 679 410	263 616	26 294 607
Group D	-	143 338	-	143 338
Total debt investment securities available-for-sale pledged under sale and repurchase agreements and loaned	**10 351 581**	**15 822 748**	**263 616**	**26 437 945**
Total debt securities pledged under sale and repurchase agreements and loaned	**36 983 402**	**35 351 562**	**391 204**	**72 726 168**

8 Securities Pledged Under Sale and Repurchase Agreements and Loaned (continued)

Analysis of debt securities pledged under sale and repurchase agreements and loaned outstanding at 31 December 2016 by their credit quality is as follows:

In thousands of Russian Roubles	Corporate Eurobonds	Corporate bonds	Federal loan bonds	Total
Debt trading securities pledged under sale and repurchase agreements and loaned				
Not overdue or impaired				
Group A	627 873	-	-	627 873
Group B	17 952 994	4 153 814	550	22 107 358
Total debt trading securities pledged under sale and repurchase agreements and loaned	**18 580 867**	**4 153 814**	**550**	**22 735 231**
Debt investment securities available-for-sale pledged under sale and repurchase agreements and loaned				
Not overdue or impaired				
Group A	831 811	-	-	831 811
Group B	31 194 364	6 493 109	351 119	38 038 592
Total debt investment securities available-for-sale pledged under sale and repurchase agreements and loaned	**32 026 175**	**6 493 109**	**351 119**	**38 870 403**
Total debt securities pledged under sale and repurchase agreements and loaned	**50 607 042**	**10 646 923**	**351 669**	**61 605 634**

For definition of groups refer to note 7.

8 Securities Pledged Under Sale and Repurchase Agreements and Loaned (continued)

Securities transferred or sold under sale and repurchase agreements are transferred to a third party as collateral for borrowed funds. These financial assets may be repledged or resold by counterparties in the absence of default by the Group, but the counterparty has an obligation to return the securities at the maturity of the contract. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them.

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

Currency, maturity and interest rate analyses of securities pledged under sale and repurchase agreements and loaned are disclosed in note 31.

9 Reverse Sale and Repurchase Agreements

In thousands of Russian Roubles	2017	2016
Reverse sale and repurchase agreements with banks	61 863 324	2 566 373
Reverse sale and repurchase agreements with customers	5 945 769	55 933 079
Total reverse sale and repurchase agreements	**67 809 093**	**58 499 452**

As at 31 December 2017, reverse sale and repurchase agreements represent agreements with customers and banks that are secured by federal loan bonds, corporate Eurobonds, and corporate bonds (2016: federal loan bonds, corporate Eurobonds, corporate bonds and corporate shares).

As at 31 December 2017, the fair value of securities that serve as collateral under reverse sale and repurchase agreements is RR 78 652 603 thousand (2016: RR 65 879 880 thousand), out of which securities with the fair value of RR 54 714 192 thousand are pledged under sale and repurchase agreements (2016: RR 29 444 135 thousand), securities with the fair value of RR 12 511 033 thousand are sold by the Group (2016: RR 4 223 164 thousand). In all cases the value of collateral under separate transactions equals or exceeds the amount due from the transaction.

Currency and maturity analyses of reverse sale and repurchase agreements are disclosed in note 31. Interest rate analysis of reverse sale and repurchase agreements is disclosed in note 31.

10 Due from Banks

In thousands of Russian Roubles	2017	2016
Term placements with banks	34 939 256	33 396 755
Allowance for impairment	-	(24 997)
Total due from banks	**34 939 256**	**33 371 758**

Movements in the allowance for impairment of due from banks are as follows:

In thousands of Russian Roubles	2017	2016
Allowance for impairment as at 1 January	**24 997**	**45 859**
Recovery of allowance for impairment during the year	(24 997)	(20 862)
Allowance for impairment as at 31 December	**-**	**24 997**

10 Due from Banks (continued)

As at 31 December 2016, the carrying value of securities reclassified in 2014 from trading securities to due from banks amounts to RR 3 084 946 thousand before the allowance for impairment.

As at 31 December 2016 reclassified securities with the carrying value of RR 2 908 913 thousand are securities pledged under sale and repurchase agreements in due to banks, the fair value of these securities amounts to RR 3 072 954 thousand. Refer to note 17.

The Bank uses a system of limits for granting loans to banks, as shown in note 31. The current interbank loan portfolio is used for short-term placement of temporarily available cash.

Term placements with banks are divided by credit quality depending on credit rating of a credit organisation assigned by Moody's, S&P and Fitch rating agencies into the following groups:

Group A – credit organisations with credit rating at least BBB-, according to S&P rating agency or equivalent rating of other agencies.

Group B – credit organisations with credit rating between BB- and BB+, according to S&P rating agency or equivalent rating of other agencies.

Group C – credit organisations with credit rating between B- and B+, according to S&P rating agency or equivalent rating of other agencies.

Group D – credit organisations with credit rating below B-, according to S&P rating agency or equivalent rating of other agencies, or without credit rating.

Analysis by credit quality of term placements with banks as at 31 December 2017 is as follows:

In thousands of Russian Roubles	**Interbank loans and deposits**	**Total**
Group A	27 936 497	27 936 497
Group B	6 702 644	6 702 644
Group C	300 115	300 115
Total term placements with banks	**34 939 256**	**34 939 256**

Analysis by credit quality of term placements with banks as at 31 December 2016 is as follows:

In thousands of Russian Roubles	**Interbank loans and deposits**	**Securities reclassified to due from banks**	**Total**
Group A	993 559	2 487 346	3 480 905
Group B	28 034 338	597 600	28 631 938
Group C	644 039	-	644 039
Group D	639 873	-	639 873
Total term placements with banks	**30 311 809**	**3 084 946**	**33 396 755**

Loans to banks are not secured. No placements with banks are impaired or past due.

Currency and maturity analyses of due from banks are disclosed in note 31. Interest rate analysis of due from banks is disclosed in note 31.

11 Loans and Advances to Customers

In thousands of Russian Roubles	2017	2016
Loans and advances to legal entities		
- loans to finance working capital	167 065 815	193 343 047
- investment loans	102 786 253	92 693 285
- loans to entities financed by the government	12 052 542	8 150 996
Loans and advances to individuals		
- mortgage loans	54 066 689	42 447 553
- car loans	2 101 129	1 704 418
- consumer loans to VIP clients	4 634 127	5 704 343
- other consumer loans	15 003 887	10 270 229
Allowance for impairment	(39 494 532)	(39 602 806)
Total loans and advances to customers	**318 215 910**	**314 711 065**

As at 31 December 2017, the carrying value of securities reclassified from trading securities to loans and advances to customers in 2014 amounts to RR 586 074 thousand before allowance for impairment (2016: RR 963 529 thousand). Reclassified securities with the carrying value of RR 449 695 thousand are securities pledged under sale and repurchase agreements in due to banks (note 17). As at 31 December 2017, the fair value of these securities amounts to RR 457 615 thousand (2016: reclassified securities with the carrying value of RR 963 529 thousand are securities pledged under sale and repurchase agreements in due to banks, the fair value of these securities amounts to RR 1 026 817 thousand).

Movements in the allowance for loan impairment during 2017 are as follows.

	Loans to legal entities			Loans to individuals				
In thousands of Russian Roubles	Loans to finance working capital	Investment loans	Loans to entities financed by the government	Mortgage loans	Car loans	Consumer loans to VIP clients	Other consumer loans	**Total**
Allowance for impairment at 1 January	**26 248 249**	**10 857 679**	**479 180**	**450 179**	**43 992**	**611 299**	**912 228**	**39 602 806**
Provision for (recovery of) impairment during the year	4 078 913	4 355 907	(28 415)	46 509	14 592	935 053	197 272	**9 599 831**
Loans sold during the year	(85 673)	-	-	-	-	-	(40 181)	**(125 854)**
Amounts written off as non-recoverable during the year	(7 240 508)	(1 872 346)	(127 218)	(32 662)	(21 341)	(131 310)	(156 866)	**(9 582 251)**
Allowance for impairment at 31 December	**23 000 981**	**13 341 240**	**323 547**	**464 026**	**37 243**	**1 415 042**	**912 453**	**39 494 532**

11 Loans and Advances to Customers (continued)

Movements in the allowance for loan impairment during 2016 are as follows.

	Loans to legal entities			Loans to individuals				
In thousands of Russian Roubles	Loans to finance working capital	Investment loans	Loans to entities financed by the government	Mortgage loans	Car loans	Consumer loans to VIP clients	Other consumer loans	**Total**
Allowance for impairment at 1 January	**22 308 745**	**10 700 149**	**199 029**	**600 051**	**50 435**	**344 276**	**761 914**	**34 964 599**
Provision for (recovery of) impairment during the year	8 423 187	3 435 185	280 151	(147 739)	(3 581)	267 023	256 742	**12 510 968**
Loans sold during the year	(530 895)	(5 255)	-	-	-	-	(3 632)	**(539 782)**
Amounts written off as non-recoverable during the year	(3 952 788)	(3 272 400)	-	(2 133)	(2 862)	-	(102 796)	**(7 332 979)**
Allowance for impairment at 31 December	**26 248 249**	**10 857 679**	**479 180**	**450 179**	**43 992**	**611 299**	**912 228**	**39 602 806**

11 Loans and Advances to Customers (continued)

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

	2017		2016	
In thousands of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Individuals	75 805 832	21,2	60 126 543	17,0
Construction	48 814 115	13,6	43 572 746	12,3
Trade	40 591 842	11,3	29 059 438	8,2
Real estate	33 385 845	9,3	34 747 634	9,8
Production and food industry	28 149 787	7,9	43 703 763	12,3
Oil and gas extraction and transportation	24 748 113	6,9	18 228 508	5,1
Leasing and financial services	23 742 738	6,6	28 042 497	7,9
Heavy machinery and ship building	22 682 774	6,3	36 334 463	10,3
Entities financed by the government	12 052 542	3,4	8 150 996	2,3
Transport	11 575 912	3,2	12 982 384	3,7
Telecommunications	8 535 370	2,4	7 556 166	2,1
Sports and health and entertainment organisations	7 306 273	2,0	7 844 731	2,2
Energy	3 445 199	1,0	3 607 036	1,0
Chemical industry	2 651 539	0,7	6 813 799	1,9
Other	14 222 561	4,2	13 543 167	3,9
Total loans and advances to customers (before allowance for impairment)	**357 710 442**	**100,0**	**354 313 871**	**100,0**

As at 31 December 2017, the 20 largest groups of borrowers of the Group have aggregate loan amounts of RR 101 487 470 thousand (2016: RR 99 999 403 thousand), or 28.4% (2016: 28.2%) of the loan portfolio before impairment.

11 Loans and Advances to Customers (continued)

Loans and advances to customers and the related allowance for impairment and an analysis of their credit quality as at 31 December 2017 are as follows:

In thousands of Russian Roubles	**Gross loans and advances to customers**	**Allowance for impairment**	**Net loans and advances to customers**	**Allowance for impairment to loans and advances to customers, %**
Loans and advances to legal entities:				
Loans collectively assessed for impairment, not individually impaired	223 426 711	(7 459 635)	215 967 076	3,34
Standard loans not past due				
Watch list loans not past due	11 055 138	(948 109)	10 107 029	8,58
Individually assessed loans, for which specific indications of impairment have been identified				
Not past due	29 865 811	(16 799 960)	13 065 851	56,25
Overdue:				
- less than 5 calendar days	253 973	(110 001)	143 972	43,31
- 6 to 30 calendar days	130 000	(13 000)	117 000	10,00
- 31 to 60 calendar days	60 775	(33 462)	27 313	55,06
- 61 to 90 calendar days	724 090	(373 811)	350 279	51,62
- 91 to 180 calendar days	1 361 767	(391 928)	969 839	28,78
- 181 to 365 calendar days	6 409 157	(4 755 362)	1 653 795	74,20
- more than 365 calendar days	8 617 188	(5 780 500)	2 836 688	67,08
Total loans and advances to legal entities	**281 904 610**	**(36 665 768)**	**245 238 842**	**13,01**
Loans and advances to individuals:				
- mortgage loans	54 066 689	(464 026)	53 602 663	0,86
- car loans	2 101 129	(37 243)	2 063 886	1,77
- consumer loans to VIP clients	4 634 127	(1 415 042)	3 219 085	30,54
- other consumer loans	15 003 887	(912 453)	14 091 434	6,08
Total loans and advances to individuals	**75 805 832**	**(2 828 764)**	**72 977 068**	**3,73**
Total loans and advances to customers	**357 710 442**	**(39 494 532)**	**318 215 910**	**11,04**

11 Loans and Advances to Customers (continued)

In thousands of Russian Roubles	**Mortgage loans**	**Car loans**	**Consumer loans to VIP clients**	**Other consumer loans**	**Total loans and advances to individuals**
Loans and advances to individuals:					
Standard loans not past due	52 994 790	1 998 214	3 190 434	14 022 382	72 205 820
Overdue:					
- less than 5 calendar days	44 039	3 939	-	2 681	50 659
- 6 to 30 calendar days	99 987	6 480	-	36 370	142 837
- 31 to 60 calendar days	79 858	2 824	188 100	28 694	299 476
- 61 to 90 calendar days	70 518	4 551	-	27 960	103 029
- 91 to 180 calendar days	121 783	4 438	546 863	77 923	751 007
- 181 to 365 calendar days	191 495	12 283	199 662	118 478	521 918
- more than 365 calendar days	464 219	68 400	509 068	689 399	1 731 086
Total loans and advances to individuals (before allowance for impairment)	**54 066 689**	**2 101 129**	**4 634 127**	**15 003 887**	**75 805 832**
Allowance for impairment	(464 026)	(37 243)	(1 415 042)	(912 453)	(2 828 764)
Total loans and advances to individuals (after allowance for impairment)	**53 602 663**	**2 063 886**	**3 219 085**	**14 091 434**	**72 977 068**

11 Loans and Advances to Customers (continued)

Loans and advances to customers and the related allowance for impairment and an analysis of their credit quality as at 31 December 2016 are as follows:

In thousands of Russian Roubles	**Gross loans and advances to customers**	**Allowance for impairment**	**Net loans and advances to customers**	**Allowance for impairment to loans and advances to customers, %**
Loans and advances to legal entities:				
Loans collectively assessed for impairment, not individually impaired				
Standard loans not past due	240 269 192	(7 330 010)	232 939 182	3,05
Watch list loans not past due	3 644 947	(288 780)	3 356 167	7,92
Individually assessed loans, for which specific indications of impairment have been identified				
Not past due	32 510 074	(18 927 653)	13 582 421	58,22
Overdue:				
- less than 5 calendar days	907 511	(236 400)	671 111	26,05
- 6 to 30 calendar days	314 740	(225 606)	89 134	71,68
- 31 to 60 calendar days	992 028	(292 877)	699 151	29,52
- 61 to 90 calendar days	499 165	(54 406)	444 759	10,90
- 91 to 180 calendar days	2 214 907	(1 375 608)	839 299	62,11
- 181 to 365 calendar days	1 911 246	(1 242 157)	669 089	64,99
- more than 365 calendar days	10 923 518	(7 611 611)	3 311 907	69,68
Total loans and advances to legal entities	**294 187 328**	**(37 585 108)**	**256 602 220**	**12,78**
Loans and advances to individuals:				
- mortgage loans	42 447 553	(450 179)	41 997 374	1,06
- car loans	1 704 418	(43 992)	1 660 426	2,58
- consumer loans to VIP clients	5 704 343	(611 299)	5 093 044	10,72
- other consumer loans	10 270 229	(912 228)	9 358 001	8,88
Total loans and advances to individuals	**60 126 543**	**(2 017 698)**	**58 108 845**	**3,36**
Total loans and advances to customers	**354 313 871**	**(39 602 806)**	**314 711 065**	**11,18**

11 Loans and Advances to Customers (continued)

In thousands of Russian Roubles	Mortgage loans	Car loans	Consumer loans to VIP clients	Other consumer loans	Total loans and advances to individuals
Loans and advances to individuals:					
Standard loans not past due	41 374 258	1 579 265	4 305 661	9 253 047	56 512 231
Overdue:					
- less than 5 calendar days	33 720	2 357	685 370	7 495	728 942
- 6 to 30 calendar days	77 180	8 459	-	27 623	113 262
- 31 to 60 calendar days	143 265	5 195	-	30 921	179 381
- 61 to 90 calendar days	44 411	3 684	-	23 162	71 257
- 91 to 180 calendar days	154 707	7 666	73 000	92 991	328 364
- 181 to 365 calendar days	152 328	11 246	145 678	169 288	478 540
- more than 365 calendar days	467 684	86 546	494 634	665 702	1 714 566
Total loans and advances to individuals (before allowance for impairment)	**42 447 553**	**1 704 418**	**5 704 343**	**10 270 229**	**60 126 543**
Allowance for impairment	**(450 179)**	**(43 992)**	**(611 299)**	**(912 228)**	**(2 017 698)**
Total loans and advances to individuals (after allowance for impairment)	**41 997 374**	**1 660 426**	**5 093 044**	**9 358 001**	**58 108 845**

The Group estimates loan impairment for individually assessed corporate loans, for which specific indications of impairment have been identified, based on an analysis of the expected future cash flows based primarily on collateral. The principal collateral taken into account in the estimation of future cash flows comprises mainly real estate. Valuations for real estate are discounted by 30-50 percent to reflect current market conditions.

For portfolios of standard not past due loans in determining the impairment allowance, the Group estimated impairment allowance based on previous experience of incurred losses by industry for loan portfolios adjusted to factor the deterioration/improvement of the loan portfolio, as evidenced by the rate of increase/decrease in the level of impaired and overdue loans arising from current market conditions. The impairment allowance reflects management’s estimate of the losses in the portfolio as at 31 December 2017 and 31 December 2016.

11 Loans and Advances to Customers (continued)

The Group estimates the impairment allowance of loans to individuals based on an analysis of future cash flows for impaired loans and based on its past historical loss experience for loans for which no indications of impairment have been identified. In determining the impairment allowance for loans for which no indications of impairment have been identified, management adjusts historic loss rates to factor, where necessary, in the current changes of the loan portfolio. The principal collateral taken into account in the estimation of future cash flows comprises mainly real estate and cars. Valuations for real estate and cars are discounted by 10-20 percent to reflect current market conditions.

Loans and advances to customers are classified as "Standard loans not past due" when they do not have any overdue payments as at the reporting date and Group's management does not have any information indicating that the borrower is not able to repay the loan to the Group in full and in time.

Loans and advances to customers are classified as "Watch list loans not past due" when they have moderate credit risk. The comprehensive analysis of operating and financial position of the borrower and other information, including the external environment, indicates the stable position of the borrower, however there are some negative factors that may have an impact on the ability of the borrower to repay its loan in the future on a timely basis.

The primary factors that the Group considers when deciding whether a loan is individually impaired are its overdue/restructured status and/or occurrence of any factors that may make it doubtful whether the borrowers are able to repay the full amounts owed to the Group on a timely basis.

The following table provides information on collateral securing loans to legal entities, net of impairment, by types of collateral presented on the basis of excluding overcollateralisation at 31 December 2017 and 31 December 2016:

In thousands of Russian Roubles	**2017**	**2016**
Cash	3 627 036	2 295 121
Real estate	102 884 472	134 101 577
Motor vehicles	994 356	750 000
Premises and equipment	14 701 650	17 702 486
Guarantees and sureties	51 720 509	33 726 788
Other collateral	10 686 119	8 872 739
No collateral	60 624 700	58 153 509
Total	**245 238 842**	**256 602 220**

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

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

11 Loans and Advances to Customers (continued)

The Group has standard loans not past due, for which fair value of collateral was assessed at the loan inception date and not updated for further changes, and loans for which fair value of collateral is not determined. For certain loans the fair value of collateral is updated as at the reporting date.

There are highly reliable borrowers included in loans to finance working capital, for which the Group considers it appropriate to issue loans without collateral.

Mortgage loans are secured by the underlying real estate. Mortgage loans amount does not exceed 85% of real estate cost. Car loans are secured by the underlying cars.

Management estimates that the impairment allowance on loans to legal entities would have been RR 18 532 137 thousand higher without taking into consideration collateral value (2016: RR 15 609 949 thousand).

Interest income received on overdue and impaired loans during 2017 amounts to RR 1 146 920 thousand (2016: RR 888 109 thousand).

As at 31 December 2017, the Group has mortgages in the amount of RR 2 761 089 thousand (2016: RR 3 760 505 thousand) transferred to the mortgage agent “MA BSPB” LLC, a structured company founded for the financing purposes. As at 31 December 2017, such mortgages are pledged as collateral for the mortgage secured bonds with the carrying value of RR 2 522 274 thousand issued by the mortgage agent of which bonds with the carrying value of RR 1 837 631 thousand were repurchased by the Bank (2016: with the carrying value of RR 3 718 451 thousand issued by the mortgage agent of which bonds with the carrying value of RR 2 714 151 thousand were repurchased by the Bank). Refer to note 19.

Currency and maturity analyses of loans and advances to customers are disclosed in note 31. Analysis of interest rates of loans and advances to customers is disclosed in note 31. Fair value analysis of loans and advances to customers is disclosed in note 34. Information on related party transactions is disclosed in note 35.

12 Investment Securities Available-For-Sale

In thousands of Russian Roubles	2017	2016
Corporate bonds	14 416 675	19 673 844
Municipal bonds	5 483 398	2 141 496
Corporate Eurobonds	1 659 604	3 269 715
Federal loan bonds	151 410	984 945
Total debt securities	**21 711 087**	**26 070 000**
Equity securities	801 687	407 508
Total investment securities available-for-sale	**22 512 774**	**26 477 508**

As at 31 December 2017, the fair value of securities reclassified in 2014 from trading securities to investment securities available-for-sale equals to RR 1 953 355 thousand (2016: RR 4 187 584 thousand). Reclassified securities with the fair value of RR 254 407 thousand are securities pledged under sale and repurchase agreements with banks (2016: RR 1 671 395 thousand) (Note 17).

Debt investment securities available-for-sale are carried at fair value, which also reflects the credit risk of these securities.

For definition of groups refer to note 7.

Analysis by credit quality of debt investment securities available-for-sale as at 31 December 2017 is as follows:

In thousands of Russian Roubles	Corporate bonds	Municipal bonds	Corporate Eurobonds	Federal loan bonds	Total
Not overdue or impaired					
Group A	491 324	-	-	-	491 324
Group B	12 872 062	5 313 745	1 659 604	151 410	19 996 821
Group C	479 779	67 232	-	-	547 011
Group D	573 510	102 421	-	-	675 931
Total debt investment securities available-for-sale	**14 416 675**	**5 483 398**	**1 659 604**	**151 410**	**21 711 087**

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

In thousands of Russian Roubles	Corporate bonds	Corporate Eurobonds	Municipal bonds	Federal loan bonds	Total
Not overdue or impaired					
Group A	123 492	-	-	-	123 492
Group B	19 122 136	3 269 715	1 678 892	984 945	25 055 688
Group C	308 904	-	368 696	-	677 600
Group D	119 312	-	93 908	-	213 220
Total debt investment securities available-for-sale	**19 673 844**	**3 269 715**	**2 141 496**	**984 945**	**26 070 000**

Currency, maturity and interest rate analyses of investment securities available-for-sale are disclosed in Note 31.

13 Investment Property

In thousands of Russian Roubles	2017	2016
Land	6 252 087	5 091 969
Premises	2 247 811	734 486
Impairment loss	(332 059)	(71 912)
Accumulated depreciation	(64 842)	(28 318)
Total investment property	**8 102 997**	**5 726 225**

Investment property represents land plots and buildings.

Changes in investment property are as follows:

(in thousands of Russian Rubles)	2017	2016
Carrying value before accumulated depreciation as at 1 January	**5 754 543**	**3 181 210**
Transfers and disposals	2 673 443	2 591 803
Impairment loss	(260 147)	(18 470)
Carrying value before accumulated depreciation as at 31 December	**8 167 839**	**5 754 543**

The fair value of investment property as at 31 December 2017 and 31 December 2016 does not differ significantly from its book value.

The estimates of fair values of investment property of the Group are obtained from an independent appraiser, who has experience in valuation of investment property of similar location and category. The fair value is assessed using the sales comparison approach, i.e. comparison with other premises that were sold or are offered for sale. The fair value estimate of investment property is classified to Level 3 of hierarchy.

14 Premises, Equipment and Intangible Assets

(In thousands of Russian Roubles)	Note	Premises	Office and computer equipment	Construction in progress	Intangible assets	Total
Cost as at 1 January 2016		13 077 275	3 580 806	390 908	39 741	17 088 730
Accumulated depreciation		(298 313)	(2 297 488)	-	(15 983)	(2 611 784)
Net book value as at 1 January 2016		**12 778 962**	**1 283 318**	**390 908**	**23 758**	**14 476 946**
Additions		10 831	809 888	80 272	386 734	1 287 725
Transfers between categories		156 356	36 954	(193 310)	-	-
Disposals and transfers to investment property		(514 583)	(7 905)	(33)	(2)	(522 523)
Depreciation charges	26	(278 148)	(520 213)	-	(138 807)	(937 168)
Net book value as at 31 December 2016		**12 153 418**	**1 602 042**	**277 837**	**271 683**	**14 304 980**
Cost as at 31 December 2016		12 723 648	4 310 244	277 837	426 473	17 738 202
Accumulated depreciation		(570 230)	(2 708 202)	-	(154 790)	(3 433 222)
Net book value as at 31 December 2016		**12 153 418**	**1 602 042**	**277 837**	**271 683**	**14 304 980**
Acquisition of subsidiaries		468 328	241 335	14 775	2 203	726 641
Additions		131 756	532 897	38 959	224 408	928 020
Transfers between categories		138 900	155 126	(294 026)	-	-
Disposals and transfers to investment property		(23 381)	(10 826)	-	-	(34 207)
Depreciation charges	26	(299 215)	(598 828)	-	(121 477)	(1 019 520)
Revaluation		(205 831)	-	-	-	(205 831)
Allowance for impairment		(29 487)	-	-	-	(29 487)
Net book value as at 31 December 2017		**12 334 488**	**1 921 746**	**37 545**	**376 817**	**14 670 596**
Cost as at 31 December 2017		12 372 637	5 088 595	37 545	653 084	18 151 861
Accumulated depreciation		(38 149)	(3 166 849)	-	(276 267)	(3 481 265)
Net book value as at 31 December 2017		**12 334 488**	**1 921 746**	**37 545**	**376 817**	**14 670 596**

Construction in progress in 2017 mainly consists of refurbishment of branch and outlet premises.

Premises were valued at fair value as at 31 December 2017 by an independent appraiser. The basis of valuation for most objects was the method of comparative sales, for one object - the method of direct capitalisation, for several objects – cost method.

When applying the method of direct capitalisation, cash flow models from rent of appraised object were used with the following key assumptions:

- level of underloading in typical and specific offices in the range from 0% to 9%;
- costs for the maintenance of the facility from 17.7% to 18.7% of gross revenue;
- the term of overhaul (every 30-40 years) and the required amount of costs (from 20% to 30% of the book value);
- capitalisation rate (from 8.4% to 12%).

14 Premises, Equipment and Intangible Assets (continued)

Obtaining the final cost of the facility was carried out on the basis of a quantitative assessment of the risks of models using the Monte Carlo method.

As at 31 December 2017, the carrying value includes revaluation of the Group's premises in the total amount of RR 4 564 317 thousand (2016: RR 4 775 620 thousand). The Group has recorded a deferred tax liability of RR 912 863 thousand (2016: RR 955 124 thousand). The fair value estimate of premises is classified to Level 3 of hierarchy.

If the Group's premises were recorded at cost less accumulated depreciation, their carrying value as at 31 December 2017 would amount to 8 611 255 thousand (2016: RR 8 540 840 thousand).

15 Other Assets

(in thousands of Russian Rubles)	Note	2017	2016
Plastic cards receivables		994 475	605 280
Settlements on sale of long-term assets held-for-sale		571 364	1 049 950
Settlements on operations with securities		13 834	363
Total financial assets		**1 579 673**	**1 655 593**
Deferred expenses		888 386	841 039
Settlements on income tax		742 738	1 310 270
Receivables and advances		516 008	280 081
Investments in accociates		510 671	-
Prepaid taxes other than income tax		104 620	84 428
Rent receivables		83 129	71 707
Deferred tax asset	27	-	2 460
Other		1 279 080	307 694
Total non-financial assets		**4 124 632**	**2 897 679**
Total other assets		**5 704 305**	**4 553 272**

Other financial assets of the Group do not include individually impaired and overdue assets. No allowance was created for other financial assets in 2017 and 2016.

Receivables and advances relate to the purchase by the Group of new computer software and equipment, as well as prepayments for repair works on existing premises and equipment.

Currency and maturity analyses of other assets are disclosed in note 31.

16 Long-Term Assets Held-For-Sale

In thousands of Russian Roubles	2017	2016
Land	547 563	798 518
Property	47 296	278 467
Allowance for impairment	(48 846)	-
Total long-term assets held-for-sale	**546 013**	**1 076 985**

Long-term assets held-for-sale are represented by assets obtained by the Bank by foreclosing the collateral for loans and advances to customers. The Group's policy is to sell these assets as soon as it is practicable.

Currency analysis of long-term assets held-for-sale is disclosed in note 31.

17 Due to Banks

(in thousands of Russian Roubles)	2017	2016
Securities sale and repurchase agreements	115 754 116	69 928 513
Term placements of banks	32 864 912	61 656 306
Correspondent accounts of banks	305 702	136 948
Total due to banks	**148 924 730**	**131 721 767**

As at 31 December 2017, included in due to banks are securities sale and repurchase agreements and agreements on the return of collateral received under securities lending transactions with credit institutions in the amount of 115 754 116 thousand (2016: 69 928 513 thousand).

Securities pledged under these sale and repurchase agreements and loaned are securities:

from own portfolio with the fair value of RR 73 549 639 thousand (2016: with the fair value of RR 61 448 577 thousand);

transferred to the Group under securities reverse sale and repurchase agreements (without initial recognition) with the fair value of RR 54 714 192 thousand (2016: RR 12 407 144 thousand);

reclassified from trading securities to loans to customers with the carrying value of RR 449 695 thousand (2016: with the carrying value of RR 963 529 thousand);

reclassified from trading securities to due from banks with the carrying value on 31 December 2016 of RR 2 908 913 thousand.

The Group attracted a subordinated loan from the “Deposit Insurance Agency” State Corporation in the form of federal loan bonds with the fair value of RR 16 831 166 thousand (2016: RR 16 588 599 thousand). As at 31 December 2017, the securities with the fair value of RR 1 534 966 thousand were pledged under sale and repurchase agreements (2016: RR : 12 381 011 thousand).

Currency and maturity analyses of due to banks are disclosed in note 31. Interest rate analysis of due to banks is disclosed in note 31.

18 Customer Accounts

(in thousands of Russian Roubles)	2017	2016
State and public organisations		
- Current/settlement accounts	171	8 372
Other legal entities		
- Current/settlement accounts	56 902 164	58 527 163
- Term deposits	90 482 623	87 481 283
- Securities sale and repurchase agreements	-	16 508 702
Indivuduals		
- Current accounts/demand deposits	52 331 101	45 663 539
- Term deposits	153 256 089	141 755 809
Total customer accounts	**352 972 148**	**349 944 868**

State and public organisations exclude government owned profit oriented businesses.

As at 31 December 2016, customer accounts include securities sale and repurchase agreements signed with legal entities in the amount of RR 16 508 702 thousand.

18 Customer Accounts (continued)

As at 31 December 2016 securities pledged as collateral under these sale and repurchase agreements and loaned are as follows:

from the own portfolio with the fair value of RR 351 669 thousand;

transferred to the Group under securities reverse sale and repurchase agreements (without initial recognition) with the fair value of RR 17 036 991 thousand.

Economic sector concentrations within customer accounts are as follows:

	2017		2016	
(in thousands of Russian Roubles)	**Amount**	**%**	**Amount**	**%**
Individuals	205 587 190	58,2	187 419 348	53,6
Trade	29 878 909	8,5	20 691 669	5,9
Construction	28 295 818	8,0	39 974 147	11,4
Real estate	18 888 438	5,4	15 099 719	4,3
Manufacturing	18 857 713	5,3	20 559 840	5,9
Financial services	14 293 036	4,0	31 089 055	8,9
Art, science and education	13 114 256	3,7	13 081 248	3,7
Transport	8 804 042	2,5	9 828 630	2,8
Public utilities	3 106 988	0,9	1 323 272	0,4
Communications	1 472 386	0,4	793 404	0,2
Energy	1 164 663	0,3	430 757	0,1
Medical institutions	782 253	0,2	575 241	0,2
Cities and municipalities	571 199	0,2	552 757	0,2
Other	8 155 257	2,4	8 525 781	2,4
Total customer accounts	**352 972 148**	**100,0**	**349 944 868**	**100,0**

As at 31 December 2017, customer accounts include deposits amounting to RR 5 841 691 thousand representing security for irrevocable liabilities on guarantees (2016: RR 2 145 390 thousand) and RR 9 459 843 representing security on letters of credit (2016: RR 1 048 874 thousand).

Currency and maturity analyses of customer accounts are disclosed in note 31. Interest rate analysis of customer accounts is disclosed in note 31. Fair value analysis of customer accounts is disclosed in note 34. Information on related party transactions is disclosed in note 35.

19 Bonds Issued

(in thousands of Russian Roubles)	2017	2016
Subordinated Eurobonds	6 453 249	14 878 415
Mortgage secured bonds issued by the mortgage agent	684 643	1 004 300
Total bonds issued	**7 137 892**	**15 882 715**

In October 2012 the Group placed 505 interest bearing USD denominated subordinated Eurobonds (one bond – USD 200 000). The issue was arranged by BNP Paribas and UBS. The issue was registered on the Irish Stock Exchange. In December 2015 the Group repaid the bonds in the amount of USD 15 737 thousand. As at 31 December 2017, the carrying value of these bonds is USD 18 734 thousand, the equivalent of RR 1 079 055 thousand (2016: USD 85 079 thousand, the equivalent of RR 5 160 605 thousand). These subordinated Eurobonds will mature on 24 October 2018, have a nominal coupon rate of 11.00 % p.a. and effective interest rate of 5.69 % p.a.

19 Bonds issued (continued)

In October 2013 the Group placed 500 interest bearing USD denominated subordinated Eurobonds (one bond – USD 200 000). The issue was arranged by JP Morgan and VTB Capital. The issue was registered on the Irish Stock Exchange. As at 31 December 2017, the carrying value of these bonds is USD 93 302 thousand, the equivalent of RR 5 374 194 thousand (2016: USD 98 348 thousand, the equivalent of RR 5 965 506 thousand). These subordinated bonds will mature on 22 April 2019, have a nominal coupon rate of 10.75% p.a. and effective interest rate of 11.28% p.a.

In July 2017 1 000 interest bearing subordinated Eurobonds were repaid as planned, placed by the Group in July 2007, nominated in USD (one bond – USD 100 000). The issue was arranged by J.P. Morgan and UBS. The issue was registered on the Irish Stock Exchange. As at 31 December 2016, the carrying value of these bonds was USD 61 861 thousand, the equivalent of RR 3 752 304 thousand, had a nominal coupon rate of 7.63 % p.a., effective interest rate of 8.71 % p.a.

In the event of liquidation of the Bank, the claims for repayment of subordinated Eurobonds are subordinated to the claims of other creditors and depositors of the Bank.

In November 2016 mortgage agent “MA BSPB” LLC issued mortgage secured bonds with a nominal value of RR 3 702 530 thousand, secured by a mortgage package and guarantee of JSC “AIZHK”. The coupon rate of the bonds is 9.8% and final contractual maturity is till 2043. As at 31 December 2017, the Bank purchased part of bonds with the nominal value of RR 1 836 147 thousand (2016: part of bonds of the nominal value of RR 2 700 000 thousand wase repurchased by the Bank).

The final maturity date of the mortgage secured bonds can differ from contractual in case of early repayment of mortgages pledged as security.

Currency and maturity analyses of bonds issued are disclosed in note 31.

Reconciliation of movements of liabilities to cash flows arising from financing activities

	Liabilities		**Equity**			
(in thousands of Russian Roubles)	**Bonds issued**	**Other borrowed funds**	**Share capital**	**Share premium**	**Retained earnigs**	**Total**
Balance as at 1 January 2017	**15 882 715**	**2 504 143**	**3 721 734**	**21 393 878**	**30 139 720**	**73 642 190**
Changes from financing cash flows						
Share issue	-	-	60 000	3 120 000	-	3 180 000
Repayment	(8 127 057)	(629 748)	-	-	-	(8 756 805)
Interest paid	(1 369 725)	(119 260)	-	-	-	(1 488 985)
Dividends paid	-	-	-	-	(463 233)	(463 233)
Total changes from financing cash flows	**(9 496 782)**	**(749 008)**	**60 000**	**3 120 000**	**(463 233)**	**(7 529 023)**
Effect of changes in foreign currency rates	(445 328)	31 608	-	-	-	(413 720)
Interest expenses	1 197 287	117 001	-	-	-	1 314 288
Profit for the year	-	-	-	-	7 429 077	7 429 077
Other changes in equity	-	-	-	-	3 866	3 866
Balance as at 31 December 2017	**7 137 892**	**1 903 744**	**3 781 734**	**24 513 878**	**37 109 430**	**74 446 678**

20 Promissory Notes and Deposit Certificates Issued

(in thousands of Russian Roubles)	**2017**	**2016**
Promissory notes	7 253 343	7 882 282
Deposit certificates	2	2
Total promissory notes and deposit certificates issued	**7 253 345**	**7 882 284**

20 Promissory Notes and Deposit Certificates Issued (continued)

Currency and maturity analyses of promissory notes and deposit certificates issued are disclosed in note 31. An interest rate analysis of promissory notes and deposit certificates issued is disclosed in note 31.

21 Other Borrowed Funds

(in thousands of Russian Roubles)	2017	2016
Subordinated loans	1 566 231	1 565 972
Funds from AKA AFK	337 513	938 171
Total other borrowed funds	**1 903 744**	**2 504 143**

In August 2009 the Group attracted a subordinated loan from Vnesheconombank (VEB) in the amount of RR 1 466 000 thousand maturing in 2014. In December 2014 the loan was extended till 27 December 2019. As at 31 December 2017, the carrying value of this loan is RR 1 466 231 thousand (2016: RR 1 465 459 thousand). The loan had an initial interest rate of 8.00% p.a. In August 2010 the interest rate was decreased to 6.50% p.a.

In February 2014 in course of a subsidiary acquisition the Group acquired a subordinated loan in the amount of RR 100 000 thousand maturing in February 2018. As at 31 December 2017, the carrying value of this subordinated loan is RR 100 000 thousand (2016: RR 100 000 thousand). This subordinated loan bears fixed interest rate of 10.00% p.a.

In April 2016 the Group attracted two additional tranches in the total amount of EUR 5 029 thousand under the credit facility granted by AKA Ausfuhrkredit-Gesellschaft m.b.H. and in October 2016 the Group attracted the last tranche in the amount of EUR 2 794 thousand. In March 2017 according to the repayment schedule the Group partly repaid the credit facility granted by AKA Ausfuhrkredit-Gesellschaft m.b.H. in the amount of EUR 4 880 thousand and in October 2017 EUR 4 880 thousand. The loan maturity is on 3 April 2018. As at 31 December 2017, the carrying value of total tranches of this loan is EUR 4 901 thousand, the equivalent of RR 337 513 thousand (2016: EUR 14 703 thousand, the equivalent of RR 938 171 thousand). The interest rate on this loan is EURIBOR 6m + 1.75% p.a., which as at 31 December 2017 is 1,75 % p.a.

In the event of liquidation of the Bank, the claims for repayment of subordinated loans are subordinated to the claims of all other creditors and depositors of the Bank.

The Group is required to meet certain covenants attached to subordinated loans and funds from AKA Ausfuhrkredit-Gesellschaft m.b.H. Non-compliance with such covenants may result in negative consequences for the Group including an increase in the cost of borrowings and declaration of default (except for subordinated loans). As at 31 December 2017 and 31 December 2016, the Group fully meets all covenants of the loan agreements.

Currency and maturity analyses of other borrowed funds are disclosed in note 31

22 Other Liabilities

(in thousands of Russian Roubles)	Note	2017	2016
Plastic card payables		1 185 512	612 096
Accounts payable		58 422	5 997
Fair value of guarantees and import letters of credit	29	49 427	39 538
Dividends payable		6 564	6 054
Other		4 030	95 927
Total financial liabilities		**1 303 955**	**759 612**
Amounts payable to employees		572 686	718 789
Income tax payable		469 598	719 685
Deferred tax liability	27	156 139	622 104
Accrued expenses		220 803	409 499
Provision for credit related commitments and non-financial commitments	33	206 421	842 140
Taxes payable other than income tax		140 569	122 575
Other		514 828	135 457
Total non-financial liabilities		**2 281 044**	**3 570 249**
Total other liabilities		**3 584 999**	**4 329 861**

Analysis of movements in the provision for credit and non-credit related commitments and non-financial commitments during 2017 and 2016 is as follows:

(in thousands of Russian Roubles)	2017	2016
Provision as at January 1	**842 140**	**134 901**
Charge for provision	460 278	707 239
Payments during the year	(1 096 007)	-
Provision as at 31 December	**206 421**	**842 140**

Currency and maturity analyses of other liabilities is disclosed in note 31.

23 Share capital

(in thousands of Russian Roubles)	Number of outstanding ordinary shares (thousand)	Number of outstanding preference shares (thousand)	Ordinary shares	Preference shares	Share premium	Total
As at 1 January 2016	**439 554**	**20 100**	**3 544 283**	**177 451**	**21 393 878**	**25 115 612**
As at 31 December 2016	**439 554**	**20 100**	**3 544 283**	**177 451**	**21 393 878**	**25 115 612**
Shares issue	60 000	-	60 000	-	3 120 000	3 180 000
As at 31 December 2017	**499 554**	**20 100**	**3 604 283**	**177 451**	**24 513 878**	**28 295 612**

As at 31 December 2017, the nominal registered amount of issued share capital of the Bank 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 519 654 thousand (2016: RR 459 654 thousand). As at 31 December 2017, all of the outstanding shares of the Bank are authorised, issued and fully paid in.

As at 31 December 2017, all ordinary shares have a nominal value of RR 1 (one) per share (2016: RR 1 per share). Each share carries one vote.

As at 31 December 2017, the Bank has one type of preference shares with a nominal value of RR 1 (one) in the amount of 20 100 000 shares.

Preference shares grant the right to take part in the General Meeting of Shareholders with the right to vote on all issues of its competence, starting with the meeting, following the annual General Meeting of Shareholders, where notwithstanding the reasons, no decision on dividends payment was made or a decision on partial payment of dividends was made. If shareholders do not declare dividends on preference shares, the holders of preference shares are entitled to voting rights similar to ordinary shareholders until the dividends are paid. Preference shares are not cumulative.

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

On 18 May 2017 the Supervisory Board of the Bank made a decision to increase the share capital by placing 60 000 000 additional ordinary registered non-certificated shares of the Bank by means of public offering. The state registration of additional issue of securities of the Bank was on 20 June 2017 (state registration number 10300436B). On 11 August 2017 placing of additional issue of ordinary registered shares of PJSC "Bank Saint Petersburg" (individual state registration number 10300436B dated 20 June 2017) of total nominal value of RR 60 000 000 is completed. Additional shares are paid in cash in the currency of the Russian Federation. On 16 August 2017 Notification on the results of additional issue of securities is submitted to the CBRF and the money raised was charged in the amount of RR 3 180 000 000, received for the payment of shares, to the core capital of the Bank. As the results of the placement, nominal value of share capital of the Bank equals to RR 519 654 000.

24 Interest Income and Expense

(in thousands of Russian Roubles)	2017	2016
Interest income		
Loans and advances to customers	35 390 494	38 829 724
Investment securities available-for-sale	4 258 165	7 054 517
Trading securities	3 132 954	2 534 116
Reverse sale and repurchase agreements	3 081 903	2 147 067
Due from banks	1 303 380	1 280 015
Correspondent accounts with banks	3 022	6 371
Total interest income	**47 169 918**	**51 851 810**
Interest expense		
Due to banks	10 376 756	10 778 702
Term deposits of individuals	8 656 006	9 371 065
Term deposits of legal entities	5 563 937	6 515 135
Bonds issued	1 197 287	1 744 529
Current/settlement accounts	404 953	726 298
Promissory notes and deposit certificates issued	306 013	442 519
Other borrowed funds	117 001	128 673
Total interest expense	**26 621 953**	**29 706 921**
Net interest income	**20 547 965**	**22 144 889**

Information on related party transactions is disclosed in note 35.

25 Fee and Commission Income and Expense

(in thousands of Russian Roubles)	2017	2016
Fee and commission income		
Plastic cards and cheque settlements	2 680 769	2 022 110
Settlement transactions	2 414 905	2 188 588
Guarantees and letters of credit issued	870 651	976 956
Cash transactions	269 336	314 297
Cash collections	202 883	190 308
Custody operations	58 767	42 453
Foreign exchange transactions	4 081	4 226
Other	105 687	91 519
Total fee and commission income	**6 607 079**	**5 830 457**
Fee and commission expense		
Plastic cards and cheque settlements	784 618	600 134
Securities	229 643	195 028
Settlement transactions	157 142	164 858
Foreign exchange transactions	143 924	100 578
Guarantees and letters of credit	26 197	28 874
Banknote transactions	8 955	7 792
Other	45 527	33 674
Total fee and commission expense	**1 396 006**	**1 130 938**
Net fee and commission income	**5 211 073**	**4 699 519**

Information on related party transactions is disclosed in note 35.

26 Administrative and Other Operating Expenses

(in thousands of Russian Roubles)	Note	2017	2016
Staff costs		5 970 557	5 628 561
Depreciation and amortisation of premises, equipment and intangible assets	14	1 019 520	937 168
Contributions to deposits insurance system		890 444	787 307
Other costs related to premises and equipment		756 022	736 425
Taxes other than on income		524 661	681 051
Information and consulting services		225 104	641 342
Rent expenses		587 505	515 784
Postal, cable and telecommunication expenses		356 291	328 962
Security expenses		325 251	307 048
Transportation costs		277 708	272 699
Professional services		259 541	205 672
Advertising and marketing services		152 849	170 870
Charity expenses		45 991	60 457
Other administrative expenses		2 096 762	1 465 256
Total administrative and other operating expenses		**13 488 206**	**12 738 602**

27 Income Tax

Income tax expense comprises the following:

(in thousands of Russian Roubles)	2017	2016
Current tax	2 154 490	3 093 638
Deferred tax	(290 227)	(2 238 193)
Income tax expense for the year	**1 864 263**	**855 445**

The income tax rate applicable to the majority of 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	**9 355 319**	**5 133 255**
Expected tax charge at statutory rate	1 871 064	1 026 651
- Non-deductible expenses	98 179	46 695
- Income from government securities taxed at different rates	(58 057)	(43 451)
- Tax benefits effect	(46 923)	(273 655)
- Expenses on taxes related to prior periods	-	99 205
Income tax expense for the year	**1 864 263**	**855 445**

Differences between IFRS and Russian statutory taxation regulations give rise to temporary differences between the carrying value of assets and liabilities for IFRS financial reporting purposes and their income 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%), except for income on state securities which is taxed at 15% (2016: 15%).

27 Income Tax (continued)

(in thousands of Russian Roubles)	31 December 2016	Charged to profit or loss	Charged directly to equity	31 December 2017
Tax effect of temporary differences				
Allowance for loan impairment	(1 004 163)	(563 275)	-	(1 567 438)
Accrued income/expense	1 655 692	3 250	-	1 658 942
Valuation of bonds issued at amortised cost	(28 075)	13 968	-	(14 107)
Valuation of other borrowed funds at amortised cost	785	(452)	-	333
Valuation of trading and other securities at fair value	585 789	(333 272)	132 112	384 629
Premises and equipment	(1 243 499)	(55 479)	41 166	(1 257 812)
Other	(586 173)	1 225 487	-	639 314
Recognised deferred tax liability	**(619 644)**	**290 227**	**173 278**	**(156 139)**

(in thousands of Russian Roubles)	31 December 2015	Charged to profit or loss	Charged directly to equity	31 December 2016
Tax effect of temporary differences				
Allowance for loan impairment	(1 006 369)	2 206	-	(1 004 163)
Accrued income/expense	1 922 749	(267 057)	-	1 655 692
Valuation of bonds issued at amortised cost	(44 645)	16 570	-	(28 075)
Valuation of other borrowed funds at amortised cost	19 528	(18 743)	-	785
Valuation of trading and other securities at fair value	(2 705 532)	3 340 534	(49 213)	585 789
Premises and equipment	(1 212 881)	(30 618)	-	(1 243 499)
Other	(184 904)	(401 269)	-	(586 173)
Tax loss carry-forward	403 430	(403 430)	-	-
Recognised deferred tax liability	**(2 808 624)**	**2 238 193**	**(49 213)**	**(619 644)**

28 Earnings per Share

Basic earnings per share are calculated by dividing the net profit attributable to the shareholders of the Bank by the weighted average number of ordinary shares in issue during the year less treasury stock.

As at 31 December 2017, the Bank has no potentially dilutive preference shares. Thus, diluted earnings per share are equal to basic earnings per share.

Basic earnings per share are calculated as follows:

(In thousands of Russian Roubles)	2017	2016
Profit attributable to the Bank's shareholders	7 429 077	4 277 810
Less dividends on preference shares	(2 211)	(2 211)
Profit attributable to ordinary shareholders of the Bank	**7 426 866**	**4 275 599**
Weighted average number of ordinary shares in issue (thousands)	465 708	438 151
Basic earnings per share (expressed in RR per share)	**15,95**	**9,76**

29 Dividends

(in thousands of Russian Roubles)	2017		2016	
	Ordinary	**Preference**	**Ordinary**	**Preference**
Dividends payable as at 1 January	**6 054**	**-**	**5 785**	**-**
Dividends declared during the year	461 532	2 211	459 313	2 211
Dividends paid during the year	(461 022)	(2 211)	(459 044)	(2 211)
Dividends payable as at 31 December	**6 564**	**-**	**6 054**	**-**
Dividends per share declared during the year (RR per share)	**1,05**	**0,11**	**1,05**	**0,11**

All dividends were declared and paid in Russian Roubles.

30 Segment Analysis

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the chief operating decision maker and for which discrete financial information is available. The Management Board of the Bank performs the responsibilities of the chief operating decision maker.

Description of products and services that constitute sources of revenues of the reporting segments

The Group is organised on a basis of three main business segments:

- Corporate banking – settlement and current accounts, deposits, credit lines, loans and other credit facilities, foreign currency transactions with commercial and state entities.

- Operations on financial markets – financial instruments trading, loans and deposits on the interbank market, dealing in foreign exchange and derivative financial instruments.

- Retail banking – retail and private banking services, customer current accounts, deposits, retail investment products, custody services, credit and debit cards, consumer loans, mortgages and other loans to individuals and VIP clients.

Transactions between the business segments are performed on normal commercial terms and conditions. Funds are ordinarily reallocated between segments, resulting in funding cost transfers disclosed in operating income/expense for the segment. Interest charged for these funds is based on market interest rates. There are no other material items of income or expense between the business segments. Segment assets and liabilities comprise operating assets and liabilities, being the majority of assets and liabilities of the Group, but excluding some premises, equipment and intangible assets, long-term assets held-for-sale, investment property, other assets and liabilities and balances on taxation settlements.

30 Segment Analysis (continued)

Factors used by management to define reporting segments

The Group's segments are strategic business units that offer different products and services for different clients. They are managed separately because they require different technology and marketing strategies and level of service.

Evaluation of profit or loss and assets of operating segments

The Management Board of the Bank analyses financial information prepared in accordance with the requirements of Russian accounting standards. This financial information differs in some aspects from the information prepared in accordance with IFRS:

(i) resources are usually redistributed among segments using internal interest rates set by the Treasury department. These interest rates are calculated based on the basic market interest rates, contractual maturity dates and observable actual maturity dates of customer accounts balances

(ii) differences in the classification of securities to portfolios

(iii) income tax is not distributed to segments

(iv) allowance for loan impairment is recognised based on Russian legislation, and not on the basis of the model of "incurred losses" specified in IAS 39

(v) fee and commission income on lending operations is recognised immediately and not in the future periods using the effective interest rate method

(vi) information on consolidated companies is not included.

The Management Board of the Bank evaluates the business segment results based on the amount of profit before income tax.

30 Segment Analysis (continued)

Information on profit or loss, assets and liabilities of reporting segments

Segment information for the Group's main reporting business segments for the years ended 31 December 2017 and 31 December 2016 is set out below (in accordance with the management information).

(in thousands of Russian Roubles)	Corporate banking	Operations on financial markets	Retail banking	Unallocated	Total
2017					
External revenues	30 143 202	12 042 111	10 295 967	159 618	**52 640 898**
Internal funding charge	(12 801 217)	4 987 536	7 813 681	-	**-**
Total revenues	**17 341 985**	**17 029 647**	**18 109 648**	**159 618**	**52 640 898**
Revenues comprise:					
- External interest income	26 303 137	12 035 997	7 825 546	-	46 164 680
- Fee and commission income	3 808 966	6 114	2 468 821	-	6 283 901
- Other operating income	31 099	-	1 600	159 618	192 317
Segment results	**(3 447 861)**	**10 491 323**	**3 898 369**	**-**	**10 941 831**
Unallocated costs	-	-	-	(5 467 121)	(5 467 121)
Profit before tax					**5 474 710**
Income tax expense	-	-	-	(1 422 229)	(1 422 229)
Profit (loss)	**(3 447 861)**	**10 491 323**	**3 898 369**	**(6 889 350)**	**4 052 481**
Total segment assets before allowance for impairment	**289 004 251**	**258 920 261**	**73 311 421**	**28 471 498**	**649 707 431**
Other segment items					
Depreciation and amortisation charge	(218 515)	(71 074)	(247 909)	(270 812)	(808 310)
Allowance for loan impairment	(11 734 348)	(162 491)	(542 589)	-	(12 439 428)

30 Segment Analysis (continued)

(in thousands of Russian Roubles)	Corporate banking	Operations on financial markets	Retail banking	Unallocated	Total
2016					
External revenues	35 234 934	13 180 508	9 099 560	72 343	**57 587 345**
Internal funding charge	(14 269 065)	4 973 512	9 295 553	-	**-**
Total revenues	**20 965 869**	**18 154 020**	**18 395 113**	**72 343**	**57 587 345**
Revenues comprise:					
- External interest income	31 082 919	13 174 544	7 233 098	-	51 490 561
- Fee and commission income	3 666 082	5 964	1 860 678	-	5 532 724
- Other operating income	485 933	-	5 784	72 343	564 060
Segment results	**(4 649 212)**	**9 248 044**	**4 675 199**	**-**	**9 274 031**
Unallocated costs	-	-	-	(5 977 799)	(5 977 799)
Profit before tax					**3 296 232**
Income tax expense	-	-	-	(1 001 636)	(1 001 636)
Profit (loss)	**(4 649 212)**	**9 248 044**	**4 675 199**	**(6 979 435)**	**2 294 596**
Total segment assets before allowance for impairment	**299 219 048**	**232 242 047**	**56 332 236**	**28 409 712**	**616 203 043**
Other segment items					
Depreciation and amortisation charge	(251 296)	(81 198)	(187 763)	(293 596)	(813 853)
Allowance for loan impairment	(12 934 014)	(7 835)	(790 518)	-	(13 732 367)

30 Segment Analysis (continued)

A reconciliation of assets according to management information with IFRS results as at 31 December 2017 and 31 December 2016 is set out below:

(in thousands of Russian Roubles)	2017	2016
Total segment assets before provision for impairment	**649 707 431**	**616 203 043**
Adjustment of allowance for loan impairment	(40 313 162)	(39 642 550)
Adjustments of income/expense accruals	2 277 835	1 286 129
Premises, equipment and intangible assets depreciation and fair value adjustments	1 467 394	1 559 913
Fair value and amortised cost adjustments	(313 072)	1 524 379
Income tax adjustments	(2 082 895)	(523 304)
Elimination of assets additionally recognised in management accounting	(4 790 524)	(1 248 595)
Other adjustments	(50 800)	238 974
Consolidation	957 164	879 531
Total assets under IFRS	**606 859 371**	**580 287 520**

A reconciliation of profit before tax according to management information with IFRS results for the years ended 31 December 2017 and 31 December 2016 is set out below:

(in thousands of Russian Roubles)	2017	2016
Total reporting segment profit before tax	**5 474 710**	**3 296 232**
Adjustment of allowance for loan impairment	2 885 856	1 325 660
Adjustments of income/expense accruals	300 406	(372 871)
Premises, equipment and intangible assets depreciation and fair value adjustments	113 330	71 740
Fair value and amortised cost adjustments	464 608	704 405
Consolidation	398 927	(23 193)
Other adjustments	(282 518)	131 282
Total profit before tax under IFRS	**9 355 319**	**5 133 255**

Geographical information. The major part of the Group’s activity is concentrated in the North-West region of the Russian Federation. Activity is also carried out in Moscow.

There are no external customers (groups of related customers) with individual income from operations exceeding 10% of total income from operations with such customers.

31 Risk Management, Corporate Governance and Internal Control

Corporate governance and internal control

Corporate governance system of the Group is based on full compliance with requirements of statutory legislation and the CBRF, protection of shareholders' interests and considers world best practices to the largest possible extent. The Group fully complies with the legislation requirements concerning shareholders' rights observance.

The supreme governing body of the Bank is the General Shareholders' Meeting that makes strategic decisions on the Bank's operations in accordance with Federal Law No. 208-FZ dated 26 December 1995 *On Joint-Stock Companies* and the Charter.

The function of counting commission of the General Shareholders' Meeting is performed by an independent Registrar – JSC "Independent Register Company".

General activities of the Bank are managed by the Supervisory Board, except for areas in competence of the General Shareholders' Meeting. Candidates to the Supervisory Board are elected and approved by the General Shareholders' Meeting. The Supervisory Board sets key strategic directions of the Bank's activity and supervises performance of management executive bodies.

On 18 May 2017 Annual General Shareholders' Meeting of PJSC "Bank Saint Petersburg" and Supervisory Board Meeting were conducted. According to their resolutions composition of the Bank's Supervisory Board was approved, as well as Committees of the Supervisory Board were considered as necessary and formed appropriate to mission and objectives of PJSC "Bank Saint Petersburg" activities.

As at 31 December 2017, the composition of the Supervisory Board is as follows:

Elena Viktorovna Ivannikova – Chairperson of the Supervisory Board, member of the Supervisory Board since 2005; Vladislav Stanislavovich Guz – Deputy Chairman of the Supervisory Board, member of the Supervisory Board since June 2014; Alexander Vasilyevich Savelyev – the Chairman of the Management Board, elected to the Supervisory Board in 2001; Susan Gail Buyske – member of the Bank's Supervisory Board since April 2012, Chairperson of the Risk Management Committee since August 2012; Andrey Pavlovich Bychkov – member of the Bank's Supervisory Board since April 2010, Chairman of the Audit Committee since May 2016; Alexey Andreevich Germanovich – member of the Supervisory Board of the Bank since June 2014; Andrey Taledovich Ibragimov – member of the Bank's Supervisory Board since 2005; Alexander Ivanovich Polukeev – member of the Bank's Supervisory Board since June 2014, Chairman of the Human Resources and Remuneration Committee since May 2017; Alexander Vadimovich Pustovalov – member of the Bank's Supervisory Board since April 2012; Andrey Mikhailovich Zvyozdochkin - member of the Bank's Supervisory Board since May 2017, Chairman of the Strategy Committee since September 2017.

As at 31 December 2017, Alexey Andreevich Germanovich, Alexander Ivanovich Polukeev, Andrey Mikhailovich Zvyozdochkin, members of the Supervisory Board, proved their compliance with independence requirements of PJSC MICEX Listing Rules. On 18 May 2017, a member of the Supervisory Board Alexander Ivanovich Polukeev is elected Senior Independent Director of the Supervisory Board of PJSC "Bank "Saint Petersburg". Andrey Pavlovich Bychkov, member of the Supervisory Board, was approved as an independent director by the resolution of the Supervisory Board of the Bank dated 18 May 2017, made in accordance with p.2 of Section 2.18 of Appendix 2 to PJSC MICEX Listing Rules approved by the Supervisory Board of PJSC Moscow Stock Exchange on 3 February 2017.

31 Risk management, Corporate Governance and Internal Control (continued)

The Supervisory Board includes Committees established for the purpose of review and analysis of matters in competence of the Supervisory Board, preparation of recommendations on these matters for the Supervisory Board and execution of other functions vested to these committees.

The primary objective of the Strategy Committee is to assist the Supervisory Board of the Bank in determining long-term and medium-term strategies of the Bank and priority areas of its activity; consideration of large innovation and investment programs as well as projects of the Bank.

The primary objective of the Risk Management Committee is to assist the Supervisory Board of the Bank in determining priority areas for the Bank’s banking risk management efforts and to support appropriate risk management function within the Group.

The primary objectives of the Human Resources and Remuneration Committee are provision of effective HR policy of the Bank, involvement of qualified specialists in the Bank’s governance and creating incentives for efficient functioning, preparation of recommendations for the Supervisory Board on applicants for the key management positions and development of principles and criteria for remuneration rates for the key management personnel of the Bank.

The primary objective of the Audit Committee is to assist the Supervisory Board in efficient assessment and control over business activities of the Bank and to control the completeness and fairness of the consolidated financial statements and the process of their preparation and disclosure, and the performance of internal control and internal audit functions.

Corporate Secretary’s Office is responsible for compliance with the requirements of current legislation, the Charter and other internal policies of the Bank, concerning shareholders’ rights and protection of their interests during preparation and implementation of corporate procedures by the Bank. Corporate Secretary’s Office also supports cooperation of the Bank with its shareholders, holding of General Shareholders’ Meetings and performance of the Supervisory Board and its Committees.

Operating activities of the Bank are managed by the sole executive body – the Chairman of the Management Board and the collective executive body – the Management Board of the Bank.

As at 31 December 2017, the composition of the Bank’s Management Board is as follows:

Alexander Vasilyevich Savelyev - Chairman of the Bank’s Management Board.

Members of the Management Board: Vladimir Pavlovich Skatin, Deputy Chairman of the Management Board, member of the Management Board since June 2008; Konstantin Yurievich Balandin, Deputy Chairman of the Management Board, member of the Management Board since January 2008; Tatyana Yurievna Bogdanovich, Senior Vice President – director of the branch in Moscow, member of the Management Board since March 2016; Vyacheslav Yakovlevich Ermolin, Vice-President, member of the Management Board since December 2017; Vladimir Konstantinovich Likhodievsky, Deputy Chairman of the Management Board, member of the Management Board since April 2015; Kristina Borisovna Mironova, Deputy Chairperson of the Management Board, member of the Management Board since August 2013; Vladimir Grigoryevich Reutov, Deputy Chairman of the Management Board, member of the Management Board since July 2004; Pavel Vladimirovich Filimonenok, Deputy Chairman of the Management Board, member of the Management Board since December 2003.

By the resolution of the Supervisory Board of the Bank dated 23 March 2017, Alexander Sergeevich Konyshkov, Deputy Chairman of the Management Board, is withdrawn from the Management Board.

By the resolution of the Supervisory Board of the Bank dated 20 July 2017, Maris Mancinskis, first Deputy Chairman of the Management Board - Chief Executive Officer, and Oksana Nikolaevna Panchenko, Deputy Chairperson of the Management Board, are withdrawn from the Management Board.

By the resolution of the Supervisory Board of the Bank dated 30 November 2017, Oksana Sivokobilska, Deputy Chairperson of the Management Board, is withdrawn from the Management Board.

31 Risk Management, Corporate Governance and Internal Control (continued)

Internal Control

The Internal Audit Function is a structural unit of the Bank in charge of internal audit and an internal control body of the Bank. The Function operates under direct supervision of the Bank’s Supervisory Board. The Function reports directly to the Bank’s Supervisory Board. The Internal Audit Function employees report to the Chairman of the Bank’s Management Board in terms of remuneration and labour discipline matters.

The Function prepares quarterly reports on performance and monitoring of the internal control system of the Bank to the Supervisory Board and the Management Board of the Bank, and monthly reports to the Audit Committee of the Supervisory Board of the Bank. The Function operates on an ongoing basis independently and without any bias, while performing monitoring of the internal control system of the Bank. The Function performs reviews of all business areas of the Bank. Any department or employee of the Bank may be a subject of the Internal Audit Function review.

The Controller of the professional participant of the securities market (head of department) and the Internal Control Department of professional participant of securities market, which is a structural unit of the Bank, operate under supervision of the Deputy Chairman of the Management Board of the Bank in accordance with the Order on Allocation of Duties and Rights of the Bank’s Management dated 8 August 2017. The Controller of the professional participant of the securities market and the Internal Control Department of professional participant of securities market submit quarterly reports on internal control results to the Chairman of the Management Board and the Supervisory Board of the Bank.

The Department performs the following control functions:

- compliance of the Bank’s activity with the RF legislation requirements for operations on the securities market, enforcement of investors’ rights and legally protected interests on the securities market, advertising, as well as compliance of the Bank’s regulations with its activity on the securities market
- compliance by the Bank’s officials with the RF legislation requirements for countermeasures against unlawful insider information use and market abuse.

The Financial Monitoring Department is a structural unit of the Bank and operates under supervision of the Deputy Chairman of the Management Board in accordance with the Order on Allocation of Duties and Rights of the Bank’s Management dated 8 August 2017.

Core functions of the Financial Monitoring Department:

- arrangement of activities in the Bank aimed at prevention of legalisation (laundering) of income obtained by criminal means and countering terrorism financing (hereinafter “AML/CTF”)
- implementation of Internal Control Regulations for the purposes of the AML/CTF.

The Compliance Department is an internal control body of the Bank reporting to the Chairman of the Management Body of the Bank. Current activities of the Department are managed by the Deputy Chairman of the Management Board in accordance with the Order on Allocation of Duties and Rights of the Bank’s Management dated 8 August 2017.

31 Risk Management, Corporate Governance and Internal Control (continued)

Risk management

Risks of the Group are managed in relation to significant risks:

- credit risk (including concentration risk),

- market risk (including currency, equity, commodity, and interest rate risks),

- liquidity risk (including concentration risk),

- operational risk (including legal risk);

as well as other types of risks (compliance risk, strategic risk, reputational risk).

For each significant type of risk a corresponding management system was created to provide adequate risk assessment, including measures for its mitigation. The Group compares the amount of accepted risks with the size of its equity to guarantee its sufficiency at the level required by the CBRF, needed for performance of its obligations, including covenants, and for efficient use of equity.

Group’s risk management system promotes financial stability, improvement of the Bank’s activities efficiency, securing adequate protection of shareholders, customers, creditors, providing continuity of operations, upholding the reputation.

Group’s risk management system includes creation and implementation of risk management policies and procedures to be further updated depending on changes in the macroeconomic situation, current conditions of the banking system in the Russian Federation, and regulatory changes. The Group has developed a system of reporting on significant risks and equity (capital). As at 31 December 2017, the Group’s internal documentation establishing the procedures and methodologies for identification, managing and stress-testing of the Group’s significant risks, was approved by the authorised management bodies of the Bank in accordance with the regulations and recommendations issued by the CBRF.

Key bodies performing the Group’s financial risk management functions are the Supervisory Board, the Bank’s Management Board, the Bank’s Asset and Liability Management Committee, the Bank’s Large Credit Committee, the Corporate Credit Committee, the Technical Policy Committee, the Budget Committee, the Investment Committee, the Products and Processes Committee.

The Supervisory Board is responsible for consideration of risk at the strategic level. The Supervisory Board approves the Capital and Risk Management Policy, the compliance with which is supervised by reviews and approvals of the quarterly Group’s risk management reports, both consolidated and by types of risk. The Supervisory Board makes decisions on significant transactions, on transactions in respect of which there is an interest, on transactions with related parties exceeding limits established under the Group’s Credit Policy and on transactions, the amount of which equals to or exceeds 10% of the Bank’s equity.

The Management Board of the Bank is responsible for overall organisation of the Bank’s financial risk management system. The Management Board of the Bank is responsible for the control over timely and adequate identification of risks and their exposure, for development of policies and procedures necessary to limit risk exposures. The Management Board coordinates different department actions in case of threat or actual liquidity crisis, approves internal documents of the Bank in respect of risk management and risk management reports.

31 Risk Management, Corporate Governance and Internal Control (continued)

The Asset and Liability Management Committee is responsible for day-to-day financial risk management (except for credit risk).

The Asset and Liability Management Committee makes decisions on structural management of the consolidated statement of financial position of the Group and the related liquidity risks, and on determining and changing market risk limits including interest rate risk. The Asset and Liability Management Committee coordinates the main principles and procedures of financial risk management (except for credit risk) and has the right to make decisions on financial risk management in case of emergency.

The main functions of the Budget Committee are planning, management optimisation and control of expenses for acquisition of resources for the operation of the Bank, long-term investments.

The Investment Committee makes decisions on investment operations and controls in the sphere of direct investments in accordance with the Investment Declaration and within the limits of the Investment Committee stated by the Management Board, investments in potential investment objects.

The Products and Processes Committee approves the concepts of new or changed products, considers information about the abnormal situations which occurred in the Bank's activity.

The Technical Policy Committee of the Bank reviews management of operational risks, associated with information technologies and the IT infrastructure of the Bank.

The Management Board, the Large Credit Committee, the Corporate Credit Committee, the Litigation Committee, the Small Credit Committees of the branch subdivisions are responsible for making decisions on management of credit risks. The Management Board approves the Credit Policy and makes decisions on credit risk-related transactions exceeding the limits stipulated in the Credit Policy for the Large Credit Committee. The Large Credit Committee makes decisions on credit transactions in excess of the limits stipulated for the Corporate Credit Committee. The Corporate Credit Committee makes decisions on credit transactions in excess of the limits stipulated for the Small Credit Committees. The limits for the Small Credit Committees are defined based on their performance results in terms of the risk level of decisions made and are revised at least once a year. The Litigation Committee makes decisions on credit and other operations within non-performing loan management.

Decision making on loans to individuals and legal entities, granted on standard terms, is in competence of responsible employees. The level of competence is defined based on deviations from the standard terms and the risk of these deviations.

The Banking Risks Department is responsible for implementation of the effective risk management system, and compliance with the acceptable level of total, market, operational, legal and reputational risks exposure, as well as credit risk in respect of financial markets transactions. The Banking Risks Department monitors the risk management system related to market, interest rate, credit (in respect of financial institutions, counterparties and securities issuers), operational, legal and reputational risks, initiates the development of methods of assessment of current risk levels of the Bank, management procedures for these risks, compliance by the Bank's departments with existing procedures and limits restricting the level of these risks. The Banking Risks Department is not subordinate to, and does not report to, divisions accepting relevant risks.

The Banking Risks Department performs stress-tests based on scenario analysis for the purpose of timely identification of significant risks applicable to the Group that may significantly affect the financial sustainability of the Group. Steps to ensure financial stability of the Group are taken based on the results of stress-tests.

The Compliance Function of the Banking Risks Department assists the Bank's management in developing a compliance control system and effective management of compliance risk the Group faces in the course of its business activity by creating mechanisms for detecting, identifying, analysing, assessing, minimising, monitoring and controlling compliance risk.

31 Risk Management, Corporate Governance and Internal Control (continued)

Current management of credit risks of the Group is mostly performed by its specialised subdivision, the Credit Risk Department, exercising operational control over credit risk levels. Bad assets management is carried out by a separate business subdivision – the Litigation Department.

Management is responsible for identifying and assessing risks, designing measures for prevention of risks and monitoring their effectiveness. Management constantly monitors the effectiveness of internal controls over risk management and introduces changes to existing controls if necessary.

In compliance with the Group's internal documentation the Banking Risks Department and Internal Audit Function of the Bank on a periodical basis prepare reports, which cover the Group's significant risks management. The reports include observations as to assessment of the effectiveness of the Group's procedures and methodologies, and recommendations for improvement.

Management believes that risk management system complies with the CBRF requirements and is appropriate for the scale, nature and complexity of operations.

Credit risk. The Group is exposed to credit risk which is the risk of financial loss if a borrower or counterparty fails to meet its contractual obligations.

The Group considers credit risk to include all financial assets recognised in the consolidated statement of financial position, except for assets deposited with the CBRF.

The approach of the Group to credit risk management is defined in the Credit Policy. The Credit Policy is aimed at formulation of the main principles of credit transactions of the Group and credit risk, providing for implementation of the aims and goals of the Group's strategy concerning the structure, volume and quality of the loan portfolio.

<u>Risk management tools</u>

To maintain credit risks at an appropriate level the Group uses the following *risk management tools.*

For separate borrowers:

- assessment of the borrowers' financial positions upon loan application and during ongoing loan monitoring
- assessment of credit risk and formation of loan impairment allowance in the amount of possible losses from the transaction
- structuring of credit transactions in compliance with the requirements of the Group
- evaluation of the market value of collateral for a loan, control over availability and safety of collateral, and evaluation of financial position and creditworthiness of guarantors
- request for credit reports from credit history bureau ("CHB") and other services, providing information on the client's behaviour and taking this information into consideration during the analysis of the loan application
- for credit transactions with individuals, requiring scoring evaluation of creditworthiness of the borrower – consideration of scoring grade during the analysis of the loan application
- for credit transactions with legal entities – consideration of the internal credit rating of the borrower during the analysis of the loan application
- for credit transactions with financial institutions – assessment of financial position and credit risk of the counterparty during establishment of limits for the counterparty
- when setting limits on transactions with securities which bear credit risk – assessment of financial position and credit risk of the issuer

31 Risk Management, Corporate Governance and Internal Control (continued)

- control over compliance with the requirements of the Credit Policy for setting the authorities on decision making in respect of credit operations, and control over the reflection of terms of credit transactions in the loan and other agreements, as approved by the relevant authorities or officials
- control over timely performance of the borrowers’ obligations to the Group stipulated by the credit agreements
- insurance of collateral.

For the loan portfolio in general:

- establishment of authorities for bodies and officials
- establishment and control over the limits of credit risk
- control over covenants established by certain agreements with the lenders.

Reporting forms

Group’s management controls credit risks and the loan portfolio quality based on regular (daily, weekly and monthly) reports.

Limits for credit risk management purposes

When establishing limits for groups of borrowers, the Group takes into account both the requirements of Russian regulatory authorities and those of the Credit Policy.

The Group establishes individual limits in respect of borrowers and groups of related borrowers. When establishing a limit the Group takes into account all information available. When establishing an individual limit, the Group performs comprehensive analysis of the financial statements, cash flows, available credit history of each borrower or a group of related borrowers, the needs of each borrower or the group of related borrowers for credit resources, as well as availability of loan repayment sources. The Group also takes into account the property pledged as collateral for the loan.

The Bank’s Credit Policy is applicable both to recognised and unrecognised financial instruments. The Credit Policy establishes unified procedures of transaction approvals, risk mitigating limits and monitoring procedures. The borrower is entitled to use any products offered by the Bank supporting the use of unrecognised Bank’s commitments for lending (guarantees, unsecured letters of credit, credit facilities, etc.) within established limits.

The Bank uses the system of limits restricting the maximum debt of counterparty banks and financial companies, corporate counterparties when conducting transactions in the financial lending market and performing purchase and sale of financial assets, including foreign exchange transactions, associated with counterparty credit risk. The respective limits are established for each counterparty of the Bank on the basis of a creditworthiness analysis.

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

31 Risk Management, Corporate Governance and Internal Control (continued)

The maximum exposure to credit risk from financial assets is as follows:

(in thousands of Russian Roubles)	2017	2016
Assets		
Cash and cash equivalents	14 539 511	13 497 723
Trading securities	16 126 158	16 835 911
Securities pledged under sale and repurchase agreements and loaned	72 726 168	61 605 634
Reverse sale and repurchase agreements	67 809 093	58 499 452
Due from banks	34 939 256	33 371 758
Loans and advances to customers	318 215 910	314 711 065
Investment securities available-for-sale	21 711 087	26 070 000
Other financial assets	1 579 673	1 655 593
Total maximum exposure	**547 646 856**	**526 247 136**

For the analysis of collateral held against loans and advances to customers and concentration of credit risk refer to note 11.

The maximum exposure to credit risk from contractual credit related commitments at the reporting date is presented in note 33.

Country risk. Country risk of the Group is almost fully determined by the country risk of the Russian Federation. The exposure to geographical risk of other countries is limited since substantially all assets and liabilities of the Group are concentrated in the Russian Federation.

Foreign economic activity involves correspondent accounts opened in foreign banks, transactions on international exchanges via foreign brokers, transactions on the money market and servicing export-import transactions of own clients. Country risks are minimised by means of cooperation with the most reliable banks of developed countries. Lately, the amount of transactions with the biggest Asian financial organisations has been increased to diversify access to the markets.

Saint Petersburg is the largest center of the North-Western part of the Russian Federation with a diversified economy. This is why the Bank’s historic business concentration on providing services to individuals and legal entities in Saint Petersburg is an advantage for the Group.

Market risks. The Group is exposed to market risk arising from open positions in interest rate, currency and equity instruments that are exposed to general and specific market movements. These are defined as follows:

- currency risk - risk of losses due to exchange rate fluctuations
- interest rate risk - risk of losses due to fluctuations of market interest rates
- commodity risk – risk of losses due to fluctuations of commodity market instruments prices
- other price (equity) risk - risk of losses due to movements in quotations of the equity instrument.

The Banking Risks Department is responsible for developing methods of appraisal of the current level of market risks (with the exception of interest rate risk), management procedures for these risks, and for identification and analysis of the current risk level.

The Treasury Department is responsible for development of methods for evaluation and procedures of operational management of interest rate risk.

31 Risk Management, Corporate Governance and Internal Control (continued)

Market risk management is defined as a method of limitation of possible losses from open positions which can be incurred by the Group within a set period of time due to movements in exchange rates, securities quotations and interest rates by way of establishing a system of position limits on financial instruments and sensitivity limits, as well as stop-loss limits (maximum loss limits, in case of violation of which the position is closed), limits on possible change of present value of instruments and VaR limits (limits on maximum VaR).

VaR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates, prices and interest rates over a specified time horizon and to a given level of confidence. The VaR model used by the Bank is based upon a 99 percent confidence level and assumes a 1-day holding period depending on the type of positions. The VAR model used is mainly based on historical simulation. The model derives plausible future scenarios based on historical market rate time series, taking into account inter-relationships between different markets and assets.

Although VaR is a valuable tool in measuring market risk exposures, it has a number of limitations, especially in less liquid assets as follows:

- the use of historical data as a basis for determining future events may not encompass all possible scenarios, particularly those that are of an extreme nature
- a 1-day holding period assumes that all positions can be liquidated or hedged within that period
- the use of a 99% confidence level does not take into account losses that may occur beyond this level. There is a one percent probability that the loss could exceed the VaR estimate.
- VaR is only calculated on the end-of-day balances and does not necessarily reflect exposures that may arise on positions during the trading day
- the VaR measure is dependent upon the position and the volatility of market prices. The VaR of an unchanged position reduces if market volatility declines and vice versa.

The limitations of the VaR methodology are recognised by supplementing VaR limits with other limits mentioned above (position limits and stop-loss limits).

The summary of the VaR estimates of losses as at 31 December 2017 and 31 December 2016 is as follows:

(in millions of Russian Roubles)

Financial instruments	**2017**	**2016**
Shares	27	13
Bonds	842	509
Eurobonds	323	217
Foreign currency and interest rate derivatives	173	241
Commodities	4	2
Aggregated VaR	874	569

The VaR estimates stated above are calculated for the trading portfolio and portfolio of investment securities available-for-sale, for the open currency position of the Bank and for the portfolio of derivative instruments (including commodities instruments).

The Banking Risks Department prepares proposals to establish market risk limits applied by the Bank (hereinafter including VaR limits). Limits are established by the Management Board of the Bank, the Large Credit Committee and the Asset and Liability Management Committee in accordance with their authorities. Compliance with market risk limits is daily controlled by the Operations Department (back office).

31 Risk Management, Corporate Governance and Internal Control (continued)

Currency risk. Currency risk is the risk of changes in income or carrying value of the Group's financial instruments due to exchange rate fluctuations.

The Department of Financial Markets Operations currently manages the open currency position within the limits set by the Asset and Liability Management Committee.

For currency risk management purposes the Group also uses the system of mandatory limits established by the CBRF, including limits on open positions in a foreign currency (up to 10% of the capital calculated in accordance with the CBRF regulations) and the limit on the total open position in all foreign currencies (up to 20% of the capital calculated in accordance with the CBRF regulations).

The Group follows a conservative currency risk management policy and opens currency positions primarily in the currencies most frequently used in the Russian Federation (US Dollars and Euro).

The Group takes into account changes in foreign currency volatility levels by preparing and submitting for approval of the Asset and Liability Management Committee proposals concerning changes in internal limits of currency risks.

31 Risk Management, Corporate Governance and Internal Control (continued)

The table below summarises the exposure to foreign currency exchange rate risk of the Group as at 31 December 2017. The Group does not use this currency risk analysis for management purposes.

(in thousands of Russian Roubles)	RR	USD	EUR	Other	Total
Assets					
Cash and cash equivalents	23 978 841	2 901 478	11 940 218	377 973	39 198 510
Mandatory reserve deposits with the Central Bank of the Russian Federation	3 020 485	-	-	-	3 020 485
Trading securities	12 338 454	5 000 098	18 867	14 840	17 372 259
Securities pledged under sale and repurchase agreements and loaned	34 433 478	18 301 329	17 861 677	2 953 155	73 549 639
Reverse sale and repurchase agreements	58 969 085	8 840 008	-	-	67 809 093
Derivative financial assets	1 217 534	-	-	-	1 217 534
Due from banks	33 020 017	1 919 239	-	-	34 939 256
Loans and advances to customers					
- loans and advances to legal entities	171 888 705	50 648 199	22 701 938	-	245 238 842
- loans and advances to individuals	71 741 878	447 685	787 505	-	72 977 068
Investment securities available-for-sale	20 772 528	730 957	1 009 289	-	22 512 774
Investment property	8 102 997	-	-	-	8 102 997
Premises, equipment and intangible assets	14 670 596				14 670 596
Other assets	4 836 613	644 392	212 619	10 681	5 704 305
Long-term assets held-for-sale	546 013	-	-	-	546 013
Total assets	**459 537 224**	**89 433 385**	**54 532 113**	**3 356 649**	**606 859 371**
Liabilities					
Due to banks	106 774 231	38 927 322	3 223 177	-	148 924 730
Customer accounts	274 657 971	54 897 077	23 091 461	325 639	352 972 148
Financial liabilities at fair value	12 428 741	82 292	-	-	12 511 033
Derivative financial liabilities	1 661 351	-	-	-	1 661 351
Bonds issued	684 643	6 453 249	-	-	7 137 892
Promissory notes and deposit certificates issued	3 291 222	2 960 507	1 001 616	-	7 253 345
Other borrowed funds	1 566 231	-	337 513	-	1 903 744
Other liabilities	3 550 058	25 093	9 848	-	3 584 999
Total liabilities	**404 614 448**	**103 345 540**	**27 663 615**	**325 639**	**535 949 242**
Less fair value of currency derivatives	470 389	-	-	-	470 389
Net recognised position, excluding currency derivative financial instruments	**55 393 165**	**(13 912 155)**	**26 868 498**	**3 031 010**	**55 393 165**
Currency derivatives	**19 411 363**	**12 508 117**	**(29 389 850)**	**(3 000 019)**	**(470 389)**
Net recognised position, including currency derivative financial instruments	**74 804 528**	**(1 404 038)**	**(2 521 352)**	**30 991**	**70 910 129**

31 Risk Management, Corporate Governance and Internal Control (continued)

The table below summarises the exposure to foreign currency exchange rate risk of the Group as at 31 December 2016. The Group does not use this currency risk analysis for management purposes.

(in thousands of Russian Roubles)	RR	USD	EUR	Other	Total
Assets					
Cash and cash equivalents	17 905 311	3 161 924	12 464 431	349 538	33 881 204
Mandatory reserve deposits with the Central Bank of the Russian Federation	3 220 803	-	-	-	3 220 803
Trading securities	13 552 223	2 917 879	5 893	650 052	17 126 047
Securities pledged under sale and repurchase agreements and loaned	11 026 087	33 349 243	17 200 368	224 548	61 800 246
Reverse sale and repurchase agreements	52 738 237	5 761 215	-	-	58 499 452
Derivative financial assets	5 537 975	-	-	-	5 537 975
Due from banks	28 034 337	4 063 081	1 274 340	-	33 371 758
Loans and advances to customers					
- loans and advances to legal entities	200 918 114	40 277 345	15 406 761	-	256 602 220
- loans and advances to individuals	56 647 486	653 017	808 342	-	58 108 845
Investment securities available-for-sale	22 326 916	4 149 146	1 446	-	26 477 508
Investment property	5 726 225	-	-	-	5 726 225
Premises, equipment and intangible assets	14 304 980	-	-	-	14 304 980
Other assets	4 294 375	224 347	31 698	2 852	4 553 272
Long-term assets held-for-sale	1 076 985	-	-	-	1 076 985
Total assets	**437 310 054**	**94 557 197**	**47 193 279**	**1 226 990**	**580 287 520**
Liabilities					
Due to banks	84 090 274	45 837 837	1 793 656	-	131 721 767
Customer accounts	269 937 962	54 721 107	25 035 446	250 353	349 944 868
Financial liabilities at fair value	4 223 164	-	-	-	4 223 164
Derivative financial liabilities	2 929 752	-	-	-	2 929 752
Bonds issued	1 004 300	14 878 415	-	-	15 882 715
Promissory notes and deposit certificates issued	2 720 233	3 576 550	1 585 501	-	7 882 284
Other borrowed funds	1 565 972	-	938 171	-	2 504 143
Other liabilities	4 192 834	119 731	17 296	-	4 329 861
Total liabilities	**370 664 491**	**119 133 640**	**29 370 070**	**250 353**	**519 418 554**
Less fair value of currency derivatives	(2 608 223)	-	-	-	(2 608 223)
Net recognised position, excluding currency derivative financial instruments	**64 037 340**	**(24 576 443)**	**17 823 209**	**976 637**	**58 260 743**
Currency derivatives	**(4 847 538)**	**24 254 858**	**(15 929 230)**	**(869 867)**	**2 608 223**
Net recognised position, including currency derivative financial instruments	**59 189 802**	**(321 585)**	**1 893 979**	**106 770**	**60 868 966**

31 Risk Management, Corporate Governance and Internal Control (continued)

The table below summarises the foreign currency exchange rate risk for monetary financial instruments of the Group as at 31 December 2017:

(in thousands of Russian Roubles)	**Monetary financial assets**	**Monetary financial liabilities**	**Derivative financial instruments**	**Net currency position**
Russian Roubles	429 171 324	400 690 667	19 411 363	47 892 020
US Dollars	88 801 874	103 326 928	12 508 117	(2 016 937)
Euro	54 517 845	27 663 613	(29 389 850)	(2 535 618)
Other	3 345 968	325 639	(3 000 019)	20 310
Total	**575 837 011**	**532 006 847**	**(470 389)**	**43 359 775**

The table below summarises the foreign currency exchange rate risk for monetary financial instruments of the Group as at 31 December 2016:

(in thousands of Russian Roubles)	**Monetary financial assets**	**Monetary financial liabilities**	**Derivative financial instruments**	**Net currency position**
Russian Roubles	407 216 942	364 169 620	(4 847 538)	38 199 784
US Dollars	94 249 592	119 133 640	24 254 858	(629 190)
Euro	47 160 748	29 364 940	(15 929 230)	1 866 578
Other	1 224 138	250 353	(869 867)	103 918
Total	**549 851 420**	**512 918 553**	**2 608 223**	**39 541 090**

The Group’s currency derivatives position represents the fair value at the reporting date of the respective currency that the Group agreed to buy (positive amount) or sell (negative amount). The net total represents the fair value of the currency derivative financial instruments.

An analysis of sensitivity of profit after tax and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2017 and 31 December 2016 and a simplified scenario of a 10% change in USD and Euro to Russian Rouble exchange rates, assuming that all other variables remain unchanged is as follows:

In thousands of Russian Roubles	**As at 31 December 2017**	**As at 31 December 2016**
10% appreciation of USD against RR	(161 355)	(50 335)
10% depreciation of USD against RR	161 355	50 335
10% appreciation of Euro against RR	(202 849)	149 326
10% depreciation of Euro against RR	202 849	(149 326)

Movements in other currency exchange rates will have no material effect on the profit or loss of the Group. In the circumstances of increased volatility in the end of 2016 and the current situation in 2017 observed movements of currency exchange rates by 10% are for indicative purposes only, the real movements of other currency exchange rates may differ.

31 Risk Management, Corporate Governance and Internal Control (continued)

Interest rate risk. The Group is exposed to fluctuations in market interest rates which can affect its financial position and cash flows. As a result of such changes interest margins and accordingly profit of the Group may decrease.

The table below summarises the effective interest rates by currency for major financial instruments. The analysis is prepared based on effective rates as at 31 December 2017 and 31 December 2016 used for amortisation of the respective assets/liabilities.

	2017				2016			
In % p.a.	**RR**	**USD**	**EUR**	**Other**	**RR**	**USD**	**EUR**	**Other**
Assets								
Debt trading securities	7.76	3.69	0.99	1.90	9.84	3.78	2.07	0.13
Debt securities pledged under sale and repurchase agreements and loaned	7.72	3.49	0.93	1.90	9.59	2.21	1.32	0.01
Reverse sale and repurchase agreements	7.22	3.02	-	-	10.56	3.20	-	-
Due from banks	7.35	0.00	-	-	10.36	8.04	2.36	-
Loans and advances to customers	10.57	5.68	4.10	-	11.78	7.67	5.63	-
Debt investment securities available-for-sale	7.99	2.68	0.68	-	11.09	3.76	-	-
Liabilities								
Due to banks	7.54	3.02	0.00	-	9.52	2.56	0.00	-
Customer accounts								
- current and settlement accounts	0.36	0.00	0.00	0.01	0.48	0.01	0.00	0.00
- term deposits								
- individuals	7.03	2.47	0.93	1.30	8.34	3.25	1.90	1.30
- legal entities	6.42	2.87	0.35	-	9.14	2.19	0.56	-
Bonds issued	9.80	8.72	-	-	9.80	10.66	-	-
Promissory notes and deposit certificates issued	9.16	2.68	2.22	-	8.42	2.67	2.17	-
Other borrowed funds	6.90	-	1.80	-	6.90	-	1.79	-

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

Interest rate risk management represents management of assets and liabilities of the Group to maximise profit from possible fluctuations in interest rates under conditions of compliance with stated limits.

Group's interest rate risk management is performed centrally on continuing basis by the Management Board of the Bank, the Asset and Liability Management Committee, the Banking Risks Department, the Treasury Department, the Financial Markets Operations Department.

The Group uses the following interest rate risk management tools:

- approval of structure of limits and restrictions for interest rate risk
- approval of the asset and liability structure;
- management of interest rates and their limits for different financial instruments
- implementation and facilitation of new banking products
- approval of methods (procedures) for interest rate risk evaluation
- financial instrument transactions

31 Risk Management, Corporate Governance and Internal Control (continued)

Management of the Group uses a GAP report as the major analytical form for interest rate risk. The analysis is carried out by major currencies distributed according to the revaluation intervals. For the purposes of interest rate risk in currency evaluation the Bank started to utilise GAP reports with a breakdown by interest rate components, i.e. risk-free spread in currency and premium for country risk of the Russian Federation. The Report additionally takes into account items of working capital and statistically stable liabilities that are resistant to interest rate risk with the average interest rate repricing interval of four years.

The main criteria for interest rate risk evaluation is sensitivity of Bank’s capital to fluctuation of general level of interest rates under conditions of the most worst-case scenario for all components of interest rates determined in accordance with Interest rate evaluation technics (Capital at interest rate risk).

Information limit on sensitivity of the Capital to the general level of interest rates is set in the Group.

It also measures the sensitivity of annual net interest income to changes in the general level of interest rates as an additional method for interest rate risk evaluation.

An analysis of sensitivity of profit or loss and equity to changes in the interest rates based on a simplified scenario of a 1% parallel fall or rise in all yield curves and positions of interest bearing assets and liabilities existing as at 31 December 2017 and 31 December 2016, is as follows.

(in thousands of Russian Roubles)	**2017**	**2016**
Russian Rouble		
1% parallel fall	587 079	588 170
1% parallel rise	(577 277)	(592 709)
USD risk-free interest rate		
1% parallel fall	324 155	150 565
1% parallel rise	(333 459)	(156 611)
USD margin for geographical risk of the Russian Federation		
1% parallel fall	592 945	444 267
1% parallel rise	(602 250)	(450 313)
Euro risk-free interest rate		
1% parallel fall	329 060	308 820
1% parallel rise	(334 354)	(450 313)
Euro margin for geographical risk of the Russian Federation		
1% parallel fall	415 739	384 549
1% parallel rise	(421 034)	(388 682)
All currencies and components of interest rate		
1% parallel fall	1 506 897	1 322 628
1% parallel rise	(1 511 693)	(1 339 346)

31 Risk Management, Corporate Governance and Internal Control (continued)

Apart from above measures the Group calculates the potential effect of interest rate GAPs per annum that is a change in the present value of assets and liabilities of the Bank for the next year in case of change in the interest rates in accordance with expectations (the forecasted yield curve).

Commodity risk. The Group is exposed to open position risk with regard to commodity instruments due to movements in their quotations on commodity market.

The limits for items with breakdown by underlying assets are set based on liquidity and volatility of commodity market instruments evaluation.

Other price (equity) risk. The Group is exposed to open position risk with regard to equity instruments due to movements in their quotations on equity market.

The limits for particular issuers are set based on analysis of the credit quality of the security issuer and evaluation of liquidity and volatility of financial instruments. In addition to particular limits there is a cumulative limit for the amount of open equity positions.

If the risk becomes material the mitigation arrangements are determined by the Management Board of the Bank.

Liquidity risk. Liquidity risk arises when the maturities of assets and liabilities do not match. The Group is exposed to daily calls on its available cash resources from customer accounts, overnight deposits, current accounts, term deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivative instruments. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty.

The purpose of liquidity management is to create and maintain the structure of assets and liabilities of the Group by categories and maturities which will enable the Group to ensure timely payments of its obligations and meeting demands of the Group's customers. Liquidity management requires maintaining sufficient amount of liquid assets to be used in case of unforeseen circumstances. In accordance with the results of analysis of the macroeconomic conditions or the state of the banking market, as well as the general trends in the Group's activity, management may demand higher amounts of liquidity, if required.

The Group seeks to maintain a diversified and stable structure of funding sources. The Group invests the funds in diversified portfolios of liquid assets in order to be able to respond quickly and smoothly to unforeseen liquidity requirements. In spite of a substantial portion of customer accounts being on demand, diversification of these deposits by number and type of depositors, and past experience indicate that these customer accounts provide a long-term and stable source of funding.

The basis for managing short-term liquidity (less than three months) is making liquidity provisions sufficient not only for current standard activities but also to provide the Bank with the funds during a period of possible unplanned funds withdrawal caused by macroeconomic events or events directly associated with the Bank.

Liquidity management is regulated by an internal regulation for the Bank approved by the Supervisory Board. Group's management applies the following main instruments for liquidity management:

- Managing the volume and structure of the liquid assets portfolio. Management maintains a portfolio of liquid assets (including trading securities) that can be used for prompt and loss-free funding

- In certain cases management may impose restrictions on some transactions to regulate the structure of assets and liabilities of the Group. The limits are set when other instruments of liquidity management are insufficient in terms of extent and length of impact.

31 Risk Management, Corporate Governance and Internal Control (continued)

The Bank performs current liquidity management (for the period of up to seven days) on a daily basis. It is implemented based on statistical and chronological analysis of the balances of customer current accounts, forecasted customer deposits, movement of funds on accounts and analysis of the information on obligations and requirements of the Bank under term contracts in short-term periods. This analytical data serves as a basis for management of the Bank’s liquidity position.

Short-term (for the period of up to three months) liquidity monitoring ensures creation of an asset portfolio which may cover all needs of the current liquidity management within the planning time horizon as well as provide the Bank with the funds in case of possible client funds withdrawal. The parameters of possible funds withdrawal are set and reviewed periodically by the Asset and Liability Management Committee and the Management Board.

Long-term (over three months) liquidity monitoring is based on analysis of the Group’s liquidity gaps. The Group evaluates the liquidity gap through comparison of assets and liabilities by their terms. When attributing assets and liabilities to different term categories the Group takes into account both the contractual term and expected maturity and the statistical data on sustainability, and for securities it uses estimated disposal period without incurring losses. The Group regards equity as a long-term funding source and, therefore, accounts for it by the longest remaining maturity period. Results of assets and liabilities attribution by maturity and liquidity index calculation are performed in general report for all currencies and reports for each currency with total amount of assets or liabilities exceeded 5% of total balance. Bank’s regulations state minimum value of liquidity indexes.

When performing its operating activity the Bank also focuses on compliance with the requirements of the CBRF on maintaining sufficient liquidity ratios (instant liquidity ratio - N2, current liquidity ratio - N3, long-term liquidity ratio - N4).

According to the daily calculations, as at 31 December 2017 and 31 December 2016 the Bank complied with the liquidity ratios established by the CBRF.

Below is the IFRS liquidity position of the Group at 31 December 2017. The Group does not use the presented analysis by contractual maturity for liquidity management purposes. The following table shows assets and liabilities of the Group by their remaining contractual maturity, with the exception of financial instruments measured at fair value which changes are reflected in profit or loss for the period and investment securities available-for-sale, which are shown in the category “Demand and less than 1 month” and overdue loans and advances to customers, which are shown in the category “From 6 to 12 months”.

31 Risk Management, Corporate Governance and Internal Control (continued)

Below is the IFRS liquidity position of the Group at 31 December 2017.

(in thousands of Russian Roubles)	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years or no maturity	Total
Assets						
Cash and cash equivalents	39 198 510	-	-	-	-	39 198 510
Mandatory reserve deposits with the Central Bank of the Russian Federation	1 548 960	819 626	432 955	218 921	23	3 020 485
Trading securities	17 372 259	-	-	-	-	17 372 259
Securities pledged under sale and repurchase agreements and loaned	73 549 639	-	-	-	-	73 549 639
Reverse and sale repurchase agreements	59 007 257	8 801 836	-	-	-	67 809 093
Derivative financial assets	546 946	579 217	85 595	5 776	-	1 217 534
Due from banks	34 939 256	-	-	-	-	34 939 256
Loans and advances to customers						
- loans and advances to legal entities	3 921 662	63 689 231	45 554 483	123 285 117	8 788 349	245 238 842
- loans and advances to individuals	299 782	521 206	2 062 140	18 669 944	51 423 996	72 977 068
Investment securities available-for-sale	22 512 774	-	-	-	-	22 512 774
Investment property	-	-	-	-	8 102 997	8 102 997
Premises, equipment and intangible assets	-	-	-	-	14 670 596	14 670 596
Other assets	1 950 947	2 137 737	647 031	455 646	512 944	5 704 305
Long-term assets held-for-sale	-	-	546 013	-	-	546 013
Total assets	**254 847 992**	**76 548 853**	**49 328 217**	**142 635 404**	**83 498 905**	**606 859 371**
Liabilities						
Due to banks	139 788 773	7 342 682	598 898	1 194 110	267	148 924 730
Customer accounts	180 828 247	95 821 464	50 689 127	25 630 658	2 652	352 972 148
Financial liabilities at fair value	12 511 033	-	-	-	-	12 511 033
Derivative financial liabilities	928 056	690 770	38 961	3 564	-	1 661 351
Bonds issued	-	-	1 079 055	5 374 194	684 643	7 137 892
Promissory notes and deposit certificates issued	1 503 547	1 657 783	1 230 810	2 339 320	521 885	7 253 345
Other borrowed funds	-	437 513	-	1 466 231	-	1 903 744
Other liabilities	1 741 191	1 373 386	90 144	103 591	276 687	3 584 999
Total liabilities	**337 300 847**	**107 323 598**	**53 726 995**	**36 111 668**	**1 486 134**	**535 949 242**
Net liquidity gap	**(82 452 855)**	**(30 774 745)**	**(4 398 778)**	**106 523 736**	**82 012 771**	**70 910 129**
Cumulative liquidity gap as at 31 December 2017	**(82 452 855)**	**(113 227 600)**	**(117 626 378)**	**(11 102 642)**	**70 910 129**	

31 Risk Management, Corporate Governance and Internal Control (continued)

Below is the IFRS liquidity position of the Group at 31 December 2016.

In thousands of Russian Roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years or no maturity	Total
Assets						
Cash and cash equivalents	33 881 204	-	-	-	-	33 881 204
Mandatory reserve deposits with the Central Bank of the Russian Federation	1 762 109	850 960	429 984	177 731	19	3 220 803
Trading securities	17 126 047	-	-	-	-	17 126 047
Securities pledged under sale and repurchase agreements and loaned	61 800 246	-	-	-	-	61 800 246
Reverse sale and repurchase agreements	39 333 604	19 123 279	-	42 569	-	58 499 452
Derivative financial assets	1 875 171	3 653 475	9 297	32	-	5 537 975
Due from banks	1 652 715	28 613 834	3 105 209	-	-	33 371 758
Loans and advances to customers						
- loans and advances to legal entities	14 795 549	28 729 630	43 296 567	156 390 283	13 390 191	256 602 220
- loans and advances to individuals	423 798	664 072	2 384 238	16 285 632	38 351 105	58 108 845
Investment securities available-for-sale	26 477 508	-	-	-	-	26 477 508
Investment property	-	-	-	-	5 726 225	5 726 225
Premises, equipment and intangible assets	-	-	-	-	14 304 980	14 304 980
Other assets	2 019 526	938 373	786 430	799 101	9 842	4 553 272
Long-term assets held-for-sale	-	-	1 076 985	-	-	1 076 985
Total assets	**201 147 477**	**82 573 623**	**51 088 710**	**173 695 348**	**71 782 362**	**580 287 520**
Liabilities						
Due to banks	125 370 901	122 584	55 264	4 159 109	2 013 909	131 721 767
Customer accounts	191 398 389	92 487 031	46 733 035	19 316 797	9 616	349 944 868
Financial liabilities recognised at fair value	4 222 611	553	-	-	-	4 223 164
Derivative financial liabilities	2 278 179	616 954	33 886	733	-	2 929 752
Bonds issued	-	-	3 752 304	11 126 111	1 004 300	15 882 715
Promissory notes and deposit certificates issued	949 520	2 499 825	3 185 513	1 245 083	2 343	7 882 284
Other borrowed funds	-	311 906	313 358	1 878 879	-	2 504 143
Other liabilities	1 314 138	2 329 235	51 517	10 256	624 715	4 329 861
Total liabilities	**325 533 738**	**98 368 088**	**54 124 877**	**37 736 968**	**3 654 883**	**519 418 554**
Net liquidity gap	**(124 386 261)**	**(15 794 465)**	**(3 036 167)**	**135 958 380**	**68 127 479**	**60 868 966**
Cumulative liquidity gap as at 31 December 2017	**(124 386 261)**	**(140 180 726)**	**(143 216 893)**	**(7 258 513)**	**60 868 966**	

Group’s management believes that available undrawn credit lines of RR 84 477 000 thousand (2016: RR 108 178 000 thousand) in total and assessment of stability of customer accounts in unstable environment will fully cover the Group’s liquidity gap in the tables above.

31 Risk Management, Corporate Governance and Internal Control (continued)

In accordance with Russian legislation, individuals can withdraw their term deposits at any time, forfeiting in most of the cases the accrued interest. These deposits are classified in accordance with their contract maturity dates. The amounts of such deposits by contractual maturity as at 31 December 2017 and 31 December 2016 is as follows:

(in thousand of Russian Roubles)	**2017**	**2016**
Demand and less than 1 month	21 168 693	20 149 536
From 1 to 6 months	67 483 899	64 292 328
From 6 to 12 months	43 256 955	40 229 847
From 1 to 5 years	21 346 290	17 083 163
More than 5 years	252	935
Total term deposits of individuals	**153 256 089**	**141 755 809**

The main differences between liquidity tables prepared under IFRS by contractual maturity and presented above and the tables prepared by the Group for management purposes are as follows:

1. The total assets differ because the impairment allowance on loans and advances to customers recorded by the Group is presented on the liabilities side for management purposes, whereas for IFRS purposes loans and advances to customers are reduced by the allowance;
2. The Bank applies internal methods to determine the maturity of deposits on demand since these deposits are considered to be a long-term source of funding. Therefore, current accounts of legal entities and individuals have longer maturity periods in calculating liquidity for management purposes;
3. The Bank also applies internal methods to account for the trading securities portfolio that take into account market conditions and actual opportunities to sell and use assets as collateral.

The tables below show distribution of financial liabilities as at 31 December 2017 and 31 December 2016 by remaining contractual maturity. The amounts in the tables reflect contractual undiscounted cash flows and differ from the amounts in the consolidated statement of financial position which are based on discounted cash flows. The Bank does not use the presented analysis of undiscounted cash flows in its liquidity management.

31 Risk Management, Corporate Governance and Internal Control (continued)

As at 31 December 2017:

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Total**
Liabilities						
Non-derivative financial liabilities						
Due to banks	139 837 279	7 545 709	617 815	1 224 155	2 212	149 227 170
Customer accounts	180 971 958	97 346 557	52 893 154	27 564 389	3 764	358 779 822
Financial liabilities at fair value	12 511 033	-	-	-	-	12 511 033
Bonds issued	-	344 294	1 647 847	5 703 867	888 075	8 584 083
Promissory notes and deposit certificates issued	1 520 718	1 681 654	1 278 265	2 497 901	1 513 623	8 492 161
Other borrowed funds	833	486 775	48 298	1 560 246	-	2 096 152
Other financial liabilities	1 303 955	-	-	-	-	1 303 955
Derivative financial instruments						
- inflow	(301 315 398)	-	-	-	-	(301 315 398)
- outflow	301 624 794	-	-	-	-	301 624 794
Total future undiscounted cash flows	**336 455 172**	**107 404 989**	**56 485 379**	**38 550 558**	**2 407 674**	**541 303 772**

As at 31 December 2016:

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Total**
Liabilities						
Non-derivative financial liabilities						
Due to banks	125 600 329	127 336	61 760	4 312 060	2 500 727	132 602 212
Customer accounts	191 489 787	94 129 492	48 955 987	20 739 800	27 675	355 342 741
Financial liabilities at fair value	4 223 164	-	-	-	-	4 223 164
Bonds issued	173 490	803 248	4 647 450	14 401 912	1 085 804	21 111 904
Promissory notes and deposit certificates issued	1 049 107	2 520 288	3 264 571	1 293 976	3 421	8 131 363
Other borrowed funds	833	347 422	393 218	2 071 245	-	2 812 718
Other financial liabilities	759 612	-	-	-	-	759 612
Derivative financial instruments						
- inflow	(562 207 667)	-	-	-	-	(562 207 667)
- outflow	560 190 327	-	-	-	-	560 190 327
Total future undiscounted cash flows	**321 278 982**	**97 927 786**	**57 322 986**	**42 818 993**	**3 617 627**	**522 966 374**

Credit related commitments are disclosed in note 33.

31 Risk Management, Corporate Governance and Internal Control (continued)

Operational risk (also legal risk). The Group manages operational risk by mitigating it to the acceptable level through undertaking certain measures and actions to prevent events and conditions which may originate the risk, and by insuring those types of operational risks which cannot be managed.

In order to manage legal risk, the majority of banking operations are carried out with the use of standard forms of legal documents. In other cases, all non-standard forms are approved before their use in the process of the corresponding operations.

To prevent or liquidate in a timely manner the consequences of a potential interruption of the daily activity of the Group or its divisions in case of non-standard and emergency situations, internal documents have been developed that define a system of actions aimed to ensure the Group's business continuity and/or recovery in the event of such non-standard and emergency situations. To implement these actions, Bank’s reserve platforms with emergency workstations for critical business processes have been organised. Additionally, instructions have been developed for employees of the Group which define actions to be taken in different emergency situations.

32 Capital Management

The objectives when managing Group’s capital are (i) to comply with the capital requirements set by the CBRF, (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 of 8% based on the April 1998 Basel Prudential Requirements for Banks (Basel I), to comply with the capital requirements and capital adequacy ratio in accordance with financial covenants set in borrowing agreements signed by the Group.

Under the current capital requirements set by the CBRF the Group has to maintain a ratio of own funds (capital) to risk weighted assets (N. 20.0) of at least 8.0%, base capital adequacy ratio (N. 20.1) of at least 4.5%, core capital adequacy ratio (N. 20.2) of at least 6.0%. The Group has to maintain level additional to capital requirements set by the CBRF. In 2017 the Group had to comply with an additional level of 1.25% to all capital adequacy ratios as well as the countercyclical buffer calculated as the weighted average value of national countercyclical buffers set in all countries (including the Russian Federation) residents of which entered into transactions with the Group exposed to credit or market risk. As at 31 December 2017 countercyclical buffer was 0.0%. Base capital, core capital and own funds (capital) and capital adequacy ratios based on reports prepared by the Group under Russian statutory accounting standards are as follows:

(in thousands of Russian Roubles)	**2017 (unaudited)**	**2016 (unaudited)**
Total capital	70 700 153	68 153 409
Base capital	49 695 821	42 019 108
Core capital	49 695 821	42 019 108
Capital adequacy ratio (N.20.0)	14.14%	14.35%
Base capital adequacy ratio (N.20.1)	10.02%	8.91%
Core capital adequacy ratio (N.20.2)	10.02%	8.91%

The capital adequacy ratio set by the CBRF is managed by the Treasury Department through monitoring and forecasting its components.

Based on the calculations performed on a daily basis by the Accounting Department, management of the Group believes that as at 31 December 2017 and 31 December 2016 the capital adequacy ratio was not below the minimum requirement.

32 Capital Management (continued)

In September 2015 the Group attracted a subordinated loan from the “Deposit Insurance Agency” State Corporation in the form of federal loan bonds in the total nominal amount of RR 14 594 500 thousand. As at 31 December 2017, the fair value of these bonds is RR 16 831 166 thousand (2016: RR 16 588 599 thousand). The interest rate is the coupon rate on federal loan bonds plus 1% p.a. The loan maturity is from 2025 to 2034, depending on the terms of bond issue.

The Group is required to meet certain covenants attached to the subordinated loan from the “Deposit Insurance Agency” State Corporation. As at 31 December 2017 and 31 December 2016, the Group fully meets these covenants, with the exception of the level-of-the-payroll-of-other-employees indicator as at 31 December 2016. In the consolidated statement of comprehensive income for 2016 a reserve for potential penalty is RR 145 936 thousand.

(ii) Arrangements to safeguard the Group’s ability to continue as a going concern are performed under the Bank’s Strategic Development Plan and divided into long-term and short-term capital management.

In the long-term the Bank plans its business scope under strategic and financial plans developed along with identification of the risks and corresponding capital requirements for three years and one year, respectively. When the required amount of capital is defined the Bank determines the sources of its increase: borrowings on capital markets, share issue and approximate scope thereof. The target scope of business and the amount of capital, as well as the sources of the capital increase are approved collegially by the following management bodies in order of the established priority: the Asset and Liability Management Committee, the Management Board of the Bank, the Supervisory Board of the Bank.

In the short-term, with due account of the necessity to comply with the CBRF requirements, the Bank determines the capital surplus/deficit within the period from one to three months and develops the respective plan to increase assets. In some cases management uses administrative measures to influence the structure of assets and liabilities through interest rate policy, and in exceptional cases, through setting limits for certain active transactions. The limits are established when the economic instruments are insufficient in terms of timing and the extent of influence.

32 Capital Management (continued)

Below is the capital and capital adequacy ratio of the Bank calculated in accordance with Basel I:

(in thousand of Russian Roubles)	2017	2016
Capital	**88 977 228**	**81 625 399**
Tier 1	**65 880 561**	**55 255 332**
Paid-in share capital	3 781 734	3 721 734
Reserves and profit	61 382 961	51 533 598
Including:		
- Share premium	24 513 878	21 393 878
- Retained earnings	37 109 430	30 139 720
Minority interest	590 392	-
Goodwill	(114 873)	-
Tier 2	**23 096 669**	**26 370 067**
Revaluation reserve for premises and equipment	3 651 455	3 820 496
Revaluation reserve for investment securities available-for-sale	1 264 691	1 793 138
Subordinated loans	18 180 523	20 756 433
Risk weighted assets	**531 713 541**	**502 372 930**
Risk weighted banking assets	403 549 919	416 867 183
Risk weighted trading assets	90 933 600	52 505 588
Risk weighted unrecognised exposures	37 230 022	33 000 159
Total capital adequacy ratio	**16,73%**	**16,25%**
Tier 1 capital adequacy ratio	**12,39%**	**11,00%**

The Group was in compliance with the minimum capital adequacy ratio agreed with the creditors as at 31 December 2017 and 31 December 2016.

33 Contingencies, Commitments and Derivative Financial Instruments

Litigation. From time to time and in the normal course of business, third parties' claims against the Group are received. On the basis of its own estimates and internal professional advice, management of the Group is of the opinion that no material losses will be incurred by the Group in respect of known claims, except for one suit and accordingly loss provision in the amount of RR 133 108 thousand has been made in these consolidated financial statements within provision for credit and non-credit related commitments (note 22) as at 31 December 2017.

Tax legislation. Russian tax legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities.

The Russian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. In October 2010, the Supreme Arbitration Court issued guidance to lower courts on reviewing tax cases providing a systemic roadmap for anti-avoidance claims, and it is possible that this will significantly increase the level and frequency of scrutiny by tax authorities.

33 Contingencies, Commitments and Derivative Financial Instruments (continued)

As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover a longer period.

Management believes that its interpretation of the relevant legislation is appropriate and the tax, currency legislation and customs positions of the Group will be sustained. Accordingly, at 31 December 2017 and 31 December 2016 no provision for potential tax liabilities was recorded.

Capital expenditure commitments. As at 31 December 2017, the Group had no contractual capital expenditure commitments in respect of reconstruction and purchase of premises (2016: none).

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

(in thousands of Russian Roubles)	**2017**	**2016**
Less than 1 year	194 713	199 087
1 to 5 years	364 237	486 036
Total operating lease commitments	**558 950**	**685 123**

Compliance with covenants. The Group should observe certain covenants, primarily, relating to loan agreements with foreign and international financial institutions. Covenants include:

General conditions in relation to activity, such as business conduct and reasonable prudence, conformity with legal requirements of the country in which the Group is located, maintenance of accurate accounting records, implementation of controls, performance of independent audits, etc.;

Restrictive covenants, including constraints (without lender’s consent) in respect of dividend payments and other distributions, changes in the shareholder structure, limits on use of assets and some agreements;

Financial covenants, such as meeting certain capital adequacy requirements, credit portfolio diversification, limitation of risks associated with related and unrelated parties, the share of overdue balances in the credit portfolio, meeting certain requirements to the level of risk provisions, monitoring the expenditure patterns;

Reporting requirements, obliging the Group to provide its audited consolidated financial statements to the lender, as well as certain additional financial information and any other documents upon request.

Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default.

As at 31 December 2017 and 31 December 2016, management believes that the Group was in compliance with all covenants.

Credit and non-credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and 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 the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

33 Contingencies, Commitments and Derivative Financial Instruments (continued)

Commitments to extend credits represent unused portions of authorisations to extend credits in the form of loans. With respect to credit risk on commitments to extend credits, the Group is potentially exposed to credit risk as at the year end in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credits are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit related commitments because long-term commitments generally have a greater degree of credit risk than short-term commitments.

Outstanding credit and non-credit related commitments are as follows:

(in thousands of Russian Roubles)	**Note**	**2017**	**2016**
Guarantees issued (financial and non-financial)		36 829 325	33 397 221
Revocable undrawn credit lines		55 018 801	32 610 192
Import letters of credit		2 019 730	1 333 341
Allowance for impairment	22	(73 313)	(696 204)
Total credit and non-credit related commitments		**93 794 543**	**66 644 550**

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being disbursed. The maturities of credit related commitments depend on types of guarantees and undrawn credit lines and are mainly classified into category of "On demand and less than 1 month".

The following table provides information on collateral securing guarantees issued, net of allowance for credit losses, by types of collateral presented on the basis of excluding overcollateralisation at 31 December 2017 and 31 December 2016:

(in thousands of Russian Roubles)	**2017**	**2016**
Deposits	5 841 691	2 145 390
Promissory notes	1 094 994	2 047 586
Real estate	1 394 656	7 028 519
Movable property	947 941	605 293
Surety	6 994 703	4 043 682
Other collateral	296 830	249 121
No collateral	20 258 185	16 586 431
Total	**36 829 000**	**32 706 022**

Fiduciary assets. These assets are not included in the consolidated statement of financial position as they are not the Group's assets. Nominal values disclosed below are normally different from the fair values of the respective securities. In accordance with the common business practices no insurance cover is provided for these fiduciary assets.

33 Contingencies, Commitments and Derivative Financial Instruments (continued)

The fiduciary assets fall into the following categories:

(in thousands of Russian Roubles)	**2017 Nominal value**	**2016 Nominal value**
Corporate shares held in custody of:		
- National Depository Centre	1 262 338	565 663
- other registrars and depositories	942 733	940 547
- registers of share issuers		-
Municipal bonds held in custody of:		
- St. Petersburg Settlement and Depository Centre	58	58
- National Depository Centre	1 293	1 293
Bonds of the Russian Federation federal authorities held in custody of:		
- National Settlement Depository	2 000	-
Corporate bonds held in custody of:		
- National Depository Centre	598 239	585 148
- Other registrars and depositories	139	139
Eurobonds in USD held in custody of:		
- National Depository Centre	1 029 834	9 945
Eurobonds in Euro held in custody of:		
- National Depository Centre	169 550	200
Corporate shares held in custody of:		
- National Depository Centre	24 390	-

Derivative financial instruments. Currency derivative financial instruments have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in foreign exchange rates. The aggregate fair values of derivative financial instruments can fluctuate significantly from time to time.

The table below shows fair values, at the reporting date, of currencies receivable or payable under foreign exchange forwards and futures contracts, interest rate forward and futures contracts entered into by the Group. The table reflects contracts with settlement dates after the relevant reporting period. The amounts under these contracts are shown before the netting of any counterparty positions (and payments).

33 Contingencies, Commitments and Derivative Financial Instruments (continued)

(In thousands of Russian Roubles)	2017 Asset forwards	2017 Liability forwards	2016 Asset forwards	2016 Liability forwards
Foreign exchange forwards: fair values, at the reporting date, of				
- USD receivable on settlement (+)	40 274 214	113 571 689	38 243 025	243 786 661
- USD payable on settlement (-)	(102 342 998)	(21 893 757)	(212 108 312)	(22 030 571)
- Euro receivable on settlement (+)	26 880 796	10 164 623	31 133 108	5 656 871
- Euro payable on settlement (-)	(5 933 654)	(70 819 234)	(11 375 825)	(61 225 379)
- RR receivable on settlement (+)	82 501 233	13 790 643	200 921 450	26 838 103
- RR payable on settlement (-)	(40 631 004)	(42 984 555)	(41 099 941)	(198 507 589)
- Other currency receivable on settlement (+)	426 628	2 203	16 964	3 659 720
- Other currency payable on settlement (-)	(54 432)	(3 376 330)	(3 620 417)	(945 045)
Total on foreign exchange forwards	**1 120 783**	**(1 544 718)**	**2 110 052**	**(2 767 229)**

(in thousands of Russian Roubles)	2017 Asset futures	2017 Liability futures	2016 Asset futures	2016 Liability futures
Foreign exchange futures: fair values, at the reporting date, of				
- USD receivable on settlement (+)	46 533	45 737 146	6 391 200	49 422 554
- USD payable on settlement (-)	(55 161 894)	(7 722 767)	(67 979 915)	(19 057 368)
- Euro receivable on settlement (+)	1 383 734	10 362 525	9 274 957	15 972 927
- Euro payable on settlement (-)	(1 379 815)	(48 825)	(4 088 186)	(1 277 677)
- RR receivable on settlement (+)	56 571 525	7 701 012	72 432 604	20 324 962
- RR payable on settlement (-)	(1 403 635)	(56 114 628)	(15 434 297)	(65 725 930)
- Other currency receivable on settlement (+)	5 800	13 761	-	194 089
- Other currency payable on settlement (-)	(17 642)	(7)	(173 731)	(1 447)
Total on foreign exchange futures	**44 606**	**(71 783)**	**422 632**	**(147 890)**

(in thousands of Russian Roubles)	2017 Asset forwards	2017 Liability forwards	2016 Asset forwards	2016 Liability forwards
Interest rate forwards: fair values, at the reporting date, of				
- USD receivable on settlement (+)	-	-	7 592 552	-
- RR receivable on settlement (+)	381 157	633 500	46 425	176 292
- RR payable on settlement (-)	(362 402)	(662 261)	(4 640 397)	(185 916)
Total on interest rate forwards	**18 755**	**(28 761)**	**2 998 580**	**(9 624)**

33 Contingencies, Commitments and Derivative Financial Instruments (continued)

	2017		2016	
(in thousands of Russian Roubles)	**Asset options**	**Liability options**	**Asset options**	**Liability options**
Unlisted options: fair values, at the reporting date, of				
- RR transactions	78	(9 300)	6 711	(15)
- USD transactions	-	(49)	-	(4 968)
- Euro transactions	-	-	-	(26)
Total on unlisted options	**78**	**(9 349)**	**6 711**	**(5 009)**
Net fair value of derivative financial instruments	**1 184 222**	**(1 654 611)**	**5 537 975**	**(2 929 752)**

34 Fair value of Financial Instruments

Methods and assumptions used in measurement of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal market at the measurement date under current market conditions. The best evidence of fair value is price quotations in an active market.

The estimated fair values of financial instruments are determined using available market information, where it exists, and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management uses all available market information in estimating the fair value of financial instruments.

34 Fair Value of Financial Instruments (continued)

The fair value of instruments with floating interest rates usually equals their carrying value. The fair value of instruments with fixed interest rates and fixed maturity dates that do not have market prices is based on discounted cash flows using current interest rates for new instruments with similar credit risk and maturity date. For effective interest rates by currency for major debt financial instruments refer to section “Interest Rate Risk” in note 31.

The Group’s accounting policy on recognition of financial instruments carried at fair value is disclosed in note 3.

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

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument;

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

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

Management uses professional judgment for allocation of financial instruments between categories of the fair value evaluation hierarchy. If the observable data used for fair value evaluation require significant adjustments they are categorised as Level 3.

Due to banks and customers for refund of securities under sale and repurchase agreements received and sold by the Group are recognised at fair value.

34 Fair Value of Financial Instruments (continued)

The following table provides an analysis of financial instruments recognised at fair value by evaluation categories as at 31 December 2017:

In thousands of Russian Roubles	Level 1	Level 2	Level 3
FINANCIAL ASSETS			
Trading securities			
- Corporate bonds	9 346 958	506 762	-
- Corporate Eurobonds	5 996 183	-	-
- Corporate shares	1 246 102	-	-
- Municipal bonds	181 186	-	-
- Federal loan bonds	95 068	-	-
Securities pledged under sale and repurchase agreements and loaned			
- Corporate Eurobonds	36 983 402	-	-
- Corporate bonds	35 351 562	-	-
- Corporate shares	823 471	-	-
- Federal loan bonds	391 204	-	-
Investment securities available-for-sale			
- Corporate bonds	14 062 994	353 681	-
- Corporate Eurobonds	1 659 604	-	-
- Municipal bonds	5 422 023	61 375	-
- Federal loan bonds	151 410	-	-
- Equity securities	403 328	-	-
Derivative financial assets	-	1 217 534	-
TOTAL FINANCIAL ASSETS RECOGNISED AT FAIR VALUE	**112 114 495**	**2 139 352**	**-**
FINANCIAL LIABILITIES			
Financial liabilities at fair value	12 511 033	-	-
Derivative financial liabilities	-	1 661 351	-
TOTAL FINANCIAL LIABILITIES RECOGNISED AT FAIR VALUE	**12 511 033**	**1 661 351**	**-**

34 Fair Value of Financial Instruments (continued)

The following table provides an analysis of financial instruments recognised at fair value by evaluation categories as at 31 December 2016:

In thousands of Russian Roubles	Level 1	Level 2	Level 3
FINANCIAL ASSETS			
Trading securities			
- Corporate bonds	12 310 951	646 139	-
- Corporate Eurobonds	3 341 132	-	-
- Municipal bonds	496 343	-	-
- Corporate shares	290 136	-	-
- Federal loan bonds	41 346	-	-
Securities pledged under sale and repurchase agreements and loaned			
- Corporate Eurobonds	50 607 042	-	-
- Corporate bonds	10 646 923	-	-
- Federal loan bonds	351 669	-	-
- Corporate shares	194 612	-	-
Investment securities available-for-sale			
- Corporate bonds	19 670 342	3 502	-
- Corporate Eurobonds	3 269 715	-	-
- Municipal bonds	2 141 496	-	-
- Federal loan bonds	984 945	-	-
- Equity securities	292 075	-	-
Derivative financial assets	-	5 537 975	-
TOTAL FINANCIAL ASSETS RECOGNISED AT FAIR VALUE	**104 638 727**	**6 187 616**	**-**
FINANCIAL LIABILITIES			
Financial liabilities at fair value	4 223 164	-	-
Derivative financial liabilities	-	2 929 752	-
TOTAL FINANCIAL LIABILITIES RECOGNISED AT FAIR VALUE	**4 223 164**	**2 929 752**	**-**

34 Fair Value of Financial Instruments (continued)

The following table provides fair values of financial assets carried at amortised cost as at 31 December 2017 and 31 December 2016:

	2017		2016	
In thousands of Russian Roubles	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Financial assets carried at amortised cost				
Loans and advances to customers				
Loans to legal entities				
- loans to finance working capital	144 064 834	144 835 908	167 094 798	171 417 437
- investment loans	89 445 013	89 792 992	81 835 606	84 742 015
- loans to entities financed by government	11 728 995	11 589 626	7 671 816	7 983 925
Loans to individuals				
- mortgage loans	53 602 663	59 110 669	41 997 374	39 226 616
- car loans	2 063 886	2 108 660	1 660 426	1 551 668
- consumer loans to VIP clients	3 219 085	3 062 868	5 093 044	4 550 980
- other consumer loans	14 091 434	15 063 893	9 358 001	10 610 455
TOTAL	**318 215 910**	**325 564 616**	**314 711 065**	**320 083 096**

34 Fair Value of Financial Instruments (continued)

The following table provides fair values of financial liabilities carried at amortised cost as at 31 December 2017 and 31 December 2016:

	2017		2016	
In thousands of Russian Roubles	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Financial liabilities carried at amortised cost				
Customer accounts				
State and public organisations				
- Current/settlement accounts	171	171	8 372	8 372
Other legal entities				
- Current/settlement accounts	56 902 164	56 902 164	58 527 163	58 527 163
- Term deposits	90 482 623	90 668 708	87 481 283	87 529 303
- Reverse sale and repurchase agreements	-	-	16 508 702	16 508 702
Individuals				
- Current accounts/demand deposits	52 331 101	52 331 101	45 663 539	45 663 539
- Term deposits	153 256 089	156 738 055	141 755 809	144 778 449
Bonds issued				
- Subordinated Eurobonds	6 453 249	7 302 745	14 878 415	14 990 356
- Mortgage-secured bonds issued by the mortgage agent	684 643	709 270	1 004 300	998 300
Promissory notes and deposit certificates issued				
- Promissory notes	7 253 343	8 933 856	7 882 282	8 040 618
- Deposit certificates	2	2	2	2
Other borrowed funds				
- Subordinated loans	1 566 231	1 519 524	1 565 972	1 498 958
- AKA AFK	337 513	336 085	938 171	934 308
TOTAL	**369 267 129**	**375 441 681**	**376 214 010**	**379 478 070**

Trading securities, securities pledged under sale and repurchase agreements and loaned, investment securities available-for-sale, derivative financial instruments are recognised in the consolidated financial statements at fair value.

According to the Group estimates, fair values of financial assets and liabilities, except for those disclosed in the tables above, do not differ significantly from their carrying values.

Fair value hierarchy of financial assets and liabilities mentioned in table above is as follows: bonds issued – Level 1, promissory notes and deposit certificates issued – Level 2, customer accounts - Level 2, other borrowed funds – Level 3, loans and advances to customers – Level 3.

34 Fair Value of Financial Instruments (continued)

Loans and receivables carried at amortised cost. The fair value of instruments with floating interest rates usually equals their carrying value. If market situation significantly changes the interest rates on loans and advances to customers and loans to banks with fixed interest rate may be revised. Interest rates on loans to customers issued just before the reporting date do not significantly differ from current interest rates on new instruments with similar credit risk and maturity date. If interest rates on earlier issued loans, according to the Group estimates, significantly differ from current interest rates for similar instruments as at the reporting date, the Group determines estimated fair value for these loans. The estimate is based on discounted cash flows using current interest rates determined based on available market information for new instruments with similar credit risk and maturity date. Discounting rates depend on currency, maturity date and counterparty.

The following table provides analysis of interest rates on loans and advances to customers as at 31 December 2017 and 31 December 2016:

	2017	2016
Loans and advances to customers:		
Loans and advances to legal entities	1.25% - 13.18% p.a.	3.65% - 20.09% p.a.
Loans and advances to individuals	3.52% - 15.97% p.a.	2.79% - 21.95% p.a.

Financial liabilities carried at amortised cost. The estimated fair value of instruments with fixed interest rates and fixed maturity dates that do not have market prices is based on discounted cash flows using current interest rates determined based on available market information for new instruments with similar credit risk and maturity date. Discounting interest rates depend on currency, maturity date and as at 31 December 2017 ranged from 0.01% to 10.0% p.a. (2016: from 0.03% to 10.0% p.a.).

Estimated fair values of other financial assets, including trade receivables, taking into account their short-term nature, do not differ significantly from their amortised cost.

35 Related Party Transactions

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party, 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 economic substance of the relationship, not merely the legal form. The family of Mr. A.V. Savelyev, through its ownership of the Bank's shares and the option to purchase interest in the companies currently controlled by the members of the Bank's management (see note 1), is the majority ultimate beneficiary of the Bank.

Transactions are entered into in the normal course of business with shareholders, Group's management and other related parties.

35 Related Party Transactions (continued)

As at 31 December 2017, the outstanding balances with related parties are as follows:

In thousands of Russian Roubles	**Shareholders**	**Key management personnel**	**Other related parties**
Loans and advances to customers (contractual interest rates 3.00%–24.90% p.a.)	606	54 623	-
Impairment allowance for loans and advances to customers	(1)	(270)	-
Customer accounts (contractual interest rates 0.01% - 12.40% p.a.)	2 881 368	1 496 803	692 211

The income and expense items with related parties, other than compensation to the members of the Supervisory Board and the Management Board of the Bank, for the year ended 31 December 2017 are as follows:

In thousands of Russian Roubles	**Shareholders**	**Key management personnel**	**Other related parties**
Interest income	9	8 740	9 091
Interest expense	(161 356)	(78 868)	(21 768)
(Charge) recovery of allowance for loan impairment	(1)	(54)	23 330
Fee and commission income	119	1 062	1 354

Aggregate amounts lent to and repaid by related parties during 2017 are:

In thousands of Russian Roubles	**Shareholders**	**Key management personnel**	**Other related parties**
Amounts lent to related parties during the year	4 690	134 999	8
Amounts repaid by related parties during the year	4 128	169 260	116 657

As at 31 December 2016, the outstanding balances with related parties are as follows:

In thousands of Russian Roubles	**Shareholders**	**Key management personnel**	**Other related parties**
Loans and advances to customers (contractual interest rates: 2.00%–27.00% p.a.)	44	88 884	116 649
Impairment allowance for loans and advances to customers	-	(216)	(23 330)
Customer accounts (contractual interest rates: 0.01%-12.40% p.a.)	2 918 979	1 571 052	162 552

35 Related Party Transactions (continued)

The income and expense items with related parties, other than compensation to the members of the Supervisory Board and the Management Board of the Bank, for the year ended 31 December 2016 are as follows:

In thousands of Russian Roubles	**Shareholders**	**Key management personnel**	**Other related parties**
Interest income	11	9 893	13 473
Interest expense	(148 159)	(91 402)	(21 299)
Recovery (charge) of allowance for loan impairment	1	(111)	1 289
Fee and commission income	212	1 063	2 633

Aggregate amounts lent to and repaid by related parties during 2016 are:

In thousands of Russian Roubles	**Shareholders**	**Key management personnel**	**Other related parties**
Amounts lent to related parties during the year	427	155 177	100
Amounts repaid by related parties during the year	628	122 506	29 883

In 2017, total remuneration of members of the Supervisory Board and the Management Board of the Bank, including pension contributions and discretionary bonuses, amounts to RR 680 108 thousand (2016: RR 486 175 thousand).

36 Consolidation of companies

The Group's consolidated financial statements include the following subsidiaries:

Name	**Country of incorporation**	Ownership, % **31 December 2017**	**31 December 2016**	**Principal activities**
LLC BSPB Trading	Russian Federation	100%	100%	Operations on financial market
LLC BSPB Capital	Russian Federation	100%	100%	Securities management
4th Nevsky Real Estate Fund, Real Estate CEIF	Russian Federation	100%	100%	Real estate investment
10th Nevsky Real Estate Fund, Real Estate CEIF	Russian Federation	100%	100%	Real estate investment
13th Nevsky Fund, Combined CEIF	Russian Federation	100%	-	Direct investment
Venture Project, Investment CEIF	Russian Federation	100%	-	Direct and venture capital investment
BSPB CAPITAL VPF L.P.	Jersey, Channel Islands	100%	-	Direct and venture capital investment

36 Consolidation of companies (continued)

In accordance with the resolution of its sole member dated 28 June 2017, LLC Nevskaya Upravlyayushchaya Kompaniya was renamed to LLC BSPB Capital.

LLC BSPB Capital is an entity specialised in asset management. The Bank uses this entity to expand the portfolio of investment products, including trust management of customers' assets.

4th Nevsky Real Estate Fund, Real Estate CEIF, 10th Nevsky Real Estate Fund, Real Estate CEIF and 13th Nevsky Fund, Combined CEIF, are specialising in real estate management and other assets to increase their value.

Venture Project, Investment CEIF, is a fund established for investing in ventures.

BSPB CAPITAL VPF L.P operates as an investor, sells, exchanges and distributes investments in accordance with the investment policy under management of BSPB Capital GP Ltd.

The Bank uses BSPB Finance plc, a structured entity, for issue of bonds on the international capital market (refer to note 19).

BSPB Finance plc is the issuer of a structured debt – loan participation notes issued solely to finance loans to the Bank. Loan participation notes represent secured debt, where the issuer pledges all amounts received and/or receivable under loan agreements with the Bank. The Bank compensates the issuer for all one-off and current expenses related to issuance and servicing of the loans.

The Bank uses "MA BSPB" LLC, a structured entity, under the securitisation programme sponsored by the Group. "MA BSPB" LLC operates in accordance with pre-determined criteria that are part of the initial structure of the company (refer to note 11).

"MA BSPB" LLC sponsored by the Group under its securitisation programme is run according to pre-determined criteria that are part of the initial structure of the company. Outside of the day-to-day servicing of the mortgage loans (which is carried out by the Group under a servicing contract), key decisions are required only when mortgage loans go into default, and it is the Group that makes those decisions. In addition, the Group is exposed to a variability of returns from the "MA BSPB" LLC through provision of credit line, contractual obligation to sell default mortgage loans to the Bank and Bank's holding of debt securities issued by this company. As a result, the Group concluded that it controls the company and its financial statements have been included in consolidated financial statements as at 31 December 2017 and 2016.

During 2017, the Group, acting through Venture Project, Investment CEIF, purchased 51% of the shares in JSC "Cargo Terminal Pulkovo" for cash consideration of RR 595 500 thousand. Fair value of net assets attributable to the Bank's shareholders made up RR 480 627 thousand at the acquisition date.

37 Events after the reporting period

In February 2018, the subordinated loan was repaid according to the schedule in the amount of RR 100 000 thousands. As at 31 December 2017, carrying amount of the subordinated loan was RR 100 000 thousand (2016: RR 100 000 thousand). This subordinated loan was attracted at fixed interest rate of 10.0% p.a.

A.V. Savelyev
Chairman of the Management Board

N.G. Tomilina
Chief Accountant