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Bank ICBC (joint-stock company)

IFRS Financial Statements and Independent Auditor's Report

for the period ended December 31, 2017

Moscow | 2018

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Independent Auditor's Report [Translation from Russian original]

To the Shareholder

of Bank ICBC (JSC)

Opinion

We have audited the accompanying annual financial statements of Bank ICBC (joint-stock company) (hereinafter - Bank ICBC (JSC), the Bank), which comprise the statement of financial position as at December 31, 2017 and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the annual financial statements comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the annual financial statements present fairly, in all material respects, the financial position of Bank ICBC (JSC) as at January 1, 2018, its financial performance and its cash flows for 2017 in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Annual Financial Statements* section of our report. We are independent of the audited entity in accordance with the Rules of Independence of the Auditors and Audit Organizations and The Code of Professional Ethics of the Auditors, which are in accordance with 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 these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

In preparing the annual financial statements, management is responsible for assessing the entity'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 entity or to cease operations, or has no realistic alternative but to do so.

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Auditor's report

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

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Auditor's Responsibilities for the Audit of the Annual Financial Statements

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

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

a) identify and assess the risks of material misstatement of the annual 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;

b) 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 audited entity's internal control;

c) evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management of the audited entity;

d) 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 audited entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the audited entity to cease its ability to continue as a going concern;

e) evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Report on audit according to the requirements of Federal Law No. 395-I dated December 2, 1990 "On banks and banking activities"

Management of Bank ICBC (JSC) is responsible for compliance by the Bank with the mandatory requirements set by the Bank of Russia as well as for internal control and organization of risk management systems of the Bank to meet the requirements set by the Bank of Russia to the systems like this.

According to Article 42 of Federal Law No. 395-I dated December 2, 1990 "On banks and banking activities" during the audit of the annual financial statements for 2017 we verified whether:

- Bank ICBC (JSC) was in compliance with the mandatory requirements set by the Bank of Russia as at January 1, 2018;
- internal control and organization of risk management systems of Bank ICBC (JSC) were in compliance with the requirements set by the Bank of Russia to the systems like this.

The said audit was limited to such procedures selected based on our judgement as requests, analysis, document examination, comparison of requirements, order and methodologies approved by Bank ICBC (JSC) with the ones set by the Bank of Russia as well as restatement and comparison of amounts and other information.

The audit has established the following:

1) as for meeting the mandatory requirements set by the Bank of Russia:

- values of the Bank's mandatory ratios set by the Central Bank of Russia as of January 1, 2018 were within the limits set by the Central Bank of Russia.

We did not conduct any procedures as to accounting records of the Bank other than procedures we believed were necessary for the purpose of expressing our opinion on whether the annual financial statements of ICBC (JSC) presented fairly, in all material respects, its financial position as of January 1, 2018, financial performance and cash flows for 2017 in accordance with International Financial Reporting Standards;

2) internal control and organization of risk management systems of Bank ICBC (JSC) were in compliance with the requirements set by the Bank of Russia to the systems like this:

a) in accordance with the requirements and recommendations of the Bank of Russia as at January 1, 2018 the internal audit service of the Bank reported to the Bank's Board of Directors, the risk management departments of the Bank did not report to the departments assuming the respective risks, the chiefs of the internal audit service and the risk management departments of the Bank meet the qualifications set by the Bank of Russia;

b) as at January 1, 2018 the effective internal documents of the Bank indicating the methodologies for identification and management of credit, operational, market, interest rate, legal, liquidity and goodwill risks relevant for the Bank were approved by the Board of Directors of the Bank in accordance with the requirements and recommendations of the Bank of the Russia, methodologies for stress-testing were approved by the Management Board of the Bank;

c) as at January 1, 2018 the Bank had the reporting system for credit, operational, market, interest rate, legal, liquidity and goodwill risks relevant for the Bank as well as for the equity of Bank ICBC (JSC);

d) frequency and order of reports prepared by the risk management departments and the internal audit service of the Bank during 2017 as to management of credit, operational, market, interest rate, legal, liquidity and goodwill risks of the Bank were in compliance with the Bank's internal documents; the said reports comprised the results of observation of efficiency measurement of the Bank's respective methodologies conducted by the Bank's risk management departments and the internal audit service as well as recommendations to improve them;

e) as at January 1, 2018 the powers of the Board of Directors of Bank ICBC (JSC) and its executive bodies comprised control over the Bank's compliance with risk limits and capital adequacy set by the Bank's internal documents. For the purpose of control over efficiency of risk management procedures applied in the Bank and order of their application during 2017 the Board of the Directors of the Bank and its executive bodies discussed on a regular basis reports prepared by the risk management departments and the internal audit service, and dealt with the offered measures to remove defects.

The procedures in respect of internal control and organization of risk management systems of Bank ICBC (JSC) have been conducted only to verify whether internal control and organization of risk management systems of the Bank are in compliance with the requirements set by the Bank of Russia to the systems like this.

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Auditor's report

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President of FBK, LLC

S.M. Shapiguzov
~~on the basis of Charter~~
audit qualification certificate 01-001230, primary registration number of entry 21606043397

Engagement partner

N.P. Mushkarina
audit qualification certificate 01-000988 dated November 19, 2012, primary registration number of entry 21606041880

Date of Independent Auditor's Report:
April 24, 2018

Audited entity

Name:

Bank ICBC (joint-stock company)

Place of business:

29 Serebryanicheskaya naberezhnaya, Moscow, 109028, Russian Federation

Official registration:

Registered by the Central Bank of the Russian Federation on August 30, 2007, registration number 3475.

The registration entry was made in the Unified State Register of Legal Entities on August 30, 2007 under primary state registration number (OGRN) 1077711000157.

Auditor

Name:

FBK, LLC

Place of business:

44/1, 2AB, Myasnitskaya St, Moscow, 101990, Russian Federation.

Official registration:

State Registration Certificate series ЮЗ 3 No. 484.583 РП issued by Moscow Registration Chamber on November 15, 1993. The registration entry was made in the Unified State Register of Legal Entities on July 24, 2002 under primary state registration number (OGRN) 1027700058286.

Membership in self-regulatory organization of auditors:

Self-regulatory organization of auditors Association "Sodruzhestvo".

Number in the register of self-regulatory organization of auditors:

Certificate of membership in the self-regulatory organization of auditors Association "Sodruzhestvo" No. 7198, number in the register – 11506030481.

Limited liability company
FBK
Auditor's report
OGRN 1027700058286 Moscow

Statement of Comprehensive Income

	Note	2017	2016
Interest income	5	2 328 881	2 836 647
Interest expense	5	(583 357)	(629 729)
Net interest expense / (income)		**1 745 524**	**2 206 918**
Change in provision for impairment of interest bearing assets	6	(78 631)	12 663
Net interest income / (expense) after change in provision for impairment		**1 666 893**	**2 219 581**
Income less expenses from transactions with financial assets / liabilities		13 894	(700)
Income less expenses from transactions with foreign currencies and derivative financial instruments		(656 976)	168 392
Income less expense from foreign currency revaluation		1 051 299	11 470
Fee and commission income	7	70 214	75 639
Fee and commission expense	7	(13 886)	(6 665)
Change in other provisions and change in estimated liabilities	6	6 109	(4 379)
Other operating income	8	2 934	7 660
Operating expenses	9	**(767 210)**	**(685 696)**
Profit / (Loss) before taxes		**1 373 271**	**1 786 002**
Current income tax (expense) / recovery	10	(269 954)	(560 406)
NET PROFIT / (LOSS)		**1 103 317**	**1 225 596**
COMPREHENSIVE INCOME		**1 103 317**	**1 225 596**

Approved for release and signed on behalf of the Board of the Bank on April 24, 2018

President Li Wencong

Chief Accountant Natalia Viktorovna Kuz'mina

АйСиБиСи Банк (акционерное общество) Bank ICBC (joint stock company) МОСКВА

Notes on pages 12 to 53 form an integral part of these financial statements.

Limited liability company FBK Auditor's report OGRN 1027700058286 Moscow "Accountants and business advisors"

Statement of Financial Position

	Note	2017	2016
ASSETS			
Cash and cash equivalents	13	5 065 108	9 471 615
Mandatory cash balances with the Bank of Russia		1 165 758	776 622
Financial assets at fair value through profit or loss		-	2 989
Due from financial institutions	14	19 158 681	24 455 692
Loans and advances to customers	15	17 644 285	13 387 306
Held-to-maturity financial assets	16	5 096 543	1 719 039
Property and equipment and intangible assets	17	109 802	60 449
Other assets	18	93 564	60 892
Total assets		**48 333 741**	**49 934 604**
LIABILITIES			
Due to financial institutions	19	10 081 619	16 663 898
Customer accounts	20	21 602 029	24 497 440
Other liabilities	21	127 376	105 919
Subordinated loans	22	2 894 063	3 045 776
Total liabilities		**34 705 087**	**44 313 033**
EQUITY			
Share capital and share premium	23	10 809 500	2 309 500
Retained profit / (Accumulated deficit)	24	2 819 154	3 312 071
Total equity		**13 628 654**	**5 621 571**
Total liabilities and equity		**48 333 741**	**49 934 604**

Approved for release and signed on behalf of the Board of the Bank on April 24, 2018

President — Li Wencong

Chief Accountant — Natalia Viktorovna Kuz'mina

АйСиБиСи Банк (акционерное общество) Bank ICBC (joint stock company) МОСКВА

Notes on pages 12 to 53 form an integral part of these financial statements.

Limited liability company FBK Auditor's report

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Statement of Changes in Equity

	Note	Share capital and share premium	Shares repurchased	Share premium	Available-for-sale financial asset revaluation reserve at fair value	Property and equipment revaluation reserve	Retained profit (Accumulated deficit)	Total equity
Balance as at January 01, 2016		**2 309 500**	**-**	**-**	**-**	**-**	**2 086 475**	**4 395 975**
Comprehensive income for the year ended December 31, 2016 net of tax	24	-	-	-	-	-	1 225 596	1 225 596
Balance as at December 31, 2016		**2 309 500**	**-**	**-**	**-**	**-**	**3 312 071**	**5 621 571**
Comprehensive income for the year ended December 31, 2017 net of tax	24		-	-	-	-	1 103 317	1 103 317
Transactions with shareholders								
Issue of shares	23	8 500 000	-	-	-	-	-	8 500 000
Dividends paid	12	-	-	-	-	-	(1 596 234)	(1 596 234)
Balance as at December 31, 2017		**10 809 500**	**-**	**-**	**-**	**-**	**2 819 154**	**13 628 654**

Approved for release and signed on behalf of the Board of the Bank on April 24, 2018

President — Li Wencong

Chief Accountant — Natalia Viktorovna Kuz'mina

Notes on pages 12 to 53 form an integral part of these financial statements.

Statement of Cash Flows

	Note	2017	2016
Operating cash flow			
Interest received		2 154 163	2 995 928
Interest paid		(488 884)	(550 465)
Fees and commissions received		70 214	75 639
Fees and commissions paid		(13 886)	(6 665)
Income / (expenses) from transactions with financial assets at fair value through profit or loss, available for sale		16 883	-
Income / (expense) from foreign currency transactions		(656 976)	66 252
Other operating income		2 934	7 533
Operating expense paid		(726 589)	(678 288)
Income tax (expense) / recovery		(282 199)	(346 317)
Cash flow from / (used in) operating activity before changes in operating assets and liabilities		**75 660**	**1 563 617**
Net (increase) / decrease in mandatory cash balances with the Bank of Russia		(389 136)	(386 064)
Net (increase) / decrease of financial assets at fair value through profit or loss		-	(2 989)
Net (increase) / decrease in due from financial institutions		5 163 600	2 188 694
Net (increase) / decrease in loans and advances to customers		(4 178 599)	(254 651)
Net (increase) / decrease in other assets		(34 900)	131 305
Net increase / (decrease) in due to financial institutions		(6 662 699)	2 000 851
Net increase / (decrease) in customer accounts		(2 895 411)	(16 346 105)
Net increase / (decrease) in other liabilities		22 091	43 043
Net cash flow from / (used in) operating activity		**(8 899 394)**	**(11 062 299)**
Investment cash flow			
Acquisition of held-to-maturity financial assets		(3 891 529)	21 340
Sales revenue from held-to-maturity financial assets		681 307	102 140
Acquisition of property and equipment		(70 026)	(54 358)
Gain from realisation of property and equipment		-	127
Net cash flow from / (used in) investment activity		**(3 280 248)**	**69 249**
Financial cash flow			
Issue of common shares (contributions of members to the share capital)		8 500 000	-
Change in subordinated loans		(151 713)	12 931
Dividends paid		(1 596 234)	
Net cash flow from / (used in) financial activity		**6 752 053**	**12 931**
Effect of changes in exchange rate on cash and cash equivalents		1 035 135	(726 591)
Net increase in cash and cash equivalents		**(4 406 507)**	**(11 706 710)**
Cash and cash equivalents at the beginning of the reporting period	13	9 471 615	21 178 325
Cash and cash equivalents at the end of the reporting period	**13**	**5 065 108**	**9 471 615**

Approved for release and signed on behalf of the Board of the Bank on April 24, 2018

АйСиБиСи Банк (акционерное общество) Bank ICBC (joint stock company) МОСКВА

President — Li Wencong

Chief accountant — Natalia Viktorovna Kuz'mina

Notes on pages 12 to 53 form an integral part of these financial statements.

Limited liability company FBK Auditor's report OGRN 1027700058286 Moscow

Notes to the Financial Statements

1 Principal activity

Bank ICBC (joint-stock company) (hereinafter referred to as the Bank) was established in 2007.

The Bank's sole shareholders is: Industrial and Commercial Bank of China Limited

Owners (shareholders) of the Bank are presented in the table below:

Owner (shareholder)	December 31, 2017	December 31, 2016
Industrial and Commercial Bank of China Limited	100.00%	100.00%
Total	**100.00%**	**100.00%**

The Bank holds the following licenses issued by the Central Bank of the Russian Federation (the Bank of Russia):

- Banking license No. 3475 issued on September 01, 2015;

The Bank also has licenses issued by the Federal Financial Markets Service to carry out the following types of activities as a professional securities market participant.

- Brokerage activities, license No. 045-13990-100000 issued on August 18, 2016;
- Depositary activities, license No. 045-13992-000100 issued on August 18, 2016;
- Dealer's activities, license No. 045-13991-010000 issued on August 18, 2016.

The Bank is a participant to the deposit insurance system, certificate No. 1009 dated November 17, 2016.

Principal banking transactions of the Bank are as follows:

Attracting legal entities and individuals funds into deposits (on demand and for a specific term); placement of raised funds of legal entities and individuals on its behalf and at its own expense; opening and operating bank accounts of legal entities and individuals; making settlements by order of legal entities and individuals including correspondent banks on their bank accounts; collection of cash and settlement documents, cash servicing of individuals and legal entities; sale and purchase of foreign currencies in cash and non-cash; issue of bank guarantees; money transfer by order of individuals without opening bank accounts (except for postal transfer), carrying out professional activities at the securities market.

The Chairman of the Board of Directors / Supervisory Board is Cui Liang.

The Bank performing operations in the Russian Federation includes: a) Bank ICBC (joint-stock company) branch in Saint Petersburg located at 12-14, litera A, Khersonskaya Str., St. Petersburg, 191024, Russian Federation; b) GREENWOOD supplementary office of Bank ICBC (joint-stock company) located at building 17, Greenwood CJSC Office and Public Complex, 69th km of MKAD, Putilkovo settlement, Krasnogorsky District, Moscow Region, 143441, Russian Federation.

The Bank's principal place of business is Moscow, Russia. In 2017, the average number of employees was 142 persons (118 persons in 2016).

2 Economic environment in which the Bank operates

The Bank primarily operates in the Russian Federation.

During 2017, the Russian economy flattened out, and the inflationary pressure decreased. The annual inflation was 3% to 4%; and the GDP annual growth rate was 1.8%. The main factor for the GDP growth during 2017 was an active consumer market growth. The growth of fixed capital investments slowed down, which had a negative effect on the dynamics of production and real economy sector development in general.

The Russian banking sector made profit according to the results of 2017. The banking system's assets increased by 5.1% due to the growth of lending to non-bank institutions and individuals. The growth rate of the population's investment in bank deposits was generally in line with the income behaviour in the economy. In this case, short-term Russian ruble deposits grew faster, which was due to the convergence of interest rates on short-term and long-term deposits on the back of a decrease in the key interest of the Bank of Russia. The situation on the Russian stock markets changed for the worse. RTS index reduced by 1.3% at the end of 2017, while MOEX index decreased by 7%.

The international rating agencies improved their outlooks on sovereign credit ratings of the Russian Federation. In February 2017, Moody's changed its outlook to stable from negative keeping Ba1 rating. In March 2017, Standard&Poor's changed its outlook to positive from stable keeping BB+ rating.

Russian and foreign legal entities are counteragents of the Bank. The Bank's management regularly evaluates the economic development of Russia and takes actions to prevent any material effect from the negative factors on the Bank's operations. Taking into account all specific features of the economic development, the Bank's management timely plans its operating process subject to available outlooks.

3 Basis of financial statements preparation

The Bank's financial statements are drawn up in compliance with the International Financial Reporting Standards (IFRS), including all previously approved IFRS and Interpretations of the Standing Interpretations Committee and International Financial Reporting Standards Interpretations Committee. The Bank keeps books and draws up accounting statements in accordance with the legislation of the Russian Federation and regulatory enactments of the Bank of Russia. These financial statements are prepared on the basis of the accounting statements subject to adjustments and reclassification of the items necessary to bring them in compliance with IFRS. The accounting principles used in preparation of these consolidated financial statements are set out below. These principles were consistently applied to all periods presented in the statements, unless otherwise stated.

The Bank keeps books in the currency of the Russian Federation and makes accounting records in compliance with the requirements of banking laws of the Russian Federation. These financial statements are prepared on the basis of these accounting records and adjusted to bring them in compliance with all material aspects of IFRS.

The Bank prepared these financial statements based on going concern principle. See Note "Influence of estimates and assumptions on recognised assets and liabilities"

The financial statements are presented in the currency of the Russian Federation (Russian ruble), which is the Bank's functional currency and the presentation currency. Unless otherwise indicated, all figures in the financial statements are presented in thousands of Russian rubles.

The applied accounting policy complies with that used in the previous financial year, except for application by the Bank of new revised standards mandatory for annual periods beginning from January 1, 2017.

New and revised standards and interpretations which are now applied to the Bank's activities and their impact on the Bank's accounting policy are set out below. All changes in the accounting policy, if required, have been implemented retrospectively unless otherwise indicated.

IAS 7 "Statement of Cash Flows" (initiative amendment in regard to information disclosure). The amendments require that companies provide reconciliation of balances as at the beginning and as at the end of the period with regard to each item that is or will be classified as financial activities in the statement of cash flows (i.e. borrowings, lease liabilities). Application of these amendments did not have influence on the Bank's financial statements.

IAS 12 "Income Taxes" (Amendment — Recognition of Deferred Tax Assets for Unrealised Losses). The amendment to IAS 12 "Income Taxes" clarifies accounting of deferred tax assets related to debt instruments at fair value, which are not considered as impaired (for example, investments in fixed rate bonds, which fair value decreased due to the changes in interest rates, but such asset is not considered as impaired). In particular, it clarifies that deferred taxes should be recognised for deductible temporary differences arising from unrealised losses on debt instruments at fair value if all other criteria for recognition of deferred taxes are met, regardless of whether it is planned to reimburse the value of a financial instrument by its sale or holding to the end of maturity. Application of these amendments did not have influence on the Bank's financial statements.

Annual Improvements to IFRS Standards 2014–2016 Cycle (IFRS 12 "Disclosure of Interests in Other Entities"). The amendment specifies that interests in other entities also apply to interests classified as held for sale, allocation to owners, or discontinued operations. Application of these amendments did not have influence on the Bank's financial statements.

New and revised standards and interpretations issued but not yet effective are listed below.

The below standards, interpretations, and amendments not yet effective or early applied in these financial statements will or may have effect on the Bank's subsequent financial statements.

IFRS 15 "Revenue from Contracts with Customers" (applies to annual periods beginning on or after January 01, 2018). IFRS 15 is a consolidated standard for revenue recognition. It supersedes IAS 18 "Revenue", IAS 11 "Construction Contracts", and applicable Interpretations.

The objective of IFRS 15 is to clarify revenue recognition principles. It means that non-conformities and identified defects are eliminated and comparability of revenue recognition practices among companies, industries, and capital markets is improved. For these purposes, IFRS 15 represents a single revenue recognition model. The core principle of the model is that revenue is recognised in an amount that reflects the consideration, to which an entity expects to be entitled in exchange for transfer of goods or services to customers. For that end, IFRS requires that the following 5 steps be applied:

1. Identification of a contract with a customer
2. Identification of obligations under the contract
3. Determination of the transaction price
4. Allocation of the transaction price to the obligations under the contract
5. Recognition of revenue, when the entity performs the obligations under the contract

In addition, the requirements to qualitative and quantitative information disclosures with regard to revenue are made far more extensive. The key objective is to disclose sufficient information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. In order to ensure it, IFRS 15 requires certain disclosures with regard to a contract with a customer and assumed significant judgements. The Bank plans to adopt this new standard as at its corresponding effective date.

IFRS 9 "Financial Instruments" (applies to annual periods beginning on or after January 01, 2018). The final version of IFRS 9 supersedes most guidelines in IAS 39 and all previous versions of IFRS 9. The standard includes final requirements for all three project stages in financial instruments: classification and measurement, impairment, and hedge accounting.

IFRS 9 determines 3 main categories of financial assets: accounted at amortised cost, accounted at fair value through other comprehensive income and at fair value through profit or loss. Its classification is based on the entity's business model and characteristics of contractual cash flows of financial assets. Investments in equity instruments should be measured at fair value through profit or loss with an (uncancellable) option, at the beginning of the relations, to present changes in the fair value through other comprehensive income. A material change, which will affect all companies, is using an "expected loss" impairment model in IFRS 9, which will replace an "incurred loss" model used in IAS 39.

In accordance with IFRS 9, an impairment model is more focused on future events, since no loan event (or impairment indicator) is required for recognition of loan losses.

Most requirements to financial liabilities remain unchanged, except for recognition of changes in the fair value of financial liabilities measured at fair value through profit or loss, which relate to a change in the entity's own credit risk; such changes should be recognised directly within other comprehensive income.

New requirements to hedge accounting are more based on the principles, less complex, and more closely relate to the entity's risk and treasury management than IAS 39 requirements. The Group / Bank plans to adopt this new standard as at its corresponding effective date.

As at the signing date of the financial statements, the Bank did not complete assessment of the effect from introduction of IFRS 9.

IFRS 16 "Leases" (applies to annual periods beginning on or after January 01, 2019). IFRS 16 was issued in January 2016. It contains a single accounting model for a lessee, which removes separation into operating and finance leases in view of a lessee. All contracts meeting the definition of lease, except for short-term lease and lease of low-value items, for which a lessee is entitled not to apply IFRS 16 requirements to measurement and classification, will be accounted in a statement of financial position as a "right to use asset" and its corresponding liability. Such asset is further accounted as a fixed asset or investment property, and such liability is written off using an interest rate prescribed in a lease contract. The requirements to accounting by lessors remain nearly unchanged as against previous IAS 17 requirements.

IFRS 17 "Insurance Contracts" (applies to annual periods beginning on or after January 01, 2021). The new standard establishes the principles for recognition, measurement, presentation, and disclosure of insurance contracts and supersedes IFRS 4 "Insurance Contracts". This standard stipulates use of a common model modified pursuant to insurance contracts with direct participation features described as contracts with a variable insurance benefit.

The common model is presented in a simplified form subject to certain criteria by evaluating liabilities for remaining insurance coverage using the insurance premium allocation approach. The common model will use current assumptions to evaluate an amount, timing, and uncertainty of future cash flows and will separately measure the value of such uncertainty; the model takes into account market interest rates and influence of options and guarantees of policyholders. Profit from sale of insurance certificates is deferred to future periods in a separate liability component on the 1st day and aggregated in groups of insurance contracts; then it is reflected consistently in a profit and loss statement during the period, in which insurers provide insurance coverage after adjustments due to the changes in assumptions on future insurance coverage.

The standard applies retrospectively, except as it is impracticable, in which cases the modified retrospective approach or the fair value approach applies. The Bank expects that adoption of these amendments will not have a material effect on the financial statements of the Bank.

Amendments to IFRS 2 "Classification and Measurement of Share-Based Payment Transactions" (applies to annual periods beginning on or after January 01, 2018). The amendments clarify that the effect of the conditions relating or not relating to vesting of rights with regard to cash-settled share-based payments should be accounted for in the same manner as for equity-settled share-based payments. The Bank expects that adoption of these amendments will not have a material effect on the financial statements of the Bank.

Amendments to IFRS 10 and IAS 28 "Sales or Contributions of Assets between an Investor and its Associate/Joint Venture" (applies to annual periods beginning on or after January 01, 2020). The amendments clarify that profit or loss is recognised in full if the assets transferred to an associate or a joint venture constitute a business as defined in IFRS 3 "Business Combinations". Profit or loss resulting from sale or contribution of assets that do not constitute a business is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The Bank expects that adoption of these amendments will not have a material effect on the financial statements of the Bank.

IFRIC Interpretation 22 "Foreign Currency Transactions and Advance Consideration" (applies to annual periods beginning on or after January 01, 2018). IFRIC specifies the notion "date of a transaction" for the purposes of determining the exchange rate at initial recognition of relevant asset, expense, or income. The interpretation covers a foreign currency transaction (or a part thereof), when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of prepayment before the entity recognises the related asset, expense, or income (or a part thereof). The Bank expects that adoption of these amendments will not have a material effect on the financial statements of the Bank.

IFRIC Interpretation 23 "Uncertainty over Income Tax Treatments" (applies to annual periods beginning on or after January 01, 2019). Any uncertainty over interpretation of the tax legislation provisions may have effect on the entity's accounting for current or deferred tax assets or liabilities. The Interpretation clarifies how to apply the requirements of IAS 12 "Income Taxes" to recognition and measurement, when there is uncertainty over income tax treatments. In this case, an entity should recognise and measure its current and deferred tax assets or liabilities based on its taxable profit (tax loss), tax base, unused tax losses, unused tax credits, and tax rates determined in accordance with this Interpretation. The Bank expects that adoption of these amendments will not have a material effect on the financial statements of the Bank.

4 Accounting principles

4.1 Key Valuation Techniques

When recognising financial instruments, the Banks applies the following valuation techniques:

- At fair value,
- At amortised cost,
- At cost.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is a measurement based on market data and not a measurement specific to an entity.
Financial instruments are regarded as quoted on the active market if quoted prices for such instruments are regularly determined and information about the quoted prices is available on the stock exchange through the information and analytical systems or in other sources and if the quoted prices represent actual and regular market operations carried out by independent market participants.
The fair value of financial instruments quoted on the active market is determined on the basis of:
Quoted market prices, as a rule, for financial instruments trading through trade organizers;
Demand prices for financial assets and supply prices for financial liabilities, and the estimated fair value as determined on the basis of data from information and analytical systems (such as Reuters and Bloomberg), from market dealers and from other sources.
If the market for a financial instrument in not active, the following information can be used for fair value determination:
The last quoted price (demand/supply price) available from external independent sources, unless the economic situation changes significantly from the transaction date to the reporting date;
The actual price of the transaction carried out by the Bank on standard terms and conditions, unless the economic situation changes significantly from the transaction date to the reporting date.
If the economic situation changes significantly, the said last quoted price (transaction price) shall be adjusted by the change in the quoted price (transaction price) for similar financial instruments. The said last quoted price (transaction price) for debt securities can be adjusted based on the change in the repayment period of such debt security.

The principle of determining the fair value is based on the assumption of the company's continuous operation (i.e. the company is not intending and does not have to liquidate, significantly reduce its activity scope or enter into transactions under unfavourable conditions). Thus, the fair value is not the same as the amount received by the Bank in case of being forced to enter into a transaction, bankruptcy administration or selling its property to repay its debts.

To determine the fair value of financial instruments for which no information about market prices (quoted prices) is available from external sources, such valuation techniques are used as a discounted cash flow model and analysis of investment object financial data. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, that technique can be used to determine the instrument fair value.

A separate valuation technique can be used for each certain case when the fair value is to be determined; in this regard, except as otherwise reasonable, valuation techniques shall be applied that are based on exchange prices and demand/supply quoted prices. The fair value of financial instruments for which no information about market prices (quoted prices) is available from external sources is determined depending on various factors, circumstances and requires professional judgments.
The Bank uses the following way to classify information used to determine the fair value of a financial instrument subject to the significance of source data employed for the assessment:
Current active market prices (quoted prices) for financial instruments similar to the financial instrument being assessed (level 1);

In the absence of information about current prices (quoted prices), the price of the latest active market transaction, unless the economic situation changes significantly from the transaction date to the end of the reporting period; and current prices (quoted prices) for equivalent financial instruments, if the economic situation has changed since the transaction date; as well as information based on observable market data (level 2);

Prices calculated using valuation techniques, source data for which are not based on observable market data (level 3).

Amortised cost of a financial asset or a financial liability is the amount equal to the financial asset value or the financial liability value at initial recognition less any paid (received) payments adjusted to accumulated amortization of the difference between the initially recognised amount and the amount actually received (paid) under the financial instrument as well as to impairment losses incurred in relation to such instrument. The said difference is amortised with the use of the effective interest rate. The accrued interest includes amortisation of deferred transaction expenses as initially recognized and premiums/discounts on the repayment amount with the use of the effective interest method. Instead of being accounted for separately, the accrued interest income and the accrued interest expense, including coupon income and amortised discount and premium, are included into the carrying amount of the relevant assets and liabilities.

The cash flows and the effective interest rate for floating rate financial liabilities and financial assets shall be recalculated when a new coupon (interest) rate is established. The effective interest rate shall be recalculated on the basis of the current amortised cost and expected future payments. The current amortised cost of the financial instrument is not changed; the further calculation of the amortised cost is based on the new effective interest rate.

The effective interest method is a method to calculate the amortised cost of a financial asset or a financial liability and to accrue the interest income or expense with regard to interest payments within the relevant life of such financial asset or financial liability.

The effective interest rate is a discount rate for estimated future cash payments or proceeds within the expected life of the financial instrument, or, if applicable, within a shorter period of time to the net carrying amount of the financial asset or the financial liability. When calculating the effective interest rate, the Bank assesses the cash flows taking into account all contractual conditions with regard to the relevant financial instrument (e.g. possible early repayment), but excludes future credit losses.

The calculation includes all fees and duties paid and received by the parties under the contract that are an integral part of calculating the effective interest rate, transaction expenses and all other premiums and discounts. If it is doubted that issued loans will be repaid, their carrying amount is adjusted down to the recoverable amount, and the interest income is later accounted for on the basis of the interest rate used for discounting future cash inflows in order to determine the recoverable amount.

It is supposed that the cash flows and the estimated life of a group of similar financial instruments can be assessed adequately. However, in such rare cases when it is impossible to assess the cash flows or the expected validity term of the financial instrument, the Bank uses the cash flows stipulated in the contract within the whole contractual term of the financial instrument.

Cost is the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition including transaction cost. Cost method is only applicable to investments in equity instruments without market quoted prices and with the fair value not subject to an accurate assessment, and to derivative financial instruments that are related to equity instruments with no open market quoted prices and shall be repaid with such equity instruments. Transaction expenses are extra costs directly associated with the purchase, issue or disposal of the financial instrument, and include remunerations and fees paid to agents, advisors, brokers and dealers, duties paid to regulating agencies and stock exchanges, and taxes and duties collected at transfer of property. Transaction expenses do not include premiums or discounts for liabilities, expenses for financing, internal administration expenses or storage expenses.

4.2 Initial Recognition of Financial Instruments

On initial recognition of a financial asset or financial liability the Bank assesses it according to its fair value plus, in case the financial asset or the financial liability that cannot be assessed according to its fair value through profit or loss, transaction expenses directly associated with the purchase or the issue of the financial asset or the financial liability. At initial financial asset / financial liability recognition, profit or loss are only taken into account if the difference between the transaction price and the fair value that can be proved with other current market transactions with similar instruments or with a valuation technique that only employs existing market data as basic data.

Subject to standard calculation conditions, the purchase and sale of financial assets are recognised as of the transaction date, i.e. as at the date when the Bank undertakes to purchase or sell this asset, or as at the settlement date, i.e. the date when the financial asset is delivered to the Bank or by the Bank. The Bank consistently applies the selected method to all purchase and sale operations of financial assets belonging to the same financial asset group. For this purpose, financial assets held for trading form a group separate from financial assets at fair value through profit or loss.

In case of recognition as at the transaction date, the following provisions are made:

- Recognition of the financial asset to be received and the obligation to pay for it on the transaction date;
- Derecognition of the asset subject to sale, recognition of any profit or loss resulting from disposal of the asset, and recognition of receivables on the part of the buyer subject to be repaid as at the transaction date.

In case of recognition as at the settlement date, the following provisions are made:

- Recognition of the asset on the date when it is transferred to the Bank;
- Derecognition of the asset and recognition of any profit or loss resulting from disposal of the asset on the date of delivery by the Bank.

If the asset is recognized as at the settlement date, the Bank takes into account any change in the fair value of the financial asset to be received between the transaction date and the settlement date the same way it takes account of changes in the value of the purchased asset, i.e. changes in the value are not recognized with regard to assets accounted for by the net value or the amortised cost; they are accounted for as profit or loss with respect to assets classified as financial assets and assessed at fair value through profit or loss, and are recognised among other components of statement of changes in equity applicable to assets designated as available for sale.

If the asset is recognized as at the settlement date, up to the settlement is made, the operations shall be classified as operations with derivative financial instruments.

4.3 Impairment of Financial Assets

In order to fairly reflect the assumed risks in the statements, the Bank forms provisions for investments in all financial asset groups, except for deferred tax assets at fair value through profit or loss and assets arising from remuneration to the employees.

A financial asset is impaired and impairment losses occur only if there are objective impairment signs resulting from one or several events that occur after the asset was initially recognized (a loss event), and if this loss event(s) has accurately assessable influence on expected future cash flows with regard to the financial asset.

The main criteria for the Bank to determine whether the financial asset is impaired or not (whether there is a loss event) are as follows:

- Any regular payment was delayed and such delay did not result from a payment system failure;
- The borrower or issuer faces significant financial difficulty that is evidenced by the financial statements of the borrower or issuer received by the Bank;
- The borrower or the issuer considers bankruptcy possible;
- The borrower's/issuer's solvency has been affected due to changes in the national/regional economy that influence the borrower's/issuer's position;
- The value of the collateral has decreased due to unfavourable market conditions;
- Due to legal or economic reasons the creditor offered favourable conditions to the borrower, which would not have been done under different circumstances;
- Assets are given to the borrower to repay its debts for a previously acquired asset;
- Unavailability of an active market for this financial asset due to the issuer's financial problems (but not due to the fact that the asset is no more circulated on the market);
- It is known that the issuer/borrower has violated the terms and conditions of a contract for similar financial assets.

Losses from financial asset impairment accounted for by the amortised cost are recognized in the profit and loss statement when they arise from one or more events (loss events) occurring after the initial financial asset recognition.

The Bank does not recognize impairment losses at initial recognition of financial assets.

If the Bank does not have objective impairment proofs with regard to a separately assessed financial asset, such asset, regardless of its significance, is included into the group of financial assets with similar credit risk features and impairment assessment is done for the whole group of such assets.

For the purposes of a collective assessment of impairment, financial assets are grouped on the basis of similar credit risk characteristics. These characteristics are related to assessment of future cash flows for groups of such assets and demonstrate whether borrowers are able to repay all amounts due under contractual obligations with regard to the assets assessed.

Within a group of financial assets that are assessed jointly against impairment, future cash flows are determined on the basis of contractual cash flows within the remaining validity period of the asset and on the basis of statistics available to the Bank with regard to overdue debt amounts that will arise from loss events that have occurred and with regard to overdue debt reimbursement possibilities. The historical loss experience is adjusted on the basis of relevant observable data to reflect current economic conditions that have not affected the prior periods or to remove the past effects unobservable in the current period.

Losses resulting from financial asset impairment are recognized through establishing provisions for potential impairment losses in the amount required to diminish the carrying amount of the asset to the current value of expected cash flows (excluding future loan losses that have not been incurred yet) as discounted with the use of the initial effective interest rate for this asset. When the discounted amount of expected cash flows of a secured financial asset is calculated, it includes cash flows that can arise in case of the collateral is sold less expenses for such sale, regardless of how probable such sale can be.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment loss has been recognised (such as improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the created provision in the profit and loss statement.

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Upon adjusting a loan as a result of impairment down to the recoverable amount, the interest income is accounted for based on the interest rate that was used for discounting future cash flows to determine the impairment loss.

If financial assets cannot be paid and all procedures with regard to them have been completed that are required for full or partial reimbursement and the final loss amount has been determined, such assets are written off out of the established provision for potential impairment losses.

When writing-off unrecoverable debts and related interest, the Bank takes the necessary and appropriate steps to collect this amount that arise from law, business customs or a contract.

If conditions with regard to impaired financial assets are reconsidered and the new conditions differ a lot from the previous ones, a new asset is initially recognized by its fair value.

Impairment losses from financial asset available for sale are recognized in the profit and loss statement when they are incurred due to one or more events (loss events) occurring after initial recognition of the financial assets available for sale.

If the fair value of an equity security classified as available for sale is decreasing significantly or for a long time and goes below its acquisition value, this means that such security is impairing. In case of impairment indication, the cumulative loss defined as the difference between the acquisition cost and the current fair value, less any impairment loss previously recognised in the profit and loss statement is transferred from the statement of changes in equity to the profit and loss statement. Impairment losses on equity instruments are not reversed through the profit and loss statement; increase in the fair value after impairment is recognised directly in the statement of changes in equity.

As for the debt instruments classified as available for sale, their impairment assessment shall be carried out with the use of the same criteria (loss events) as for financial assets accounted for amortised cost. The loss amount that shall be reclassified into the profit and loss statement is equal to the difference between the acquisition value (less principal repayment amounts and with account of amortisation of assets assessed with the effective interest method) and the current fair value of the asset less impairment losses previously recognized in the profit and loss statement. Interest income from impaired assets is accrued on the basis of amortised expenses as determined with account of impairment loss recognition, with the use of the interest rate used for discounting future cash flows to assess impairment losses. The interest income is accounted for under the Interest Income item in the profit and loss statement. If in the following reporting period the fair value of a debt instrument qualifying as available for sale increases and this increase can be objectively considered as an event occurring after the impairment loss was recognized in the profit and loss statement, the impairment loss is recovered through the profit and loss statement of the current reporting period.

4.4 Derecognition of Financial Assets

The Bank derecognizes financial assets only when one of the below conditions is met:

- The contractual rights of claim to cash flows from the financial asset come due;
- The Bank transfers the financial asset and the transfer qualifies for derecognition.

The financial asset is deemed transferred by the Bank only when one of the below conditions is met:

- The Bank transfers the contractual rights to receive the cash flows from the financial asset;
- The Bank retains the contractual rights to receive the cash flows from the financial asset but assumes a contractual obligation to pay the cash flows to one or more third parties, and when the certain other conditions are met.

Upon transfer of a financial asset, the Bank evaluates the degree to which it retains risks and benefits associated with owning this financial asset. If the Bank:

Transfers all the significant risks and benefits associated with owning a financial asset, the financial asset is derecognised. Rights or obligations created or retained in the transfer are recognised separately as assets or liabilities;

Retains all the significant risks and benefits associated with owning a financial asset, recognition of this financial asset is continued;

Neither retains nor transfers all the significant risks and benefits associated with owning a financial asset, it determines whether the control over the financial asset is retained. If the control is not retained, the Bank derecognizes the transferred financial asset. Rights or obligations created or retained in the transfer are recognised separately as assets or liabilities. When control is retained, the Bank continues to recognize the transferred financial asset to the extent of its participation in it.

When an asset is redesignated with a considerable change in the terms, the redesignated asset is derecognised and the asset received is recognised in the balance sheet as newly purchased.

When an asset is redesignated without considerable changes in the terms, the received asset is recognized at the carrying amount of the redesignated financial asset.

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4.5 Cash and cash equivalents

Cash and cash equivalents include cash on hand, accounts balances in current accounts of the Bank, and cash equivalents in the form of short-term and highly liquid investments easily convertible into a certain amount of cash and exposed to insignificant risk of value fluctuation. All short term interbank placements, beyond overnight placements, are included in due from other banks. Any funds the use of which is in any way restricted are not classified as cash and cash equivalents.

4.6 Mandatory cash balances with the Bank of Russia (central banks)

Mandatory cash balances are funds deposited with the Bank of Russia which are not intended for financing current transactions of the Bank. Therefore, they are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows.

4.7 Financial assets at fair value through profit or loss

A financial asset is classified into this category if it is acquired for sale in the short term. Derivative financial instruments with a positive fair value are also categorised as financial assets at fair value through profit or loss, except for a derivative financial instrument designated as an effective hedging instrument.

Initially and later, financial assets at fair value through profit and loss are accounted for at fair value calculated either on the basis of market quoted prices or on various other bases admitting that such financial assets can be sold in future. Depending on circumstances, different valuation techniques can be applied. The best option to determine the fair value of an instrument is to use available published active market quoted prices.

In the absence of an active market, other valuation techniques are used, including recent arm's length market transactions between knowledgeable, willing parties; reference to the current fair value of another instrument that is substantially the same; and discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, that technique is used.

Realised and unrealised income and expense from transactions with financial assets at fair value through profit or loss are accounted for in the profit and loss statement for the period when they occur as part of income less expenses from transactions with financial assets at fair value through profit or loss.

Interest income from financial assets at fair value through profit or loss are accounted for in the profit and loss statement as interest income from financial assets at fair value through profit or loss. Dividends received are recorded in item "Other operating income" in the profit and loss statement when the right of the credit institution to receive payments is established and there is a possibility to receive dividends.

Purchase and sale of financial assets at fair value through profit or loss to be delivered within the term set by the law or the market convention (purchase and sale under standard contracts) are recognised on the transaction date, i.e. the date when the Bank undertakes to sell or buy such assets.

In all other cases such transactions are recognised as derivate financial instruments until payments are made.

The Bank qualifies financial assets at fair value through profit or loss at the time of purchase. Financial assets in this group cannot be reclassified.

4.8 Transactions in sale (purchase) of securities subject to their repurchase, securities loans

Transactions in sale of securities subject to their repurchase (repo transactions) are considered as operations to raise funds against collateral of securities. Securities transferred under repo transactions are accounted for in items "Financial assets at fair value through profit or loss", "Financial assets available for sale" or "Held-to-maturity financial assets", depending on the financial instrument group determined as at the sale date.

Transactions in purchase of securities subject to their repurchase (reverse repo transactions) are considered as operations to provide funds against collateral of securities.

Securities acquired under reserve repo transactions are not accounted for in the balance sheet. Relevant requirements with regard to provided funds are accounted for in item "Due from financial institutions" or "Loans and receivables".

The difference between the acquisition price and the reacquisition price of the security is recognised as interest income and is accrued within the whole repo transaction validity term under the effective interest method.

Securities lent by the Bank to counterparties are still accounted for as securities in the financial statements of the Bank.
Securities received as a loan are not accounted for in the financial statements. If such securities are realised by third party, the financial result from sale and purchase of such securities is accounted for in the profit and loss statements in line "Income less expenses from transactions with financial assets at fair value through profit or loss".

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The liability to return such securities is accounted for at fair value as held for trading in item "Financial liabilities at fair value through profit or loss".

4.9 Due from Other Banks

Due from other banks includes financial assets not being derivative financial instruments, with fixed payments, not quoted in an active market, provided by the Bank to counterparties (including the Bank of Russia), other than:
a) Overnight deposits;
b) Those that the Bank intends to sell immediately or in the near term and which shall be classified as held for trading and those that the Bank after initial recognition estimates at fair value through profit or loss;
c) Those that the Bank upon the initial recognition designates as available for sale;
d) Those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale.

In line "Due from other financial institutions" of the statement of financial position, the Bank reflects loans issued to and deposits placed with other credit and financial institutions as well as balances on correspondent nostro accounts, not equal to cash equivalents.

Due from other financial institutions is recognised at amortised cost less provisions for impairment. The amortised cost is based on the fair value of a loan or deposit calculated using existing interest rates applicable to similar loans and deposits, effective on the date when such loan was extended or deposit was placed.

The difference between the fair value and the nominal value of a loan (deposit) occurring when loans are extended (deposits are placed) at interest rates above or below existing rates is recorded in the profit and loss statement when such loan is extended (deposit is placed) against Income (Expenses) on Assets Invested at Rates Above (Below) the Market Rates. Subsequently, the carrying amount of such loans (deposits) is adjusted to amortization of these income/(loss) and the interest income is recognised in the profit and loss statement using the effective interest method.

The procedure for determining impairment of financial assets is set out in section 4.3 Impairment of Financial Assets.

4.10 Loans and advances to customers

This category includes non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:
a) Those that the Bank intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the Bank upon initial recognition estimates at fair value through profit or loss;
b) Those that the Bank upon the initial recognition designates as available for sale;
c) Those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale. Initial recognition of loans and receivables is carried at fair value plus transaction costs (i.e. the fair value of the consideration paid or received). If an active market exists, the fair value of loans and receivables is assessed as current cost of all future proceedings (payments) discounted by the prevailing market rate for a similar instrument. This market rate broken down by currencies, term and borrowers is published at the website of the Bank of Russia. If an active market does not exist, one of valuation techniques to assess the fair value of loans and receivables can be applied.
Subsequent assessment of loans and receivables is carried out at the amortised cost using the effective interest method.
Loans and receivables are recorded when cash is provided to the borrowers (individuals or credit institutions). Loans accommodated under interest rates different from market interest rates are evaluated as at the accommodation date at fair value, which is the sum of the principal debt and future interest payments discounted with account of market interest rates for similar loans.
The difference between the fair value and the nominal value of a loan is recorded in the profit and loss statement as income from assets at rates higher than the market rates or as an expense from assets at rates lower than the market rates. Subsequently, the carrying amount of such loans is adjusted with account of income / expense amortization with regard to the accommodated loan, and relevant income is included into the profit and loss statement using the effective interest method.

The Bank avoids impairment losses on initial recognition of loans and receivables. Risks associated with providing loans to the borrowers that initially bear a heightened risk are recognised at the higher loan interest rate (risk premium) which is calculated as an average percent of loan indebtedness outstanding for more than 30 days under loans classified as 3 and higher risk groups that is determined on the basis of the Bank's statistical data for the last reporting year as well as market interest rates for similar loans published on the website of the Bank of Russia.

Loans and receivables are impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and losses have an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The amount of loss is determined as the difference between the carrying value of the asset and estimated discounted future cash flows calculated by the original effective interest rate for this asset.

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The carrying amount of loans and receivables is reduced by means of the provision for impairment of loan portfolio. After assessment of objective evidence of impairment on an individual basis, in case of absence of such evidence, loans are included in a group of financial assets with similar credit risk to assess any evidence of their impairment on an aggregate basis.

4.11 Available for Sale Financial Assets

This category includes non-derivative financial assets designated as available for sale or not classified as loans and receivables, held-to-maturity investments, and financial assets at fair value through profit and loss. The Bank classifies financial assets at the acquisition date.

Available for sale financial assets are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. In this regard, as a rule, the fair value is the transaction price of acquiring such financial asset. Financial assets available for sale are further evaluated at fair value based on quoted asset purchase prices.

Some investments available for sale for which no quoted prices are available from external independent sources are evaluated by the Bank at fair value based on a recent arm's length purchase of similar equity securities to a non-related third party, analysis of other information such as discounted cash flows and financial information about the investment object, and on other valuation techniques.

Various valuation techniques can be used depending on the situation. Investments in equity instruments that do not have quoted market prices are recognised at cost.

Unrealized income and expenses resulting from change in fair value of available for sale financial assets are recognised in the statement of changes in equity.

Upon disposal of available for sale financial assets, related accumulated unrealised income and expenses are included in the profit and loss statement as income less expenses from transactions with available for sale financial assets. Impairment and recovery of earlier impaired value of available for sale financial assets are recorded in the profit and loss statement.

In the event the carrying amount of available for sale financial assets exceeds their estimated recoverable cost, the carrying amount of the assets is reduced. The recoverable cost is the current cost of the estimated future cash flows discounted by the current market price of similar financial asset.

Interest income from available for sale financial assets is recorded in the profit and loss statement as interest income from available for sale financial assets when the right of the credit institution to receive payments is established and there is a possibility to receive dividends.

Under usual payment conditions, purchase and sale of available for sale financial assets are recorded at the transaction date, i.e. at the date when the Bank shall purchase or sell this asset. (Alternatively, the Bank may recognise them as at the settlement date).

All other purchases and sales are recorded as forward transactions until payments are made.

4.12 Held-to-maturity financial assets

This category includes financial assets with fixed maturity that the Bank has the positive intention and ability to hold to maturity. The Bank classifies financial assets at the acquisition date. The Bank assesses its intention and ability to hold the financial assets designated as held-to-maturity to maturity at the end of every reporting period but not only at the initial recognition date of such financial assets.

Held-to-maturity financial assets are initially recognised at fair value plus transaction costs and subsequently at amortised cost using the effective interest method less provision for impairment which is the difference between the carrying amount and the current cost of the estimated future cash flows discounted by the original effective interest method.

Interest income from held-to-maturity financial assets is recorded in the profit and loss statement as interest income from held-to-maturity financial assets.

Under usual payment conditions, purchase and sale of held-to-maturity financial assets are recorded at the transaction date, i.e. at the date when the Bank shall purchase or sell this asset. All other purchases and sales are recorded as forward transactions until payments are made.

4.13 Property and equipment

In the event the carrying amount of the asset exceeds its estimated recoverable cost, the carrying amount of the asset is reduced to its recoverable cost, and the difference is recorded in the profit and loss statement. The estimated recoverable cost is the highest of fair value of the asset less realization cost and value of its usage.

When the construction is completed, the assets are reclassified to the relevant fixed asset category or investment property and are recognised at carrying amount at the time of such transfer. Construction in progress is not subject to depreciation unless the assets are put into operation.

The Bank assesses any indication of impairment of the property and equipment at the end of every reporting period. In the event such indication exists, the Bank assesses the recoverable cost as the net realisable value of the property and equipment and the value of their usage, whichever is the greater.

In the event the carrying amount of property and equipment exceeds their estimated recoverable cost, the carrying amount of property and equipment is reduced to their recoverable cost, and the difference is recorded in the profit and loss statement as impairment losses of property and equipment unless they are previously revaluated. In this case, revaluation surplus is excluded, and any additional loss is recognised in profit or loss. Impairment loss recognised with respect to property and equipment in prior years is reversed when there are any changes in estimates used to determine the recoverable cost of property and equipment.

Profit and loss resulting from disposal of property and equipment are determined on the basis of their carrying amount and are to be accounted for when calculating the profit (loss) amount. Costs of repairs and maintenance are recorded in the profit and loss statement when incurred.

4.14 Depreciation

Depreciation of property and equipment is calculated using the straight-line method, i.e. evenly decreasing the initial or revalued cost down to net book value during next estimated periods of useful life of the assets.

Group of property and equipment	**Depreciation rates**
Office equipment	4.9%-48%
Motor vehicles	16.7%
Furniture and other implements	4.9%-20%

The depreciation technique applied to an asset shall be reconsidered at least once at the end of every financial year. In this regard any material change in the asset depreciation approach will influence the application of its depreciation technique. Such change will be accounted for as a change in accounting estimates under IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

Depreciation is recognised even if the fair value of the asset exceeds its carrying amount provided that its residual value does not exceed its carrying amount. Repair and maintenance of the asset do not cancel the necessity to amortise it.

Asset depreciation starts when it is available for use, i.e. when the location and condition of the asset allow using it according to the Bank's intention. Depreciation is derecognised at the date when the asset is derecognised.

4.15 Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance. Intangible assets acquired separately are initially evaluated at acquisition cost.

The acquisition cost of intangible assets obtained through merger is the fair value as at the acquisition date. After initial recognition, intangible assets are recorded at the acquisition cost less amortization and impairment losses accrued.

Intangible assets have limited or indefinite useful lives. Intangible assets with a limited useful life are amortized within such useful life amounting to 5 to 10 years and analysed for the purpose of impairment if there are signs of potential impairment of such assets. The amortization term and procedure for intangible assets with a limited useful life are analysed at least once a year at the end of each reporting year.

Changes in the expected useful life or expected application nature of a certain asset and future profit from such asset are accounted for by way of changing the amortization term or procedure (as the case may be) and are regarded as accounting estimate changes. Amortisation for intangible assets with a limited useful life are recorded in the profit and loss statement in operating expenses.

Intangible assets with an indefinite useful life are not amortized. At the same time such assets are annually analysed for the purpose of impairment, either jointly or separately or at the level of the subdivision generating cash flows. The useful life of an intangible asset with an indefinite useful life is analysed for the purpose of circumstances proving that the current evaluation of the useful life is correct. Otherwise, the useful life is changed from an indefinite to a limited one.

Expenses related to software operation, if and when such occur, are accounted for in expenses. Expenses directly related to identified software controlled by the Bank and very likely to bring profit exceeding the costs within a period over one year, are recognized as intangible assets.

Direct costs include expenses for development team and proper share of general administration expenses. Expenses on improvement or extension of software functions (as compared to software initial specifications) are recognized as capital expenses and added to the initial software cost. Software development expenses recognized as assets are amortized on a straight-line basis within their useful life applying amortization norms.

4.16 Operating leases

Where the Bank is a lessee in an operating lease, the total lease payments are recorded in the profit and loss statement on a straight-line basis over the lease period. Where an operating lease ceases before the end of the lease period, any payment due to the lessor as fines is recognised as expense in the period in which the operating lease ceases.

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4.17 Trade and Other Payables

Payables are recognized by the Bank upon fulfilment of its obligations by the counterparty and are accounted for at amortised cost.

4.18 Credit related commitments

The Bank enters into credit related commitments, including letters of credit and financial guarantees. Financial guarantees are irrevocable commitments to make payments if the customer fails to fulfil its obligations to third parties and are exposed to the same credit risk as loans.

Financial guarantees and credit commitments are recognised initially at fair value confirmed, as a rule, by the amount of received fees and commissions. This amount is depreciated by the straight-line method over the commitment term, other than credit commitment, if it is probable that the Bank will enter into a particular loan agreement and will not plan to use the loan within a short period after it is issued; such fee and commission income related to credit commitments are accounted for as deferred income and included in the loan carrying amount at initial recognition. At the end of every reporting period commitments are measured at the amortised amount on initial recognition or at the best estimation of expenses to settle commitments as at the reporting date, whichever is greater.

The Bank makes provisions for credit related commitments if losses arising from such commitments are probable.

4.19 Share capital and share premium

Share capital is recognised at initial cost adjusted to the purchasing power equivalent of a Russian ruble as at December 31, 2002, for contributions to the share capital made before January 1, 2003. Costs directly attributable to the issue of new shares are recognised as a decrease in the shareholders' equity.

Share premium is contributions to the share capital in excess of the nominal value of the issued shares.

4.20 Income and Expense Recognition

Interest income and expense are recognised in the profit and loss statement for all debt instruments on an accrual basis using the effective interest method.

Fees and commissions attributable to the effective interest rate include fees and commissions received or paid by the Bank relating to creation or acquisition of a financial asset or issuance of a financial liability (for example, fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents).

If it is doubted that issued loans and other debt instruments will be repaid, they are written down to their recoverable amounts and interest income is thereafter recognised based on the interest rate that was used to discount future cash flows for the purpose of assessing the recoverable amount.

All other fee and commission income and other income and expenses are recognised, as a rule, on an accrual basis during the period of provision of a service by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion to the total services to be provided.

Fee and commission income from third party transactions, e.g. from acquisition of loans, shares and other securities or purchase or sale of entities received in such transactions, is recognised upon completion of the transaction. Fee and commission income from investment portfolio management and other management and consulting services are recorded under provisions of relevant services contracts, as a rule, in proportion to the time spent. Fee and commission income from services related to management of assets (trust management) is recorded under the provisions of the contract at the date when the Bank receives the right to receive such income and the income amount can be assessed. Income from long-term services is recognised every reporting period in proportion to the services provided. The Bank applies the same method to services related to property management, financial planning and to custody services provided on a constant basis in the long run.

4.21 Income tax

The financial statements recognise tax expenses in accordance with the legislation of the Russian Federation.

Income tax expense (recovery) in the profit and loss statement for the year includes current taxes and changes in deferred taxes. Current tax is calculated on the basis of the expected taxable profit for the year with income tax rates applicable on the balance sheet date. Tax expenses, apart from income tax expenses, are recognised in administrative and other operating expenses.

Deferred income tax is calculated on the basis of balance assets and liabilities method in relation to all temporary differences between the tax base of assets and liabilities and their carrying amount in accordance with the financial statements. Deferred tax assets and liabilities are identified with the use of taxation rates that are supposed to be effective within the period when the assets will be realised and the liabilities repaid, on the basis of tax rates set during the current period or actually set as at the reporting date.

Deferred tax assets are recognised to the extent that it is likely to receive taxable income against which temporary differences can be used.

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Deferred tax arising from revaluation of available for sale financial assets at fair value, with revaluation results credited or charged to equity, is also recognised directly in equity. When these financial assets are disposed of, the respective amounts of deferred income tax are reflected in the profit and loss statement.

Carrying amount of the deferred tax asset is reviewed at the end of each reporting period and decreased to the extent, to which gaining of sufficient taxable income that will allow using all or part of deferred tax assets is not probable anymore. Non-recognised deferred tax assets are reviewed at the end of each reporting period and recognised to the extent, to which it is probable that future taxable income will allow using deferred tax assets. Deferred tax assets and liabilities are offset against one another if there is a legal right to offset current tax assets and liabilities and deferred taxes relate to the same tax authority.

4.22 Foreign Currency Revaluation

Items in the Bank's financial statements are measured in the currency of the primary economic environment in which the Bank operates (functional currency).

The financial statements are presented in the currency of the Russian Federation, which is the Bank's functional currency and the presentation currency.

Transactions in foreign currency are recognised at the official exchange rate of the Bank of Russia at the transaction date. Foreign exchange gains and losses resulting from settlement of transactions in foreign currency are included in the profit and loss statement at the official rate of the Bank of Russia at the transaction date.

Monetary assets and liabilities are translated into the currency of the Russian Federation at the official exchange rate of the Bank of Russia at the balance sheet date.

Foreign exchange gains and losses resulting from transactions with debt securities and other monetary financial assets at fair value are included in income and expenses from foreign currency revaluation.

Foreign exchange gains and losses related to non-monetary items such as equity securities classified as financial assets at fair value through profit or loss are recorded as a part of income and expenses form revaluation at fair value.

Foreign exchange gains and losses related to non-monetary available for sale financial assets are recognised in equity through the available for sale financial assets revaluation reserve.

On December 31, 2017, the official rate of the Bank of Russia applied to revaluation of foreign currency balances amounted to:

USD	57.6002
EUR	68.8668
CNY	8.8450

4.23 Derivative financial instruments

Derivative financial instruments, including exchange contracts, interest rate futures, forward rate agreements, foreign exchange and interest rate swaps, foreign exchange and interest rate options and other derivative financial instruments, are initially recognised in the balance sheet at fair value (which is, as a rule, an acquisition cost, including transactions costs) and revaluated at fair value.

Fair value is calculated based on quoted market prices, cash flow discounting models, models of pricing for options or spot exchange rates at the end of the year depending on the type of a transaction. All derivative financial instruments are accounted as assets if their fair value is positive or as liabilities if their fair value is negative.

Derivative financial instruments are reflected in line "Financial assets at fair value through profit or loss" of the balance sheet if fair value of such derivative financial instrument is positive or in line "Financial liabilities at fair value through profit or loss" if fair value of such financial instrument is negative.

Changes in the fair value of derivative financial instruments are attributed to income less expenses from transactions with foreign currencies, income less expenses from transactions with financial assets at fair value through profit or loss, and income less expenses from transactions with precious metals depending on the type of a transaction.

Some derivative financial instruments embedded in other financial instruments such as a conversion option embedded in a convertible bond are separated from the underlying contract if their risks and economic characteristics do not closely relate to the risks and economic characteristics of the underlying contract and the underlying contract is not recognised at fair value reflecting unrealised income and expenses in the profit and loss statement.

The Bank is not engaged in transactions defined as hedging instruments under IAS 39 "Financial Instruments: Recognition and Measurement".

4.24 Offsetting

Financial assets and liabilities are offset and the net amount is recognised in the 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.

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4.25 Estimated Liabilities

Estimated liabilities are recognised when the Bank has obligations (legal or due to business practice) arisen prior to the reporting date. To settle these liabilities, outflow of economic resources is highly probable and the amount of the liabilities can be reasonably assessed.

4.26 Salary and Associated Contributions

Expenses related to accounting of salaries, bonuses, vacation payments and insurance contributions to state non-budgetary funds are made as far as the relevant work is done by the Bank's employees, and expenses associated with accounting of temporary disability benefits, child care benefits and non-cash benefits are made as far as the same are incurred.

The Bank takes the responsibility for payments related to leaves that the Bank's employees have not used. Such liabilities are recognised in the statement of financial position within Other Liabilities and simultaneously in the profit and loss statement as leaves falling on the reporting period and within undistributed profit as leaves falling on the previous period.

4.27 Related party transactions

The Bank conducts related party transactions. Parties are also considered to be related when one of them can control the other, is under common control together with the other party, is under control of the other party and a third party and can exercise significant influence on the other party's financing and operating decisions.

When considering relations with related parties, the Bank takes into account not only legal, but also economic aspects of such relations.

5 Interest income and expense

Interest income and expense are as follows:

	2017	2016
Interest income		
Due from financial institutions	1 428 174	2 029 188
Loans to customers	660 163	667 023
Factoring transactions	-	17 212
Held-to-maturity financial assets	240 346	123 224
Total interest income from assets not at fair value through profit or loss	**2 328 683**	**2 836 647**
Financial assets at fair value through profit or loss	198	-
Total interest income	**2 328 881**	**2 836 647**
Interest expense		
Due to financial institutions	(253 068)	(272 627)
Accounts and deposits of customers being legal entities	(330 289)	(346 842)
Factoring transactions	-	(700)
Held-to-maturity financial assets	-	(9 560)
Total interest expense on financial liabilities not at fair value through profit or loss	**(583 357)**	**(629 729)**
Total interest expense	**(583 357)**	**(629 729)**
Net interest income	**1 745 524**	**2 206 918**

As at December 31, 2017, the Bank did not have loans without interest accrual (no loans without interest accrual in 2016).

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6 Provisions for impairment and other provisions

Provisions for impairment accounted for at profit and loss accounts comprise allowances made in the current year to create provisions for impairment according to the International Accounting Standards.

The change in provisions for impairment for 2017 is as follows:

	Balance as at December 31, 2016	Write-offs from provision	Expense on creation of provisions for impairment less income from recovery of provisions for impairment	Balance for 2017
Change in provision for impairment of interest bearing assets				
Due from financial institutions	-	-	133 406	133 406
Loans to customers	426 690		(54 775)	371 915
Total change in provision for impairment of interest bearing assets	**426 690**	**-**	**78 631**	**505 321**
Change in provision for impairment of other assets and other provisions				
Change in provision for impairment of receivables and other assets	8 892	-	(6 109)	2 783
Total change in provision for impairment of other assets and other provisions	**8 892**	**-**	**(6 109)**	**2 783**
Total change in provisions for impairment	**435 582**	**-**	**72 522**	**508 104**

The change in provisions for impairment for 2016 is as follows:

	Balance as at December 31, 2015	Write-offs from provision	Expense on creation of provisions for impairment less income from recovery of provisions for impairment	Balance as at December 31, 2016
Change in provision for impairment of interest bearing assets				
Loans to customers	439 353	-	(12 663)	426 690
Total change in provision for impairment of interest bearing assets	**439 353**	**-**	**(12 663)**	**426 690**
Change in provision for impairment of other assets and other provisions				
Change in provision for impairment of receivables and other assets	4 513	-	4 379	8 892
Total change in provision for impairment of other assets and other provisions	**4 513**	**-**	**4 379**	**8 892**
Total change in provisions for impairment	**443 866**	**-**	**(8 284)**	**435 582**

7 Fee and commission income and expenses

Fee and commission income and expenses are as follows:

	December 31, 2017	December 31, 2016
Fee and commission income		
Cash and settlement transactions	15 516	13 888
Settlement transactions	22 738	24 917
Guarantees issued	14 407	23 313
Other fee and commission income	17 553	13 521
Total fee and commission income	**70 214**	**75 639**
Fee and commission expense		
Settlement and cash services, maintenance of bank accounts	(2 017)	(1 680)
Brokerage and similar agreements	(509)	(87)
Transactions with currency valuables	(3 387)	(2 416)
Guarantees and sureties received	-	(136)
Other fee and commission expense	(7 973)	(2 346)
Total fee and commission expense	**(13 886)**	**(6 665)**
Total fee and commission income and expense	**56 328**	**68 974**

8 Other operating income

Other operating income is as follows:

	December 31, 2017	December 31, 2016
Other operating income		
Fines and other penalties	7	5
Other	2 927	7 655
Total other operating income	**2 934**	**7 660**

9 Administrative and other operating expenses

Administrative and other operating expenses are as follows:

	2017	2016
Staff costs	522 641	491 552
Amortization	20 668	7 407
Charge for the right to use intellectual property	7 589	26 442
Communications services	16 339	15 412
Expenses associated with property and equipment (maintenance, repair, sale)	20 673	7 326
Professional services	15 704	11 716
Advertising and marketing	343	24
Representation costs	1 727	4 398
Business travel expenses	8 961	6 215
Operating lease expense	61 864	66 446
Security costs	8 742	7 312
Office expenses	701	1 885
Taxes and duties other than income tax	28 639	23 429
Inventories writing-off	7 549	8 516
Insurance expenses	622	309
Other operating expenses	44 448	7 307
Total administrative and other operating expenses	**767 210**	**685 696**

Salaries and bonuses included:

	2017	2016
Staff costs		
Salaries and bonuses	463 982	439 074
Obligatory insurance contributions to non-budgetary funds	43 967	36 646
Training costs	249	143
Other staff benefits	14 443	15 689
Total staff costs	**522 641**	**491 552**

In 2017, the pay-outs to the key management personnel were 80,734 ths rubles (in 2016 the pay-outs to the key management personnel were 66,994 ths rubles). Item "Salaries and bonuses" includes provisions for non-used leaves of the Bank's employees in the amount of 6,170 ths rubles (9,037 ths rubles in 2016), provision for payment of remuneration to the employees following the results the Bank's activity in 2017 in the amount of 19,948 ths rubles.

10 Income tax

Income tax comprises as follows.

	2017	2016
Current income tax (expense) / recovery	269 954	346 317
Changes in deferred taxes due to occurrence and writing off of temporary differences	-	214 089
Current income tax (expense) / recovery	**269 954**	**560 406**

The current income tax rate applicable to the largest part of the Bank's profit for 2017 is 20% (2016: 20%). Estimated tax expenses

and actual tax expenses are compared below.

	2017	2016
Profit / (Loss) before taxes	1 373 271	1 786 002
Estimated tax deductions (recovery) at the rate of 20%	(274 654)	(357 200)
Other permanent difference	4 700	(203 206)
Current income tax (expense) / recovery	**269 954**	**560 406**

Differences between IFRS and tax legislation of the Russian Federation (and other countries) give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and calculation of income tax. Tax effects of movements in these temporary differences for 2017 and 2016 as presented below are recognised at the rate of 20% (2016: 20%), except for income from government (municipal) securities taxable at the rate of 15%, 9%, 0% (2016: 15%, 9%, 0%).

Net deferred tax asset is income tax which can be recorded against future income taxes and is accounted for as deferred tax asset in the statement of financial position. Deferred tax asset occurred as a result of tax losses carried forward is recognized to the extent it is probable realize the respective deferred tax concession. In 2017, the Bank did not recognise the deferred tax asset in the amount of 26 046 ths rubles (46 784 ths rubles in 2016).

11 Earnings (Loss) per share

Basic earnings (loss) per share is calculated by dividing net profit or loss attributable to common shares by the weighted average number of common shares outstanding during the year less average number of common shares repurchased by the Bank.
The Bank does not have dilutive potential common shares. Diluted earnings per share are thus equal to the basic earnings per share.

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	2017	2016
Earnings (Loss) attributable to shareholders holding common shares of the Bank	1 103 317	1 225 596
Earnings or loss for the year	**1 103 317**	**1 225 596**
Weighted average number of common shares outstanding (in ths)	432.380	92.38
Basic and diluted earnings (loss) per common share (in rubles per share)	2 551.73	13 266.90
Diluted earnings (loss) per common share (in rubles per share)	**2.55**	**13.27**

12 Dividends

	2017		2016	
	For common shares	For preference shares	For common shares	For preference shares
Dividends payable as at January 01, 2017	-	-	-	-
Dividends declared during the year	1 596 234	-	-	-
Dividends paid during the year	(1 596 234)	-	-	-
Dividends payable as at December 31, 2017	**-**	**-**	**-**	**-**

All dividends were declared and paid in the currency of the Russian Federation.

13 Cash and cash equivalents

	December 31, 2017	December 31, 2016
Cash	30 275	99 124
Balances on accounts with the Bank of Russia (other than mandatory reserve funds)	2 761 587	2 616 761
Balances on correspondent accounts and overnight deposits with resident banks	18 300	22 369
Balances on correspondent accounts and overnight deposits with non-resident banks	2 254 946	6 733 361
Total cash and cash equivalents	**5 065 108**	**9 471 615**

Item "Cash on correspondent accounts and overnight deposits with non-resident banks" includes balances of cash placed in foreign banks primarily related to Bank ICBC (JSC) Group.

Geographical analysis of cash and cash equivalents, break-down of cash and cash equivalents by currency and maturity, and also analysis of interest rates are given in Note 25.

14 Due from financial institutions

Due form financial institutions include loans provided by the Bank to (deposits placed by the Bank with) counterparties, including the Bank of Russia.

	December 31, 2017	December 31, 2016
Term interbank credits and deposits	19 258 484	22 453 057
Other accounts with financial institutions	33 603	2 002 635
Total due from financial institutions before provision for impairment	**19 292 087**	**24 455 692**
Provision for impairment	(133 406)	-
Total due from financial institutions	**19 158 681**	**24 455 692**

Below you will find the analysis of changes in the provision for impairment of due from financial institutions for 2017:

	Correspondent accounts and overnight deposits	Term interbank credits and deposits	Promissory notes of financial institutions	Reverse REPO operations	Other accounts with financial institutions	Total due from financial institutions
Provision for impairment as at January 01, 2017	-	-	-	-	-	-
Income from recovery of provisions for impairment less expense on creation of provisions for impairment		133 406				133 406
Provision for impairment as at December 31, 2017	-	**133 406**	-	-	-	**133 406**

The analysis of due from financial institutions by credit quality as at December 31, 2017 is set out below

	Correspondent accounts and overnight deposits	Term interbank credits and deposits	Promissory notes of financial institutions	Reverse REPO operations	Other accounts with financial institutions	Total due from financial institutions
- rated AAA	-	7 998 279	-	-	22 216	8 020 495
- rated from AA- to AA+	-	122 231	-	-	11 373	133 604
- rated from A- to A+	-	4 463 631	-	-	-	4 463 631
- unrated	-	6 374 343	-	-	14	6 374 357
Total current (at fair value)	-	**18 958 484**	-	-	**33 603**	**18 992 087**
Individually impaired (total amount), current, and with delayed payment						-
Current, but impaired	-	300 000	-	-	-	300 000
Total individually impaired (total amount), current, and with delayed payment	-	**300 000**	-	-	-	**300 000**
Total due from financial institutions before provision for impairment	-	**19 258 484**	-	-	**33 603**	**19 292 087**
Provision for impairment	-	(133 406)	-	-	-	(133 406)
Total due from financial institutions	-	**19 125 078**	-	-	**33 603**	**19 158 681**

The analysis of due from financial institutions by credit quality as at December 31, 2016 is set out below

	Correspondent accounts and overnight deposits	Term interbank credits and deposits	Promissory notes of financial institutions	Reverse REPO operations	Other accounts with financial institutions	Total due from financial institutions
Current (at fair value)						
- rated AAA	-	3 000 000	-	-	-	3 000 000
- rated from AA- to AA+	-	7 794 565	-	-	-	7 794 565
- rated from A- to A+	-	5 144 865	-	-	-	5 144 865
- unrated	-	6 513 627	-	-	2 002 635	8 516 262
Total current (at fair value)	-	**22 453 057**	-	-	**2 002 635**	**24 455 692**
Provision for impairment	-	-	-	-	-	-
Total due from financial institutions	-	22 453 057		-	2 002 635	24 455 692

For information on fair value of due form financial institutions refer to Note 28.

Interest rates, maturities and geographical concentration of due form financial institutions are analysed in Note 25. Information on related party transactions is given in Note 29.

15 Loans and advances to customers

	December 31, 2017	December 31, 2016
Loans to legal entities	18 016 200	13 813 996
Total loans and advances to customers before provision for impairment	**18 016 200**	**13 813 996**
Provision for impairment	(371 915)	(426 690)
Total loans and advances to customers	**17 644 285**	**13 387 306**

During 2017, the Bank did not grant loans at rates below the market rates.

The Bank's activities in the territory of the Russian Federation are characterized by the absence of retail business, the Bank does not grant loans to individuals. As at December 31, 2017 lending for current capital of legal entities being corporate customers of the Bank was 43.4% of the total loan portfolio, lending within "refinancing of current debts" was 41.5%, capital-related investments was 10%, lending within trade and export financing was 5.1% (as at December 31, 2016 the structure of the Bank's loan portfolio was as follows: lending for current capital of legal entities being corporate customers of the Bank was 43.4% of the total loan portfolio, lending within "refinancing of current debts" was 41.5%, capital-related investments was 10%, lending within trade and export financing was 5.1%).

The Bank's customers are high-profile Russian corporations and banking groups. As at the end of 2017, the largest borrowers were: Acron OJSC, SUEK Ltd, Uralkali PJSC, OJSC Gazprom.

The break-down of the Bank's loans and receivables by industry is as follows:

	December 31, 2017		December 31, 2016	
	Amount (ths rubles)	%	Amount (ths rubles)	%
Industry	7 175 544	39.8%	8 630 493	62.5%
Oil and gas and chemical industry	5 644 330	31.3%	-	0.0%
Transport	1 922 118	10.7%	-	0.0%
Trade and services	1 491 181	8.3%	1 080	0.0%
Finance and investment	817 233	4.5%	4 744 924	34.3%
Communication and telecommunications	581 186	3.2%	-	0.0%
Energy	383 258	2.1%	436 063	3.2%
State and municipal organizations	1 350	0.0%	1 436	0.0%
Total loans and advances to customers before provision for impairment	**18 016 200**	**99.9%**	**13 813 996**	**100.0%**
Provision for impairment	(371 915)		(426 690)	
Total loans and advances to customers	**17 644 285**		**13 387 306**	

The category "State and municipal organizations" includes prepayment under lease agreements for commercial premises in the Main Administration for Service to the Diplomatic Corps (GlavUpDK) under the Ministry of Foreign Affairs of Russia. As at December 31, 2017, the funds transferred to this company's accounts amounted to 1 350 ths rubles (1 436 ths rubles in 2016). According to the economic meaning, the funds transferred to the accounts of a state company are not loan funds. Inclusion of these funds into the Bank's loan portfolio is based on the contractual terms when the Bank has a probability to get back the prepaid money.

Information on collateral as at December 31, 2017 is given below:

	Loans to legal entities	Loans to individual entrepreneurs	Commercial loans to legal entities unsecured	Commercial loans to legal entities secured	Loans to individuals - consumer	Loans to individuals - mortgage	Total loans and advances to customers
Non-secured claims	15 317 429	-	-	-	-	-	15 317 429
Loans secured:							
Guarantees and sureties	1 164 620	-	-			-	1 164 620
Real estate	1 534 151	-	-	-	-	-	1 534 151
Total loans and advances to customers before provision for impairment	18 016 200	-	-	-	-	-	18 016 200

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Information on collateral as at December 31, 2016 is given below:

	Loans to legal entities	Loans to individual entrepreneurs	Commercial loans to legal entities unsecured	Commercial loans to legal entities secured	Loans to individuals - consumer	Loans to individuals - mortgage	Total loans and advances to customers
Non-secured claims	9 989 735	-	-	-	-	-	9 989 735
Loans secured:							
Guarantees and sureties	3 824 261	-	-	-	-	-	3 824 261
Total loans and advances to customers before provision for impairment	13 813 996	-	-	-	-	-	13 813 996

Loans and receivables individually reviewed for impairment as at December 31, 2017 are as follows:

	Loans before provision for impairment	Provision for impairment	Loan net of provision for impairment	Impairment in relation to loans before impairment
Individually reviewed for impairment				
Loans to legal entities				
- Standard	14 848 427	(86 126)	14 762 301	0.6%
- Requiring control loans	2 683 368	(172 090)	2 511 278	6.4%
- Sub-prime loans	484 405	(113 699)	370 706	23.5%
- Problem loans	-	-	-	
- Loss-making loans	-	-	-	
Total individually reviewed for impairment	**18 016 200**	**(371 915)**	**17 644 285**	**2.1%**
Total loan portfolio	**18 016 200**	**(371 915)**	**17 644 285**	**2.1%**

Loans and receivables individually reviewed for impairment as at December 31, 2016 are as follows:

	Loans before provision for impairment	Provision for impairment	Loan net of provision for impairment	Impairment in relation to loans before impairment
Individually reviewed for impairment				
Loans to legal entities				
- Pass loans	5 806 661	(5 600)	5 801 061	0.1%
- Requiring control loans	3 995 414	(259 659)	3 735 755	6.5%
- Sub-prime loans	606 569	(127 378)	479 191	21.0%
Total individually reviewed for impairment	**10 408 644**	**(392 637)**	**10 016 007**	**3.8%**
Jointly reviewed for impairment				
Loans to legal entities				
- Pass loans	3 405 352	(34 053)	3 371 299	1.0%
Total jointly reviewed for impairment	**3 405 352**	**(34 053)**	**3 371 299**	**1.0%**
Total loan portfolio	**13 813 996**	**(426 690)**	**13 387 306**	**3.1%**

While considering whether a loan may be impaired, the Bank pays careful attention to the substantial factors such as presence or absence of past due payments and possibilities to sell collateral, if any. The category "Requiring control loans" includes loans issued to customers, the information about financial condition of whom/which is absent or insufficient. The amortization was assessed individually at interest rates calculated by blue chip Russian banks.

During 2017 a part of loans amortized as at December 31, 2016 was repaid. As at December 31, 2017 the Bank estimated the loan portfolio with account of impact of industrial, operating and interest rate risks.

Interest rates, maturities and geographical concentration of loans and advances to customers are analysed in Note 25. Information on related party transactions is given in Note 29.

Information on fair value of loans and advances to customers is given in Note 28.

Information on reclassification of financial assets is given in Note 3 "Basis for presentation".

16 Held-to-maturity financial assets

	December 31, 2017	December 31, 2016
Debt securities		
Bonded loans of the Russian Federation	2 996 708	630 638
Regional and municipal bonds	1 005 270	-
Of other banks	1 094 565	1 088 401
Total debt securities before provision for impairment	**5 096 543**	**1 719 039**
Total held-to-maturity financial assets	**5 096 543**	**1 719 039**

The analysis of held-to-maturity financial assets by credit quality as at December 31, 2017 is set out below:

	Bond loans of the Russian Federation	Regional and municipal bonds	Of other banks	Total held-to-maturity financial assets
- Rated AAA	-	1 005 270	-	1 005 270
- Rated from A- to A+	-	-	1 094 565	1 094 565
- Unrated	2 996 708	-	-	2 996 708
Total current and unimpaired	**2 996 708**	**1 005 270**	**1 094 565**	**5 096 543**
Total held-to-maturity financial assets	**2 996 708**	**1 005 270**	**1 094 565**	**5 096 543**

The analysis of held-to-maturity financial assets by credit quality as at December 31, 2016 is set out below:

	Bond loans of the Russian Federation	Regional and municipal bonds	Of other banks	Total held-to-maturity financial assets
- rated from A- to A+			1 088 401	**1 088 401**
- unrated	630 638			**630 638**
Total current and unimpaired	**630 638**	-	**1 088 401**	**1 719 039**
Total held-to-maturity financial assets	**630 638**	-	**1 088 401**	**1 719 039**

During 2017, the Bank did not allocate funds in held-to-maturity financial assets at rates below market rates.

For information on fair value of held-to-maturity financial assets refer to Note 28.

17 Property and equipment and intangible assets

The value of property and equipment and intangible assets in 2017 is as follows.

	Office equipment	Motor vehicles	Capital investments	Intangible assets	Furniture and other implements	Total property and equipment and tangible assets
Carrying amount as at January 01, 2017	42 410	4 385	-	10 861	2 793	60 449
Cost						
Cost as at January 1	72 830	5 722	-	13 261	3 824	95 637
Acquisitions	34 687	2 143	4 769	28 428	-	70 027
Disposals	(9 008)	(958)	-	-	(117)	(10 084)
Cost (or estimate) as at December 31, 2017	98 509	6 907	4 769	41 689	3 707	155 580
Accumulated amortization						
Accumulated amortization as at January 1	(30 420)	(1 337)	-	(2 400)	(1 031)	(35 188)
Amortization charges	(15 216)	(1 006)	-	(3 884)	(568)	(20 673)
Disposals	9 008	958	-	-	117	10 083
Accumulated amortization as at December 31, 2017	(36 628)	(1 385)	-	(6 284)	(1 482)	(45 778)
Carrying amount as at December 31, 2017	61 880	5 522	4 769	35 405	2 225	109 802

The value of property and equipment and intangible assets in 2016 is as follows.

	Office equipment	Motor vehicles	Capital investments	Leasing	Intangible assets	Furniture and other implements	Total property and equipment and intangible assets
Carrying amount as at January 01, 2016	13 435	-	-	-	-	64	13 499
Cost							
Cost as at January 1	40 301	1 308	-	-	-	1 071	42 680
Transfer	-	-	-	-	-	-	-
Acquisitions	33 900	4 414	-	-	13 261	2 783	54 358
Disposals	(1 371)	-	-	-		(30)	(1 401)
Cost (or estimate) as at December 31, 2016	72 830	5 722	-	-	13 261	3 824	95 637
Accumulated amortization							
Accumulated amortization as at January 1	(26 866)	(1 308)	-	-	-	(1 007)	(29 181)
Amortization charges	(4 925)	(29)	-	-	(2 400)	(54)	(7 408)
Disposals	1 371		-	-	-	30	1 401
Accumulated amortization as at December 31, 2016	(30 420)	(1 337)	-	-	(2 400)	(1 031)	(35 188)
Carrying amount as at December 31, 2016	42 410	4 385	-	-	10 861	2 793	60 449

18 Other assets

	December 31, 2017	December 31, 2016
Prepaid expenses, advances, excess payments	43 938	25 315
Current tax assets	31 341	39 678
Other	21 068	4 791
Provision for impairment	(2 783)	(8 892)
Total other assets	**93 564**	**60 892**

Interest rates, maturities and geographical concentration of other assets are analysed in Note 25. Information on related party transactions is given in Note 29.

19 Due to financial institutions

	December 31, 2017	December 31, 2016
Correspondent accounts and overnight deposits of other banks	6 730 136	10 521 513
Term loans and deposits of other banks	3 351 483	6 142 385
Total due to financial institutions	**10 081 619**	**16 663 898**

During 2017, the Bank did not raise funds of financial institutions at rates above market rates.

For information on fair value of due to financial institutions refer to Note 28.

Interest rates, maturities and geographical concentration of due to financial institutions are analysed in Note 25. Information on related party transactions is given in Note 29.

20 Customer accounts

	December 31, 2017	December 31, 2016
Accounts of private entities		
Current and settlement accounts	7 353 732	10 067 799
Term deposits	12 855 021	14 424 429
Total accounts of private entities	**20 208 753**	**24 492 228**
Individual accounts		
Current accounts and demand deposits	14 490	4 196
Total individual accounts	**14 490**	**4 196**
Other customer accounts		
Other customer accounts	1 378 786	1 016
Total other customer accounts	**1 378 786**	**1 016**
Total customer accounts	**21 602 029**	**24 497 440**

As of the end of 2017, item "Individual accounts" included accounts of individual entrepreneurs.

Over the whole period of its operation, the Bank's data base has been quite stable and is based on Russian representatives of Chinese commercial and state-owned companies. Russian customers of the Bank include blue chip energy providers as well as trade companies classified as "medium and small-scale business".

During 2017, the Bank did not raise customer accounts at rates above market rates.

Distribution of customer accounts by industries is given below:

	December 31, 2017		December 31, 2016	
	Amount (ths rubles)	%	Amount (ths rubles)	%
Trade and services	14 052 613	65.1%	11 874 599	48.5%
Other	3 192 076	14.8%	12 915	0.1%
Industry	2 535 165	11.7%	324 033	1.3%
Construction	1 180 542	5.5%	6 869 100	28.0%
Finance and investment	411 127	1.9%	341 633	1.4%
Food industry and agriculture	119 526	0.6%	-	0.0%
Transport	85 526	0.4%	634 854	2.6%
Individuals	14 490	0.1%	4 196	0.0%
Oil and gas and chemical industry	10 398	0.0%	1 499 560	6.1%
Communication and telecommunications	566	0.0%	2 763 020	11.3%
State and municipal organizations	-	0.0%	173 530	0.7%
Total customer accounts	**21 602 029**	**100.0%**	**24 497 440**	**100.0%**

21 Other liabilities

Other liabilities include non-financial liabilities only.

	December 31, 2017	December 31, 2016
Payables	42 544	1 713
Current tax liabilities	6 935	27 934
Accrued expenses on payment of remuneration to staff	75 467	71 834
Other liabilities	2 430	4 438
Total other liabilities	**127 376**	**105 919**

22 Subordinated loans

The subordinated debt in the amount of 2,894,063 ths rubles (3,045,776 ths rubles in 2016) was formed by the loan received by the Bank from its parent company Industrial and Commercial Bank of China Limited.

The loan in the amount of 50,000,000 US dollars was granted in October 2013, it has been extended for a ten-year term with the maturity in 2023. The agreement stipulates a variable interest rate set on the basis of 6M Libor + 1.3%. According to the loan agreement, the subordinated debt is converted into common shares of the Bank in cases stated in the regulations of the Bank of Russia.

23 Share capital and share premium

	Number of shares	Nominal value per share	Nominal value
December 31, 2015	**92 380**	**25**	**2 309 500**
Common shares	92 380	25	2 309 500
Total share capital and share premium as at December 31, 2016	**92 380**		**2 309 500**
Common shares	340 000	25	8 500 000
Total share capital and share premium as at December 31, 2017	**432 380**		**10 809 500**

In 2017, the Bank conducted the complete registration of the increased share capital in the amount of 8,500,000 ths rubles, which is 340,000 shares with the nominal value of 25,000 rubles each.

24 Retained profit

The Bank keeps books in the currency of the Russian Federation and makes accounting records in compliance with the requirements of banking laws of the Russian Federation. These financial statements are prepared on the basis of these accounting records and adjusted to bring them in compliance with all material aspects of IFRS.
The table below presents the effect of these adjustments on the equity, particularly on profit or loss, in the reporting period.

	December 31, 2017		December 31, 2016	
	Equity net of profit / (loss) for the reporting period	Profit / (Loss) for the reporting period	Equity net of profit / (loss) for the reporting period	Profit / (Loss) for the reporting period
Value in compliance with the Russian legislation and requirements of supervisory authority, the Bank of Russia	**12 707 467**	**1 107 151**	**4 484 781**	**1 318 920**
Recovery of provisions for impairment in accordance with the requirements of the Russian legislation	253 521	91 844	156 271	97 250
Impairment of interest bearing assets	(425 690)	(78 631)	(438 353)	12 663
Other provisions and estimated liabilities	(1 519)	6 109	(4 499)	2 980
Deferred taxes	-	-	214 208	(214 208)
Depreciation of property and equipment	(10 902)	(3 108)	(12 741)	1 839
Interest income and expense	-	-	3 191	(3 191)
Operating income and expense	2 460	(20 048)	(6 883)	9 343
Value in accordance with IFRS	**12 525 337**	**1 103 317**	**4 395 975**	**1 225 596**

In compliance with the legislation of the Russian Federation, accumulated retained profit as per accounting reports of the Bank prepared in accordance with the Russian Accounting Standards may be distributed to its shareholders as dividends. As at December 31, 2017, retained profit of the Bank for previous years and unused profit for the reporting period amounted to 1 723 257 ths rubles (2 066 517 ths rubles in 2016).

25 Risk management

The Bank manages the following financial risks:

- Credit risk
- Liquidity risk
- Geographical risk
- Market risk
  - Interest rate risk
  - Currency risk
  - Equity risk
- Other price risk
- Other risk concentration
- Operating risk
- Legal risk

The principal task of financial risk management is to establish and to ensure further adherence to risk limits. The assessment of assumed risk also forms the basis for optimal allocation of capital taking into account risks, formation of pricing for transactions and assessment of performance. Operating and legal risk management shall ensure proper adherence to internal regulations and procedures to minimize operating and legal risks.
The priority is to ensure the maximum soundness of assets and capital through minimization of exposure to risks that may result in unexpected losses. All risks that may adversely affect the Bank's meeting its objectives are recognised and assessed on a regular basis. This approach applies to all risks assumed by the Bank in the course of its business (credit risk, liquidity risk, operating risk, market risk, legal risk, country risk, reputational risk, strategy risk).
It is based on the Regulation On Risk Management System that provides for goals and objectives in risk management and regulates the Bank's activities aimed at risk limitation, facilitates the bank's meeting the targets of its business subject to the legal requirements, regulations of Russia, professional standards, rules, and procedures.

The key strategic objective of the Bank is to ensure high sustainability and maintain its profit at the level allowing development of the Bank and to withdraw from activities with high risk.

- **Credit risk**

The Bank assumes the credit risk, i.e. the risk that the counterparty will not be able to repay the debt in full within the set period. The Bank manages credit risk by setting exposure limits for individual borrowers and groups of related borrowers. Credit risk is monitored on a regular basis, with review of exposure limits at least once a year. Exposure limits in relation to products and borrowers are approved by the Bank's Board. Risks per one borrower, including banks and brokers, are also restricted by limits that cover balance sheet and off-balance-sheet risks, and daily settlement risk limits for deliveries in relation to trade instruments such as forward exchange contracts. Actual adherence to the established limits on accepted risks is monitored on a day-to-day basis.

The Bank's risk management system includes:

- Diversification of the Bank's loan portfolio and investments;
- Preliminary analysis of the borrower's creditworthiness (the Bank validates the borrower's credit history, examines the borrower's reputation, analyses financing and operating activities, explores whether the borrower is able to redeem a debt, analyses security for credit and other possible factors);
- Creation of provisions for the Bank's credit risk on the basis of the preliminary analysis;
- Control over loans issued previously;
- Specification of the maximum allowed level of credit risks;
- Determination of authority limits of the Bank's collective bodies and officers;
- Delineation of responsibilities between employees, etc.

To manage credit risk, the Bank has established the Credit Committee which is responsible for consideration and approval of credit limits for borrowers. The Credit Committee meetings are held on a regular basis.

The Bank closely monitors the concentration of large credit risk exposure and compliance with prudential requirements of the Bank of Russia, analysis and forecast of credit risks that are presently treated as acceptable.

The Bank closely monitors the concentration of large credit risk exposure and compliance with prudential requirements of the Bank of Russia, analysis and forecast of credit risks that are presently treated as acceptable.

The monitoring system for loan and equal indebtedness permits early detection of distressed asset and immediate measures to mitigate credit risks.

The Bank monitors credit risk concentration by industries and geographic regions. Credit risk concentration by loans is analysed in Note 14.

- **Liquidity risk**

Liquidity risk is defined as the risk of mismatch between the maturities of assets and liabilities.

The liquidity is assessed depending on:

- The amount of assets available to the Bank and possible term of disposal of these assets without significant loss for the Bank;
- Outstanding liabilities, time to their maturity and time history of the amount of liabilities.

A position is treated as a risk position when liquid assets of the Bank and expected financial resources are not sufficient for the Bank to perform its obligations within a certain period.

Instant (quick) liquidity is the ratio of claims to obligations of the Bank to be settled throughout the current day. Short-term, medium-term and long-term liquidity is the ratio of claims to obligations of the Bank to be settled within the established periods.

Liquidity risk is regulated by controlling shortage/excess of monetary resources, allocation and re-allocation of monetary resources by instruments and their investment terms, liquidity and rate of return, including allocation of monetary resources for submission of loans and issue of own securities.
The system of liquidity analysis is based on maturity gap between claims (assets) and obligations (liabilities) of the Bank which requires daily assessment of liquidity excess (shortage) indices and coefficients in accordance with instructions of the Bank of Russia.

The Risk Committee sets limits on liquidity excess/shortage by the term of obtaining and repayment of funds that allows efficient allocation of the Bank's assets by maturity with low risk. The Bank's liquidity analysis involves adherence to these limits, analysis of their absolute values and dynamics as well as comparison of these values with the limits set in the Bank.

Liquidity risk management includes the following:

- Forecasting of payment flows by main currencies and determination of required amount of liquid assets;
- Monitoring and forecasting of liquidity ratios;
- Maintenance of diversified resource sources;

- Planning of loan indebtedness repayment depending on availability of funds and maintenance of liquidity risk at acceptable level;
- Planning of recovery of required liquidity position under unfavourable or critical circumstances;
- Reallocation of assets by maturity (provision of short-term, medium-term and long-term loans, performing speculative and investing operations at the securities market, redefinition of open foreign currency position transferable to the next day).

The Bank's liquidity management requires analysis of liquid assets level necessary to settle liabilities at their maturity, access to various sources of financing, plans of action in case of problems with financing and monitoring whether balance sheet liquidity ratios comply with the legislation of the Russian Federation.

The carrying value of financial instruments broken down by expected maturity term as at December 31, 2017 is presented in the table below:

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 1 year	Outstanding / with unlimited period	Total
ASSETS						
Cash and cash equivalents	5 065 108	-	-	-	-	5 065 108
Mandatory cash balances with the Bank of Russia	1 165 758	-	-	-	-	1 165 758
Due from financial institutions	15 675 454	1 848 086	1 623 377	11 764	-	19 158 681
Loans and advances to customers	-	13 763 297	3 212 891	668 097	-	17 644 285
Held-to-maturity financial assets	-	2 269 787	763 856	2 062 900	-	5 096 543
Property and equipment and intangible assets	-	-	-	-	109 802	109 802
Other assets	169	17 735	43 200	32 460	-	93 564
Total assets	**21 906 489**	**17 898 905**	**5 643 324**	**2 775 221**	**109 802**	**48 333 741**
LIABILITIES						
Due to financial institutions	9 191 784	-	613 255	276 580	-	10 081 619
Customer accounts other than individual accounts	15 570 236	5 733 474	152 951	130 878	-	21 587 539
Individual accounts	14 390	100	-	-	-	14 490
Other liabilities and provisions	109 506	-	-	17 870	-	127 376
Subordinated loans	-	-	-	2 894 063	-	2 894 063
Total liabilities	**24 885 916**	**5 733 574**	**766 206**	**425 328**	**2 894 063**	**34 705 087**
Net balance sheet item as at December 31, 2017	**(2 979 427)**	**12 165 331**	**4 877 118**	**2 349 893**	**(2 784 261)**	**13 628 654**
Net balance sheet item on accrual basis as at December 31, 2017	**(2 979 427)**	**9 185 904**	**14 063 022**	**16 412 915**	**13 628 654**	

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The carrying value of financial instruments broken down by expected maturity term as at December 31, 2016 is presented in the table below:

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 1 year	Outstanding / with unlimited period	Total
ASSETS						
Cash and cash equivalents	9 471 615	-	-	-	-	9 471 615
Mandatory cash balances with the Bank of Russia	776 622	-	-	-	-	776 622
Financial assets at fair value through profit or loss	-	-	-	2 989	-	2 989
Due from financial institutions	16 791 747	4 003 130	3 660 815	-	-	24 455 692
Loans and advances to customers	773 575	-	3 672 944	8 940 787	-	13 387 306
Deferred tax asset	-	-	47 755	1 671 284	-	1 719 039
Property and equipment and intangible assets	-	-	-	60 449	-	60 449
Other assets	441	653	42 214	17 584	-	60 892
Total assets	**27 814 000**	**4 003 783**	**7 423 728**	**10 693 092**	**-**	**49 934 604**
LIABILITIES						
Due to financial institutions	13 423 300	121 314	-	3 119 284	-	16 663 898
Customer accounts	14 894 107	9 186 696	303 374	113 263	-	24 497 440
Other liabilities and provisions	32 332	-	3 950	69 637	-	105 919
Subordinated loans	-	-	-	3 045 776	-	3 045 776
Total liabilities	**28 349 739**	**9 308 010**	**307 324**	**6 347 960**	**-**	**44 313 033**
Net balance sheet item as at December 31, 2016	**(535 739)**	**(5 304 227)**	**7 116 404**	**4 345 132**	**-**	**5 621 571**
Net balance sheet item on accrual basis as at December 31, 2016	**(535 739)**	**(5 839 966)**	**1 276 438**	**5 621 571**		

The table below shows liabilities as at December 31, 2016 broken down by contractual time to maturity. The presented amounts reflect contractual undiscounted cash flows, including total financial lease liabilities (before future payments), prices specified in currency forward contract for cash purchase of financial assets, contractual amounts redeemable in exchange swaps the settlement under which is made on a gross basis. These undiscounted cash flows differ from figures in the balance sheet since the latter is based on discounted cash flows.

As a rule, the difference from the carrying amount is increased potential costs for borrowings in accordance with the terms and conditions of contracts in force at the settlement date till the end of their realization.
When the amount payable is not fixed, the amount in the table is calculated depending on conditions existing at the reporting date. Currency payments are restated with spot foreign exchange rate effective at the reporting date.
The analysis of financial liabilities by maturity as at December 31, 2017 is given in the table below:

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 1 year	Total
LIABILITIES					
Due to financial institutions	9 191 784	-	613 255	276 580	10 081 619
Customer accounts other than individual accounts	15 570 236	5 733 474	152 951	130 878	21 587 539
Individual accounts	14 390	100	-	-	14 490
Other liabilities and provisions	111 165	-	-	16 211	127 376
Subordinated loans	-	-	-	2 894 063	2 894 063
Guarantees and sureties granted	-	-	-	3 595 999	3 595 999
Undrawn credit lines	-	-	-	4 741 804	4 741 804
Total potential future payments on financial liabilities	**24 887 575**	**5 733 574**	**766 206**	**11 655 535**	**43 042 890**

The analysis of financial liabilities by maturity as at December 31, 2016 is given in the table below:

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 1 year	Total
LIABILITIES					
Due to financial institutions	13 423 300	121 314	-	3 119 284	16 663 898
Customer accounts	14 894 107	9 186 696	303 374	113 263	24 497 440
Other liabilities and provisions	32 332	-	3 950	69 637	105 919
Subordinated loans	-	-	-	3 045 776	3 045 776
Financial guarantees recorded in the financial statements when the event of loss occurs	-	-	-	2 531 236	2 531 236
Undrawn credit lines	-	-	-	1 745 648	1 745 648
Total potential future payments on financial liabilities	**28 349 739**	**9 308 010**	**307 324**	**10 624 844**	**48 589 917**

– Geographical risk

Assets and liabilities are (normally) classified by the country of residence of counterparty.
The geographical analysis of assets and liabilities of the Bank as at December 31, 2017 is given below:

	Russia	OECD	Southeast Asia	Other countries	Total
ASSETS					
Cash and cash equivalents	2 810 162	284	2 254 662	-	5065108
Mandatory cash balances with the Bank of Russia	1 165 758	-	-	-	1 165 758
Due from financial institutions	15 690 751	-	3 467 930	-	19 158 681
Loans and advances to customers	14 896 294	-	-	2 747 991	17 644 285
Held-to-maturity financial assets	4 001 978	-	1 094 565	-	5 096 543
Property and equipment and intangible assets	109 802	-	-	-	109 802
Other assets	92 845	-	-	719	93 564
Total assets	**38 767 590**	**284**	**6 817 157**	**2 748 710**	**48 333 741**
LIABILITIES					
Due to financial institutions	3 682 975	1 247 907	5 092 276	58 461	10 081 619
Customer accounts other than individual accounts	19 353 343	1 724	2 200 539	31 933	21 587 539
Individual accounts	14 390	-	100	-	14 490
Other liabilities and provisions	127 376	-	-	-	127 376
Subordinated loans	-	-	2 894 063	-	2 880 010
Total liabilities	**23 178 084**	**1 249 631**	**10 186 978**	**90 394**	**34 705 087**
Net balance sheet item	**15 589 506**	**(1 249 347)**	**(3 369 821)**	**2 658 316**	**13 628 654**

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The geographical analysis of assets and liabilities of the Bank as at December 31, 2016 is given below:

	Russia	OECD	Southeast Asia	Other countries	Total
ASSETS					
Cash and cash equivalents	2 738 254	299	6 733 062	-	9 471 615
Mandatory cash balances with the Bank of Russia	776 622	-	-	-	776 622
Financial assets at fair value through profit or loss	-	-	2 989	-	2 989
Due from financial institutions	19 535 783	-	4 919 909	-	24 455 692
Loans and advances to customers	7 027 233	-	3 371 235	2 988 838	13 387 306
Held-to-maturity financial assets	630 646	-	1 088 393	-	1 719 039
Property and equipment and intangible assets	60 449	-	-	-	60 449
Other assets	60 892	-	-	-	60 892
Total assets	**30 829 879**	**299**	**16 115 588**	**2 988 838**	**49 934 603**
LIABILITIES					
Due to financial institutions	4 425 302	1 328 239	10 696 915	213 442	16 663 898
Customer accounts	23 525 909	107 552	633 552	230 427	24 497 440
Other liabilities and provisions	105 919	-	-	-	105 919
Subordinated loans	-	-	3 045 776	-	3 045 776
Total liabilities	**28 057 130**	**1 435 791**	**14 376 243**	**443 869**	**44 313 033**
Net balance sheet item	**2 772 749**	**(1 435 492)**	**1 739 345**	**2 544 969**	**5 621 569**

- **Market risk**

The Bank is exposed to market risk that is the risk of financial losses or decline in the value of assets arising from adverse movements in market prices (foreign exchange rates, prices for precious metals, interest rates). The Bank sets limits on the level of accepted risk and controls adherence to these limits on a daily basis. But this approach cannot entirely prevent from losses which are over the limits in cases of more considerable changes in the market.

Market risk is divided into:

- Interest rate risk
- Equity risk
- Currency risk

The Bank manages market risk in accordance with the market risk management policy. The main aim of the market risk management is to optimize the risk/reward ratio, minimize losses in case of unfavourable events and reduce the difference between the actual financial performance and its expected performance.

The Bank assesses market risk both by components and comprehensively determining market risk concentration and diversification results.

- **Interest rate risk**

The Bank assumes the risk associated with impact of fluctuations in market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event of unexpected movements.

The Bank is exposed to interest rate risk primarily as a result of lending at fixed interest rates, in amounts and for term which differ from those for borrowings at fixed interest rates.

The aim of managing this type of market risk is decreasing the effect of changes in interest rates on net interest income. For managing interest rate risk, the Bank's Committee on Interest Rate Policy and Limits sets forth maximum interest rates for raising funds of legal entities and minimum interest rates for placing resources in loans to legal entities, minimum rates of return on investments in securities, and restrictions on early asset-related operations, i.e. operations that are most exposed to interest rate risk. The Board of the Bank approves fixed interest rates for deposits and loans of individuals, which are preapproved by the Bank's Committee on Interest Rate Policy and Limits. Interest rates for deposits and loans of individuals usually depend on a maturity period of a loan or a deposit, its amount, and client category.

To manage interest rate risk, the Bank mainly applies the following methods:
- Assets and liabilities matching in terms of maturity;
- GAP analysis.

The analysis of the Bank's risk resulting from fluctuations in interest rates as at December 31, 2017 is given below. The table displays assets and liabilities which are exposed to interest rate risk and classified into different time categories by contractual dates of interest rate revision.

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 1 year	Indefinite term / No interest rate risk	Total
ASSETS						
Cash and cash equivalents	5 065 108	-	-	-	-	5065108
Mandatory cash balances with the Bank of Russia	-	-	-	-	1 165 758	1 165 758
Due from financial institutions	15 675 454	1 848 086	1 528 532	11 764	94 845	19 158 681
Loans and advances to customers	-	13 763 297	3 134 439	668 097	78 452	17 644 285
Held-to-maturity financial assets	-	2 269 787	763 856	2 062 900	-	5 096 543
Property and equipment and intangible assets	-	-	-	-	109 802	109 802
Other assets	169	17 735	43 200	32 460	-	93 564
Total assets	**20 740 731**	**17 898 905**	**5 470 027**	**2 775 221**	**1 448 857**	**48 333 741**
Accrued total assets	**20 740 731**	**38 639 636**	**44 109 663**	**46 884 884**	**48 333 741**	
LIABILITIES						
Due to financial institutions	9 191 784	-	401 651	262 527	225 657	10 095 672
Customer accounts other than individual accounts	15 570 236	5 733 474	100 559	130 878	52 392	21 587 539
Individual accounts	14 390	100	-	-	-	14 490
Other liabilities and provisions	89 558	-	-	16 211	21 607	127 376
Subordinated loans	2 894 063	-	-	-	-	2 894 063
Total liabilities	**27 760 031**	**5 733 574**	**502 210**	**409 616**	**299 656**	**34 705 087**
Accrued total liabilities	**27 760 031**	**33 493 605**	**33 995 815**	**34 405 431**	**34 705 087**	
Marginal gap	(7 019 300)	12 165 331	4 967 817	2 365 605	1 149 201	
Gap ratio (cumulative relative gap on accrual basis)	**0.75**	**1.15**	**1.30**	**1.36**	**1.39**	
Interest rate sensitivity	(67 268)	86 171	12 420			31 322

The analysis of the Bank's risk resulting from fluctuations in interest rates as at December 31, 2016 is given below.

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 1 year	Indefinite term / No interest rate risk	Total
ASSETS						
Cash and cash equivalents	9 372 491	-	-	-	99 124	9 471 615
Mandatory cash balances with the Bank of Russia	-	-	-	-	776 622	776 622
Financial assets at fair value through profit or loss	-	-	-	2 989	-	2 989
Due from financial institutions	16 791 747	4 003 130	3 549 849	-	110 966	24 455 692
Loans and advances to customers	773 575	-	3 672 943	8 910 529	30 259	13 387 306
Held-to-maturity financial assets	-	-	47 755	1 671 284	-	1 719 039
Property and equipment and intangible assets	-	-	-	-	60 449	60 449
Other assets	441	653	43 294	16 504		60 892
Total assets	**26 938 254**	**4 003 783**	**7 313 841**	**10 601 306**	**1 077 420**	**49 934 604**
Accrued total assets	**26 938 254**	**30 942 037**	**38 255 878**	**48 857 184**	**49 934 604**	

LIABILITIES						
Due to financial institutions	13 423 300	121 314	-	2 945 855	173 429	16 663 898
Customer accounts	14 898 303	9 186 696	303 374	103 117	5 950	24 497 440
Other liabilities and provisions	32 332	-	1 919	69 637	2 031	105 919
Subordinated loans	-	-	-	3 045 776	-	3 045 776
Total liabilities	**28 353 935**	**9 308 010**	**305 293**	**6 164 385**	**181 410**	**44 313 033**
Accrued total liabilities	**28 353 935**	**37 661 945**	**37 967 238**	**44 131 623**	**44 313 033**	
Marginal gap	(1 031 574)	(5 304 227)	6 980 215	4 436 921	540 236	
Gap ratio (cumulative relative gap on accrual basis)	**0.96**	**0.83**	**1.02**	**1.12**	**1.13**	
Interest rate sensitivity	(9 886)	(37 572)	17 451			(30 007)

Sensitivity to fluctuations in interest rates is the effect of a parallel shift in all yield curves of 100 basis points to the amount of net interest income for a year.

Analysis of the interest rate risk on the basis of the above tables is conducted over an absolute gap amount obtained at the end of the year. As at December 31, 2017, upon increasing interest rate by 100 basis points, the effect on net interest income for the year was 31 322 ths rubles, upon decreasing interest rate it was 31 322 ths rubles (in 2016, upon increasing interest rate by 100 basis points, the effect on net interest income for the year was 30 007 ths rubles, upon decreasing interest rate it was 30 007 ths rubles).

– Currency risk

The Bank is exposed to currency risk that is the risk of losses arising from adverse changes in exchange rates on open foreign currency positions.

The Bank sets limits on the level of accepted risk by currency and comprehensively both for the end of each day and throughout the day and controls adherence to these limits on a daily basis.

The table below provides general analysis of the Bank's currency risk as at the reporting date, December 31, 2017:

	RUB	USD	EUR	CNY	HKD	Total
ASSETS						
Cash and cash equivalents	2 793 207	645 519	248 294	163 725	1 214 363	5 065 108
Mandatory cash balances with the Bank of Russia	-	1 165 758	-	-	-	1 165 758
Due from financial institutions	9 830 824	5 432 972	236 533	3 657 615	737	19 158 681
Loans and advances to customers	2 348 765	12 196 524	3 098 996	-	-	17 644 285
Held-to-maturity financial assets	4 001 978	-	-	1 094 565	-	5 096 543
Property and equipment and intangible assets	-	109 802	-	-	-	109 802
Other assets	77 091	1 164	-	15 309	-	93 564
Total assets	**19 051 865**	**19 551 739**	**3 583 823**	**4 931 214**	**1 215 100**	**48 333 741**
LIABILITIES						
Due to financial institutions	2 451 399	1 606 759	2 624 992	3 400 115	12 407	10 095 672
Customer accounts other than individual accounts						
- Current accounts, demand deposits	3 231 818	3 882 422	179 742	288 384	1 202 544	8 784 910
- Term deposits	3 358 442	8 421 798	-	1 022 389	-	12 802 629
Individual accounts — current accounts, demand deposits	14 490			-	-	14 490
Other liabilities and provisions	123 343	4 033	-	-	-	127 376
Subordinated loans	-	2 894 063	-	-	-	2 894 063
Total liabilities	**9 165 439**	**16 809 075**	**2 804 734**	**4 710 888**	**1 214 951**	**34 705 087**
Net balance sheet item	**9 886 426**	**2 742 664**	**779 089**	**220 326**	**149**	**13 628 654**

The table below provides general analysis of the Bank's currency risk as at the reporting date, December 31, 2016:

	RUB	USD	EUR	CNY	HKD	Total
ASSETS						
Cash and cash equivalents	2 738 248	1 165 712	3 934 619	1 311 504	321 532	9 471 615
Mandatory cash balances with the Bank of Russia	776 622	-	-	-	-	776 622
Financial assets at fair value through profit or loss	2 989	-	-	-	-	2 989
Due from financial institutions	15 262 985	4 352 322	1 957 788	2 881 557	1 040	24 455 692
Loans and advances to customers	307 239	12 762 268	-	317 798	-	13 387 305
Held-to-maturity financial assets	630 635	-	-	1 088 404	-	1 719 039
Property and equipment and intangible assets	60 449	-	-	-	-	60 449
Other assets	58 280	249	-	2 364	-	60 893
Total assets	**19 837 447**	**18 280 551**	**5 892 407**	**5 601 627**	**322 572**	**49 934 604**
LIABILITIES						
Due to financial institutions	9 232 323	2 891 334	1 223	4 515 493	23 525	16 663 898
Customer accounts other than individual accounts						
- Current accounts, demand deposits	1 520 461	7 987 564	155 136	415 703	97	10 078 961
- Term deposits (over 30 days)	3 806 039	9 161 468	-	1 446 776	-	14 414 283
Individual accounts						
- Current accounts, demand deposits	4 196	-	-	-	-	4 196
Other liabilities and provisions	105 919	-	-	-	-	105 919
Subordinated loans		3 045 776	-	-	-	3 045 776
Total liabilities	**14 668 938**	**23 086 142**	**156 359**	**6 377 972**	**23 622**	**44 313 033**
Net balance sheet item	**5 168 509**	**(4 805 591)**	**5 736 048**	**(776 345)**	**298 950**	**5 621 571**

- Operating risk

Operating risk shall mean a risk of losses which may arise due to incompliance with the nature and scope of the Bank's activity and/or requirements of applicable legislation, internal rules and procedures regulating bank operations and other transactions, violation thereof by the Bank's personnel and/or by any other persons (as a result of incompetence, intentional or unintentional actions or omissions), inadequacy (or insufficiency) of functional capabilities (or characteristics) of the information, engineering or any other systems employed by the Bank and/or any failure (or malfunction) thereof or any other external event whatsoever.

The Bank's operating risk management process comprises the following stages: identification, assessment, monitoring, control and/or mitigation of the operating risk.

For the operating risk mitigation purposes, the Bank performs regular audits in terms of compliance with information security requirements. Besides, the Bank's by-laws regulating bank operations are continuously adjusted, and the Bank continues working on optimization of information flows and internal document management system.

In order to decrease the operating risk, the Bank arranges for and sets forth the internal controls over operations in the Bank's subdivisions. The control system provides for effective separation of duties, access rights, procedures for approval, documenting, and reconciliation, compliance with the legal requirements and regulations of the Bank of Russia, preparation of plans for support of the activities in emergencies, staff training, and assessment procedures, including internal audit.

The Bank seeks to identify the operating risk on a regular basis. A dedicated analytic database is kept for this purpose specifying data on types and scope of losses by the Bank's business areas as well as circumstances attached to such losses. The Bank also maintains an external operating risk database that registers realized operating risks in the Bank's external environment.

– Legal risk

Legal risk is the risk that the Bank may incur losses due to its incompliance with laws and regulations, and concluded contracts, legal errors committed in operating activity, imperfect legal system (inconsistent legislation of the Russian Federation, lack of legal norms to regulate some issues which arise in the course of business of the Bank), violation by counterparties of laws and regulations and terms and conditions of concluded contracts.

The Bank, in its turn, maintains continued ongoing monitoring of changes in Russian and international legislation and timely amends internal instructions and regulations and thus reduces this risk.

26 Capital management

The Bank's capital management is aimed at: (i) adherence to the legal capital requirements set by the Bank of Russia and (ii) ensuring the Bank's ability to operate as a going concern.

The Central Bank of the Russian Federation sets the rules of calculation of base capital, key capital and equity of the Bank for the purpose of regulation. As of today, in accordance with the requirements of the Central Bank of the Russian Federation, banks shall keep the requirement of relation of base capital value, key capital value and equity value to the value of assets weighed with account to risk higher than the defined minimum level. As at December 31, 2016, the said minimum level for base capital adequacy ratio was 5%, for key capital adequacy ratio was 5.5% and for equity (capital) adequacy ratio was 10%.

	December 31, 2017	December 31, 2016
Value of base capital	12 672 062	4 473 920
Value of key capital	12 672 062	4 473 920
Value of equity (capital)	16 657 899	8 821 646
Base capital adequacy ratio (H1.1), %	28.7	10.3
Key capital adequacy ratio (H1.2), %	28.7	10.3
Equity (capital) adequacy ratio of the Bank (H1.0), %	37.8	20.3

Control over observation of capital adequacy ratio set by the Bank of Russia is exercised by the credit institution on a daily basis. The credit institution files to the Bank of Russia on a monthly basis the calculations of capital adequacy ratio, which are checked and approved by the head and the chief accountant of the credit institution. Other aims of capital management are assessed on a yearly basis.

During 2017 and 2016, the Bank complied with all external capital requirements.

27 Estimated liabilities, contingent liabilities and contingent assets Legal

proceedings

From time to time and in the normal course of business, claims against the Bank are received by judicial authorities. Based on own assessment and recommendations of internal and external advisors, the management believes that the Bank will not incur any material losses resulting from legal proceedings on such claims and, for this reason, has not created any related provisions.

Tax legislation

The taxation system in the Russian Federation is constantly developing and changing. The enactments and regulations in taxation are not always clearly worded. It is not uncommon that there are discrepancies in the opinions on their interpretation among local, regional, and federal tax authorities.

In the Russian Federation, a tax return is subject to review and check during three years. Field or in-house tax audit of a tax return relating to the current year does not mean that no repeated tax audit may be conducted for the period not exceeding three calendar years preceding the year of its beginning.

In accordance with the Russian tax legislation, if any understated tax liabilities are detected, fines and penalties may be charged, which amount may be material against the amount of detected tax abuses.

In general, the management believes that the Company paid or assessed all taxes set forth by law. As to transactions, for which there is any uncertainty over taxes, except for income tax, the Company assessed tax liabilities in accordance with the best assessment by the management of probable outflow of resources that will be required to settle the said liabilities. Possible liabilities identified as at the reporting date, which are determined by the management as liabilities related to different interpretation of the tax legislation and regulations, are not assessed in the consolidated financial statements.

Operating lease commitments

The minimum lease payments under non-cancellable operating leases in cases when the Bank is a lessee are as follows:

	December 31, 2017	December 31, 2016
Within 1 year	77 581	77 581
After 1 year, but not later than 5 years	21 750	21 750
After 3 years	36 265	36 265
Total operating lease commitments	**135 596**	**135 596**

Operating leases include premises lease agreements, i.e. the principal place of location of the Bank. The rent under these agreements is a rent per square meter multiplied by the area of the premises leased.

Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees, i.e. irrevocable undertaking by the Bank to make a payment in the event that a customer fails to perform its obligations to third parties, are exposed to the same risk as loans. Documentary letters of credit, i.e. written undertaking by the Bank on behalf of a customer to pay a specified amount subject to meeting of the stipulated conditions, are secured by goods delivery or cash deposits and therefore exposed to lower risk than direct loans. Credit commitments at a specific rate during a fixed period are accounted for as derivative financial instruments unless their maturity exceeds standard lending terms. The Bank's credit related commitments were:

The Bank recognizes provisions for credit related commitments if losses on such commitments are highly probable.

	December 31, 2017	December 31, 2016
Undrawn credit lines and overdraft limits	5 741 804	4 551 479
Letters of credit	1 492 383	1 459 606
Guarantees issued	3 595 999	1 745 648
Total credit related commitments	**10 830 186**	**7 756 733**

28 Fair value of financial instruments

Fair value is the amount for which a financial instrument could be exchanged between knowledgeable, willing parties in an arm's length transaction. The best evidence of fair value is given by quoted price in the market for the financial instrument.

The Bank determined the estimated fair value of financial instruments on the basis of available market data (if any) and proper valuation techniques. Professional judgments are however required to interpret market data to determine the fair value. Notwithstanding the Russian Federation has investment grade ratings, it continues to display some characteristic of an emerging economy and economic environment continues to limit the level of activity in financial markets. Market quotations may be outdated or reflect low sale cost and, in view of this, mispresent the fair value of financial instruments. Management uses all available market data when assessing the fair value of financial instruments.

Financial instruments at fair value

Trading securities and other securities changes in fair value of which are recognised in the profit and loss statement, including securities classified as "Receivables on REPO transactions", derivative financial instruments and available-for-sale financial assets are recognised in the balance sheet at fair value. The fair value is based on the quoted market prices. Cash and cash equivalents are recognised at amortised cost which approximates their current fair value.

Due from financial institutions

In the management's opinion, the fair value of due from financial institutions did not significantly differ from their carrying amount. It is explained by the existent practice when interest rate is restated in order to reflect current market conditions. Therefore, interest rate for most balances is based on rates similar to market ones.

Loans and advances to customers

The fair value of floating rate instruments is normally their carrying amount. In case of significant changes in the market environment, the Bank can review interest rates on fixed rate loans to customers and deposits with other banks. As a consequence, interest rates on loans made prior to the reporting date do not significantly differ from effective interest rates in the loan market for new instruments with similar credit risks and remaining maturities. If the Bank estimates that rates on loans made in earlier periods significantly differ from effective interest rates for similar instruments at the reporting date, the estimated fair value of such loans shall be determined. The measurement is based on expected cash flows discounted at effective interest rates in the loan market for new instruments with similar credit risks and remaining maturities. The discount rates used depend on the currency, maturity of the instrument and credit risk of the counterparty.

Held-to-maturity financial assets

The fair value of held-to-maturity financial assets is based on the quoted market prices.

The Bank estimates the fair value of other financial assets, including trade and business receivables that is equal to the carrying amount taking into account that the indebtedness is short-term.

Liabilities at amortised cost

The fair value of liabilities at amortised cost is based on the quoted market prices, if available. The estimated fair value of fixed rate instruments with a stated maturity, for which quoted market prices are not available, is based on expected cash flows discounted at interest rates for new instruments with similar credit risks and remaining maturities. The fair value of liabilities repayable on demand or after a notice period (demandable liabilities) is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Derivative financial instruments

All derivative financial instruments are accounted for at fair value as assets if fair value of such instruments is positive or as liabilities if their fair value is negative.

The fair value of financial instruments is as follows:

	December 31, 2017		December 31, 2016	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial assets at fair value				
Financial assets at fair value through profit or loss	-	-	2 989	2 989
Financial assets at amortised cost				
Cash and cash equivalents	5 065 108	5 065 108	9 471 615	9 471 615
Mandatory cash balances with the Bank of Russia	1 165 758	1 165 758	776 622	776 622
Due from financial institutions	19 158 681	19 158 681	24 455 692	24 455 692
Loans and advances to customers	17 644 285	17 644 285	13 387 305	13 387 305
Held-to-maturity financial assets	5 096 543	5 096 543	1 719 039	1 719 039
Other assets	93 564	93 564	60 892	60 892
Total financial assets	**48 223 939**	**48 223 939**	**49 874 154**	**49 874 154**
Financial liabilities				
Financial liabilities at amortised cost				
Due to financial institutions	10 081 619	10 081 619	16 663 898	16 663 898
Customer accounts	21 602 029	21 602 029	24 497 440	24 497 440
Other liabilities and provisions	127 376	127 376	105 919	105 919
Subordinated loans	2 894 063	2 894 063	3 045 776	3 045 776
Total liabilities	**34 705 087**	**34 705 087**	**44 313 033**	**44 313 033**

29 Related party transactions

For the purposes of these financial statements, the parties are considered to be related if one party has the ability to control the other party or to exercise significant influence on the other party in making financial and operating decisions as stated in IAS 24 "Related Party Disclosures". When considering each possible related party relationship, attention is paid to the substance of such relationship, not merely its legal form.

As at December 31, 2017, the Bank's related parties include:

Key shareholders and organisations controlling shareholders

Name	Activity	Relations	Until the date in the current period
Industrial and Commercial Bank of China Limited (PRC)	Finance and investment	Shareholder, 100%	

Key managers of the Bank

Name	Activity	Functions	Until the date in the current period
Li Wencong	President	Management	Until now
Lang Weijie	Vice President	Management	Until now
Igor G. Titlin	Vice President	Management	Until now
Wang Gang	Vice President	Management	Until now
Natalia Viktorovna Kuz'mina	Chief Accountant	Management	Until now
Shao Changyun	Vice President	Management	Until now

Other related parties of the Bank

The category "Other related parties of the Bank" includes all subsidiaries of the parent company being Industrial and Commercial Bank of China Limited (PRC)

Name	Activity	Functions	Until the date in the current period
ICBC BEIJING MUNICIPAL BRANCH	Finance and investment	Subsidiary of the parent company	
ICBC ANHUI PROVICIAL BRANCH	Finance and investment	Subsidiary of the parent company	
ICBC CHONGOING MUNICIPAL BRANCH	Finance and investment	Subsidiary of the parent company	
ICBC-DALIAN BRANCH	Finance and investment	Subsidiary of the parent company	
ICBC- FUJIAN PROVINCIAL BRANCH	Finance and investment	Subsidiary of the parent company	
ICBC-GANSU PROVINCIAL BRANCH	Finance and investment	Subsidiary of the parent company	
ICBC-GUANGDONG PROVINCIAL BRANCH	Finance and investment	Subsidiary of the parent company	
ICBC-GUANGXI AUTONOMOUS REGION BRANCH	Finance and investment	Subsidiary of the parent company	
ICBC-GUIZHOU PROVINCIAL BRANCH	Finance and investment	Subsidiary of the parent company	
ICBC-HAINAN PROVINCIAL BRANCH	Finance and investment	Subsidiary of the parent company	
ICBC-HEBEI PROVINCIAL BRANCH	Finance and investment	Subsidiary of the parent company	
ICBC-HENAN PROVINCIAL BRANCH	Finance and investment	Subsidiary of the parent company	
ICBC-HEILONGJIANG PROVINCIAL BRANCH	Finance and investment	Subsidiary of the parent company	
ICBC-HUBEI PROVINCIAL BRANCH	Finance and investment	Subsidiary of the parent company	
ICBC-HUNAN PROVINCIAL BRANCH	Finance and investment	Subsidiary of the parent company	

ICBC-JILIN PROVINCIAL BRANCH	Finance and investment	Subsidiary of the parent company
ICBC-JIANGSU PROVINCIAL BRANCH	Finance and investment	Subsidiary of the parent company
ICBC-JIANGXI PROVINCIAL BRANCH	Finance and investment	Subsidiary of the parent company
ICBC-LIAONING PROVINCIAL BRANCH	Finance and investment	Subsidiary of the parent company
ICBC-INNER MONGOLIA AUTONOMOUS REGION BRANCH	Finance and investment	Subsidiary of the parent company
ICBC-NINGBO BRANCH	Finance and investment	Subsidiary of the parent company
ICBC-NINGXIA AUTONOMOUS REGION BRANCH	Finance and investment	Subsidiary of the parent company
ICBC-QINGDAO BRANCH	Finance and investment	Subsidiary of the parent company
ICBC-QINGHAI PROVINCIAL BRANCH	Finance and investment	Subsidiary of the parent company
ICBC-SHANDONG PROVINCIAL BRANCH	Finance and investment	Subsidiary of the parent company
ICBC-SHANXI PROVINCIAL BRANCH	Finance and investment	Subsidiary of the parent company
ICBC-SHAANXI PROVINCIAL BRANCH	Finance and investment	Subsidiary of the parent company
ICBC-SHANGHAI MUNICIPAL BRANCH	Finance and investment	Subsidiary of the parent company
ICBC-SHENZHEN BRANCH	Finance and investment	Subsidiary of the parent company
ICBC-SICHUAN PROVINCIAL BRANCH	Finance and investment	Subsidiary of the parent company
ICBC-TIANJIN MUNICIPAL BRANCH	Finance and investment	Subsidiary of the parent company
ICBC-XIAMEN BRANCH	Finance and investment	Subsidiary of the parent company
ICBC-XINJIANG AUTONOMOUS REGION BRANCH	Finance and investment	Subsidiary of the parent company
ICBC-TIBET AUTONOMOUS REGION BRANCH	Finance and investment	Subsidiary of the parent company
ICBC-YUNNAN PROVINCIAL BRANCH	Finance and investment	Subsidiary of the parent company
ICBC-ZHEJIANG PROVINCIAL BRANCH	Finance and investment	Subsidiary of the parent company
ICBC Credit Suisse Asset Management Co., Ltd.	Finance and investment	Subsidiary of the parent company
ICBC Financial Leasing Co., Ltd.	Finance and investment	Subsidiary of the parent company
ICBC-AXA Assurance Co., Ltd.	Finance and investment	Subsidiary of the parent company
Chongqing Bishan ICBC Rural Bank Co., Ltd.	Finance and investment	Subsidiary of the parent company
Zhejiang Pinghu ICBC Rural Bank Co., Ltd.	Finance and investment	Subsidiary of the parent company
Industrial and Commercial Bank of China Limited, Hong Kong Br	Finance and investment	Subsidiary of the parent company
Industrial and Commercial Bank of China Limited, Singapore Bra	Finance and investment	Subsidiary of the parent company
Industrial and Commercial Bank of China Limited, Tokyo Branch	Finance and investment	Subsidiary of the parent company
Industrial and Commercial Bank of China Limited, Seoul Branch	Finance and investment	Subsidiary of the parent company
Industrial and Commercial Bank of China Limited, Busan Branch	Finance and investment	Subsidiary of the parent company
Industrial and Commercial Bank of China Limited, Hanoi Branch!	Finance and investment	Subsidiary of the parent company
Industrial and Commercial Bank of China Limited, Vientiane Brar	Finance and investment	Subsidiary of the parent company

Industrial and Commercial Bank of China Limited, Phnom Penh 1	Finance and investment	Subsidiary of the parent company
Industrial and Commercial Bank of China Limited, Doha (QFC) B	Finance and investment	Subsidiary of the parent company
Industrial and Commercial Bank of China Limited, Abu Dhabi Bra	Finance and investment	Subsidiary of the parent company
Industrial and Commercial Bank of China Limited, Dubai (DIFC) I	Finance and investment	Subsidiary of the parent company
Industrial and Commercial Bank of China Limited Karachi Branch	Finance and investment	Subsidiary of the parent company
Industrial and Commercial Bank of China Limited, Mumbai Branc	Finance and investment	Subsidiary of the parent company
Industrial and Commercial Bank of China Limited, Yangon Branc	Finance and investment	Subsidiary of the parent company
Industrial and Commercial Bank of China Limited, Riyadh Branch	Finance and investment	Subsidiary of the parent company
Industrial and Commercial Bank of China Limited, Kuwait Branch	Finance and investment	Subsidiary of the parent company
Industrial and Commercial Bank of China Limited, Sydney Brand	Finance and investment	Subsidiary of the parent company
Industrial and Commercial Bank of China Limited, Luxembourg B	Finance and investment	Subsidiary of the parent company
Industrial and Commercial Bank of China Limited, Frankfurt Bran	Finance and investment	Subsidiary of the parent company
Industrial and Commercial Bank of China Limited, London Brand	Finance and investment	Subsidiary of the parent company
Industrial and Commercial Bank of China Limited, New York Brai	Finance and investment	Subsidiary of the parent company
Industrial and Commercial Bank of China (Asia) Limited	Finance and investment	Subsidiary of the parent company
ICBC International Holdings Limited	Finance and investment	Subsidiary of the parent company
Industrial and Commercial Bank of China (Macau) Limited	Finance and investment	Subsidiary of the parent company
Industrial and Commercial Bank of China (Malaysia) Berhad	Finance and investment	Subsidiary of the parent company
PT. Bank ICBC Indonesia	Finance and investment	Subsidiary of the parent company
Industrial and Commercial Bank of China (Thai) Public Company	Finance and investment	Subsidiary of the parent company
Industrial and Commercial Bank of China (Almaty) Joint Stock C<	Finance and investment	Subsidiary of the parent company
Industrial and Commercial Bank of China (New Zealand) Limited	Finance and investment	Subsidiary of the parent company
ICBC (London) PLC	Finance and investment	Subsidiary of the parent company
Industrial and Commercial Bank of China (Europe) S.A.	Finance and investment	Subsidiary of the parent company
ICBC Standard Bank PLC	Finance and investment	Subsidiary of the parent company
ICBC Turkey Bank Anonim §irketi	Finance and investment	Subsidiary of the parent company
Industrial and Commercial Bank of China (USA) NA	Finance and investment	Subsidiary of the parent company
Industrial and Commercial Bank of China Financial Services LLC	Finance and investment	Subsidiary of the parent company
Industrial and Commercial Bank of China Mexico S.A.	Finance and investment	Subsidiary of the parent company
Industrial and Commercial Bank of China (Canada)	Finance and investment	Subsidiary of the parent company
Industrial and Commercial Bank of China (Argentina) S.A.	Finance and investment	Subsidiary of the parent company
Industrial and Commercial Bank of China (Brasil) S.A.	Finance and investment	Subsidiary of the parent company
ICBC PERU BANK	Finance and investment	Subsidiary of the parent company

Industrial and Commercial Bank of China Limited, African Repres	Finance and investment	Subsidiary of the parent company

Related party transactions were conducted at market rates, unless otherwise stated. Ending balances, items of income or expenses associated with related party transactions for the year are as follows.

Key shareholders and organisations controlling shareholders (ultimate beneficiaries)
Items of assets and liabilities associated with related party transactions that are key shareholders controlling shareholders and organisations (ultimate beneficiaries) for 2017 and 2016 are as follows:

	December 31, 2017		December 31, 2016	
	Characteristics of assets and liabilities (rate, ownership interest)	Carrying amount	Characteristics of assets and liabilities (rate, ownership interest)	Carrying amount
ASSETS				
Cash and cash equivalents	Balance of correspondent accounts	727 861	Balance of correspondent accounts	175,900
Total assets		**727 861**		**175 900**
LIABILITIES				
Due to financial institutions Customer accounts other than individual accounts	Loans issued and deposits placed by non-resident banks	3 111 716	Loans issued and deposits placed by non-resident banks	8 951 310
Subordinated loans		2 894 063		3 045 776
Total liabilities		**6 005 779**		**11 997 086**

Items of income and expenses associated with related party transactions that are key shareholders and organisations controlling shareholders (ultimate beneficiaries) for 2017 and 2016 are as follows.

	December 31, 2017	December 31, 2016
Interest income	9 641	951
Interest expense	80 323	71 706
Income less expense from foreign currency transactions	(168 082)	66 972
Fee and commission income	98	154
Fee and commission expense	7	53
Income (expense) with derivative financial instruments	(100 085)	(2 085)
Operating expenses	-	203
NET PROFIT / (LOSS)	**(178 098)**	**137 954**

Contingent liabilities associated with related party transactions that are key shareholders and organisations controlling shareholders (ultimate beneficiaries) for 2017 and 2016 are as follows.

	December 31, 2017	December 31, 2016
Transactions with derivative financial instruments	2 335 273	3 828 666

Key managers of the Bank
The amount of remuneration to key managers for 2017 and 2016 is as follows:

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	December 31, 2017	December 31, 2016
Salary and other short-term remunerations	80 734	66 994

Other related parties of the Bank

Items of assets and liabilities associated with related party transactions that are other parties related with the Bank for 2017 and 2016 are as follows.

	December 31, 2017		December 31, 2016	
	Characteristics of assets and liabilities (rate, ownership interest)	**Carrying amount**	**Characteristics of assets and liabilities (rate, ownership interest)**	**Carrying amount**
ASSETS				
Financial assets at fair value through profit or loss		-		4 294
Due from financial institutions		1 408 013		6 773 406
Loans and advances to customers		-		698 443
Total assets		**1 408 013**		**7 476 143**
LIABILITIES				
Financial liabilities at fair value through profit or loss		-		1 305
Due to financial institutions		3 168 599		3 116 921
Other liabilities and provisions		541		-
Total liabilities		**3 169 140**		**3 118 226**

Items of income and expenses associated with related party transactions that are other parties related with the Bank for 2017 and 2016 are as follows.

	2017	**2016**
Interest income	12 716	25 625
Interest expense	123 272	187 841
Income less expenses from transactions with foreign currencies	(63 051)	(4 210)
Fee and commission income	5 744	1 911
Fee and commission expense	4 360	760
Income (expense) with derivative financial instruments	(433 429)	-
NET PROFIT / (LOSS)	**(350 388)**	**211 927**

Items of contingent liabilities associated with related party transactions that are other parties related with the Bank for 2017 and 2016 are as follows.

	December 31, 2017	December 31, 2016
Guarantees issued	876 341	804 761
Transactions with derivative financial instruments	-	2 824 187

30 Influence of estimates and assumptions on recognised assets and liabilities

The Bank carries out estimates and assumptions having impact on recognized amounts of assets and liabilities during the following financial year. Estimates and judgements are accepted and based on historic experience and other factors, including expectations of future events which may arise under certain circumstances.

Approved for release and signed on behalf of the Board of the Bank on April 24, 2018

President Li Wencong

Chief Accountant Natalia Viktorovna Kuz'mina

Limited liability company
FBK
Auditor's report
OGRN 1027700058286 Moscow
"Accountants and business advisors"

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President of LLC «FBK»
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Head of audit
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