

Independent auditor's report  
on the financial statements of  
**CentroCredit Bank**  
for the year ended 31 December 2017

*April 2018*

**Independent auditor's report  
on the financial statements of  
CentroCredit Bank**

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**Translation from original Russian version**

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## **Independent auditor's report**

### **Translation from original Russian version**

To the shareholders and Board of Directors of  
CentroCredit Bank

#### **Report on the audit of the financial statements**

##### ***Opinion***

We have audited the financial statements of CentroCredit Bank (the "Bank"), which comprise the statement of financial position as at 31 December 2017, and the statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2017, and its financial performance and its cash flows for the year then ended 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 responsibility for the audit of the financial statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### ***Responsibility of management and the Board of Directors for the financial statements***

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

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

The Board of Directors is responsible for overseeing the Bank's financial reporting process.

### ***Auditor's responsibility for the audit of the financial statements***

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

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

- ▶ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank'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 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 Bank to cease to continue as a going concern.

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

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

### **Report in accordance with the requirements of Article 42 of the Federal Law of the Russian Federation No. 395-1 Concerning Banks and Banking Activity of 2 December 1990**

Management of the Bank is responsible for compliance of the Bank with the mandatory prudential ratios established by the Central Bank of the Russian Federation (the "Bank of Russia") and for compliance of the conformity of internal control and organization of the risk management systems of the Bank with the requirements set forth by the Bank of Russia in relation of such systems.

In accordance with the requirements of Article 42 of Federal Law of the Russian Federation No. 395-1 *Concerning Banks and Banking Activity* of 2 December 1990 (hereinafter, the "Federal Law"), during the audit of the Bank's financial statements for the year ended 31 December 2017, we determined:

- 1) Whether the Bank complied as at 1 January 2018 with the prudential ratios established by the Bank of Russia.
- 2) Whether the internal control and organization of the risk management systems of the Bank conformed to the requirements set forth by the Bank of Russia for such systems in respect of the following:
  - ▶ subordination of risk management departments;
  - ▶ existence of methodologies approved by the Bank's respective authorized bodies, for detecting and managing risks that are significant to the Bank and for performing stress-testing; the existence of a reporting system at the Bank pertaining to its significant risks and capital;
  - ▶ consistency in applying and assessing the effectiveness of methodologies for managing risks that are significant to the Bank;
  - ▶ oversight performed by the Board of Directors and executive management of the Bank in respect of the Bank's compliance with risk limits and capital adequacy requirements set forth in the Bank's internal documents, and effectiveness and consistency of the application of the Bank's risk management procedures.

## **Translation from original Russian version**

This work included procedures selected based on our judgment, such as inquiries, analysis, reading of documents, comparison of the requirements, procedures and methodologies approved by the Bank with the requirements set forth by the Bank of Russia, and the recalculation, comparison and reconciliation of numerical values and other information.

The findings from our work are provided below.

### ***Compliance by the Bank with the prudential ratios established by the Bank of Russia***

We found that the values of prudential ratios of the Bank as at 1 January 2018 were within the limits established by the Bank of Russia.

We did not perform any procedures in respect of the accounting data of the Bank, except for those procedures we considered necessary to express our opinion on the fair presentation of the Bank's financial statements.

### ***Compliance by the internal control and risk management systems of the Bank with the requirements set forth by the Bank of Russia in relation to these systems***

- ▶ We found that, in accordance with the legal acts and recommendations issued by the Bank of Russia, as at 31 December 2017, the Bank's internal audit function was subordinated and accountable to the Board of Directors, and the Bank's risk management departments were not subordinated or accountable to the departments that take the relevant risks.
- ▶ We found that the Bank's internal documents effective as at 31 December 2017 that establish the methodologies for detecting and managing credit and market risks that are significant to the Bank and stress-testing have been approved by the Bank's authorized bodies in accordance with the legal acts and recommendations issued by the Bank of Russia. We also found that, as at 31 December 2017, the Bank had a reporting system pertaining to credit and market risks that were significant to the Bank, and pertaining to its capital.
- ▶ We found that the frequency and consistency of reports prepared by the Bank's risk management departments and internal audit division during the year ended 31 December 2017 with regard to the management of credit and market risks of the Bank complied with the Bank's internal documents and that those reports included observations made by the Bank's risk management departments and internal audit division in respect of the effectiveness of relevant risk management methodologies.
- ▶ We found that, as at 31 December 2017, the authority of the Board of Directors and executive management bodies of the Bank included control over compliance of the Bank with internally established risk limits and capital adequacy requirements. For the purpose of control over the effectiveness and consistency of the risk management procedures applied by the Bank during the year ended 31 December 2017, the Board of Directors and executive management bodies of the Bank regularly reviewed the reports prepared by the Bank's risk management departments and internal audit division.

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The procedures pertaining to the internal control and organization of the risk management systems were conducted by us solely for the purpose of determining the conformity of certain elements of the internal control and organization of the risk management systems of the Bank, as listed in the Federal Law and described above, with the requirements set forth by the Bank of Russia.

MARIJA IGNATJEVA  
Partner  
Ernst & Young LLC

25 April 2018

### ***Details of the audited entity***

Name: CentroCredit Bank  
Record made in the State Register of Legal Entities on 16 September 2002; State Registration Number 1027739198387.  
Address: Russia 119017, Moscow, Pyatnitskaya ulitsa, 31/2, building 1.

### ***Details of the auditor***

Name: Ernst & Young LLC  
Record made in the State Register of Legal Entities on 5 December 2002; State Registration Number 1027739707203.  
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.  
Ernst & Young LLC is a member of the Self-regulated organization of auditors "Russian Union of auditors" (Association) ("SRO RUA"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050648.

## Translation from original Russian version

CentroCredit Bank

2017 financial statements

### Statement of financial position

**as at 31 December 2017**

*(thousands of Russian rubles)*

	<i>Notes</i>	<i>2017</i>	<i>2016</i>
<b>Assets</b>			
Cash and accounts with the CBR	5	2,611,594	3,472,548
Financial assets at fair value through profit or loss	6	19,211,976	20,961,198
Financial assets at fair value through profit or loss pledged under repurchase agreements	6	20,195,156	13,016,129
Amounts due from credit institutions	7	4,823,241	10,521,024
Loans to customers	8	15,035,606	17,061,596
Available-for-sale investments	9	245,676	422,485
Held-to-maturity investments	10	7,962,781	-
Property and equipment	11	74,775	94,308
Current income tax assets		208,860	21,092
Other assets	14	923,961	1,331,950
<b>Total assets</b>		<b>71,293,626</b>	<b>66,902,330</b>
<b>Liabilities</b>			
Amounts due to credit institutions	15	22,616,227	14,473,696
Amounts due to customers	16	13,856,685	18,851,413
Debt securities issued	17	4,677,121	3,267,985
Other provisions	13	968,643	1,990,601
Current income tax liabilities		25,536	-
Deferred income tax liabilities	12	566,766	565,236
Other liabilities	14	228,725	189,990
<b>Total liabilities</b>		<b>42,939,703</b>	<b>39,338,921</b>
<b>Equity</b>			
Share capital	18	6,946,140	6,946,140
Revaluation reserve for available-for-sale investments		(12,096)	37,758
Retained earnings		21,419,879	20,579,511
<b>Total equity</b>		<b>28,353,923</b>	<b>27,563,409</b>
<b>Total equity and liabilities</b>		<b>71,293,626</b>	<b>66,902,330</b>

**Signed and authorized for release on behalf of the Management Board of the Bank**

L.V. Zimina

Chairman of the Management Board

O.Yu. Pavlova

Chief Accountant – Head of the Accounting and Reporting Department

25 April 2018

*The accompanying notes 1-30 are an integral part of these financial statements.*



## Translation from original Russian version

CentroCredit Bank

2017 financial statements

### Statement of profit or loss for the year ended 31 December 2017

*(thousands of Russian rubles)*

	<i>Notes</i>	<i>2017</i>	<i>2016</i>
Interest income	20	4,646,792	4,555,125
Interest expense	20	(1,035,073)	(2,128,369)
<b>Net interest income</b>		<b>3,611,719</b>	<b>2,426,756</b>
(Allowance) for impairment of interest-earning assets	8	(1,141,946)	(356,519)
<b>Net interest income after allowance for impairment of interest-earning assets</b>		<b>2,469,773</b>	<b>2,070,237</b>
Fee and commission income	22	420,684	393,504
Fee and commission expense	22	(60,810)	(110,760)
Net (losses) from financial instruments at fair value through profit or loss	21	(1,636,857)	(4,441,513)
Net gains/(losses) from available-for-sale investments		68,536	(2,932)
Net gains/(losses) from precious metals		1,604	(270,422)
Net (losses) from foreign currencies:		(309,143)	(2,027,396)
- dealing		44,701	(144,312)
- translation differences		(353,844)	(1,883,084)
Dividends received	23	1,212,090	1,445,946
Other income		34,662	177,914
<b>Non-interest (expense)</b>		<b>(269,234)</b>	<b>(4,835,659)</b>
Personnel expenses	24	(736,457)	(722,246)
Depreciation and amortization		(31,647)	(33,634)
Other operating expenses	24	(421,608)	(598,880)
Other gains/(losses) from impairment and provisions	13	1,032,624	(439,320)
<b>Non-interest (expense)</b>		<b>(157,088)</b>	<b>(1,794,080)</b>
<b>Profit/(loss) before income tax expense</b>		<b>2,043,451</b>	<b>(4,559,502)</b>
Income tax expense	12	(293,165)	(244,486)
<b>Profit/(loss) for the year</b>		<b>1,750,286</b>	<b>(4,803,988)</b>

*The accompanying notes 1-30 are an integral part of these financial statements.*

## Translation from original Russian version

CentroCredit Bank

2017 financial statements

### Statement of comprehensive income for the year ended 31 December 2017

*(thousands of Russian rubles)*

	<i>Notes</i>	<i>2017</i>	<i>2016</i>
<b>Profit/(loss) for the year</b>		<b>1,750,286</b>	<b>(4,803,988)</b>
<b>Other comprehensive (loss)/income</b>			
Net change in fair value of available-for-sale investments		(59,293)	52,166
Deferred income tax attributable to components of other comprehensive income for the period	12	9,439	(9,439)
<b>Other comprehensive (loss)/income, net of tax</b>		<b>(49,854)</b>	<b>42,727</b>
<b>Total comprehensive income/(loss) for the year</b>		<b>1,700,432</b>	<b>(4,761,261)</b>

*The accompanying notes 1-30 are an integral part of these financial statements.*

## Translation from original Russian version

CentroCredit Bank

2017 financial statements

### Statement of changes in equity for the year ended 31 December 2017

(thousands of Russian rubles)

	<i>Share capital</i>	<i>Revaluation reserve for available-for-sale investments</i>	<i>Retained earnings</i>	<i>Total equity</i>
<b>31 December 2015</b>	<b>6,946,140</b>	<b>(4,969)</b>	<b>26,594,250</b>	<b>33,535,421</b>
(Loss) for the year	-	-	(4,803,988)	<b>(4,803,988)</b>
Other comprehensive income for the year	-	42,727	-	<b>42,727</b>
<b>Total comprehensive (loss) for the year</b>	<b>-</b>	<b>42,727</b>	<b>(4,803,988)</b>	<b>(4,761,261)</b>
Dividends to shareholders of the Bank (Note 18)	-	-	(1,210,751)	<b>(1,210,751)</b>
<b>31 December 2016</b>	<b>6,946,140</b>	<b>37,758</b>	<b>20,579,511</b>	<b>27,563,409</b>
Profit for the year	-	-	1,750,286	<b>1,750,286</b>
Other comprehensive (loss) for the year	-	(49,854)	-	<b>(49,854)</b>
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>(49,854)</b>	<b>1,750,286</b>	<b>1,700,432</b>
Dividends to shareholders of the Bank (Note 18)	-	-	(909,918)	<b>(909,918)</b>
<b>31 December 2017</b>	<b>6,946,140</b>	<b>(12,096)</b>	<b>21,419,879</b>	<b>28,353,923</b>

The accompanying notes 1-30 are an integral part of these financial statements.

## Translation from original Russian version

CentroCredit Bank

2017 financial statements

### Statement of cash flows for the year ended 31 December 2017

(thousands of Russian rubles)

	<i>Notes</i>	<i>2017</i>	<i>2016</i>
<b>Cash flows from operating activities</b>			
Interest received		4,455,680	5,569,504
Interest paid		(844,966)	(2,179,002)
Fees and commissions received		420,684	393,504
Fees and commissions paid		(60,810)	(110,760)
Gains less losses from financial assets at fair value through profit or loss		715,192	(3,214,306)
Gains less losses from precious metals		209,020	(9,073)
Realized gains less losses from dealing in foreign currencies		44,701	(144,312)
Dividends received		1,103,456	1,276,876
Other income received		34,662	177,914
Personnel expenses paid		(718,731)	(712,828)
Other operating expenses paid		(356,393)	(606,188)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>		<b>5,002,495</b>	<b>441,329</b>
<i>Net (increase)/decrease in operating assets</i>			
Obligatory reserve with the CBR		12,599	(34,784)
Financial assets at fair value through profit or loss		(8,350,965)	13,018,643
Amounts due from credit institutions		(3,284)	10,587
Loans to customers		753,483	5,180,959
Other assets		168,967	(829,428)
<i>Net increase/(decrease) in operating liabilities</i>			
Amounts due to the CBR		-	(8,987,446)
Amounts due to credit institutions		8,332,462	(11,798,969)
Amounts due to customers		(4,857,482)	(3,086,317)
Debt securities issued		1,249,162	(632,242)
Other liabilities		14,713	23,255
<b>Net cash flows from operating activities before income tax</b>		<b>2,322,150</b>	<b>(6,694,413)</b>
Income tax paid		(283,786)	(1,467,096)
<b>Net cash from/(used in) operating activities</b>		<b>2,038,364</b>	<b>(8,161,509)</b>
<b>Cash flows from investing activities</b>			
Purchase of available-for-sale securities		(157,197)	(314,761)
Proceeds from sale and redemption of available-for-sale securities		352,689	7,791
Purchase of held-to-maturity securities		(7,805,378)	-
Purchase of property and equipment		(8,300)	(20,134)
Proceeds from sale of property and equipment		5	2,832
Purchase of investment property		(22,000)	-
Proceeds from sale of investment property		43,500	-
<b>Net cash (used in) investing activities</b>		<b>(7,596,681)</b>	<b>(324,272)</b>
<b>Cash flows from financing activities</b>			
Dividends paid to shareholders of the Bank		(909,838)	(1,210,597)
<b>Net cash (used in) financing activities</b>		<b>(909,838)</b>	<b>(1,210,597)</b>
Effect of exchange rates changes on cash and cash equivalents		(81,096)	(944,148)
<b>Net (decrease) in cash and cash equivalents</b>		<b>(6,549,251)</b>	<b>(10,640,526)</b>
<b>Cash and cash equivalents, beginning</b>	5	<b>13,753,584</b>	<b>24,394,110</b>
<b>Cash and cash equivalents, ending</b>	5	<b>7,204,333</b>	<b>13,753,584</b>

The accompanying notes 1-30 are an integral part of these financial statements.

## Translation from original Russian version

CentroCredit Bank

Notes to 2017 financial statements

(thousands of Russian rubles)

### 1. Principal activities

CentroCredit joint-stock commercial bank (the "Bank") was formed in 1989. In 2015, the Bank changed its legal form from closed joint-stock company to joint-stock company in order to bring its incorporation documents in line with Chapter 4 of the Civil Code of the Russian Federation as required by Federal Law No. 99-FZ *On Amending Chapter 4 of Part 1 of the Civil Code of the Russian Federation, and on Recognizing Some Provisions of Russian Legislative Acts to be Void* dated 5 May 2014.

The Bank operates under a general banking license issued by the Central Bank of Russia (the "CBR") on 17 December 2014, as well as the CBR license for operations with precious metals (issued on 17 December 2014). The Bank also holds the following licenses related to its principal activity:

- ▶ License of a professional participant of the securities market for dealer activities No. 177-06344-010000 dated 19 September 2003.
- ▶ License of a professional participant of the securities market for securities management activities No. 177-06356-001000 dated 19 September 2003.
- ▶ License of a professional participant of the securities market for broker activities No. 177-06333-100000 dated 19 September 2003.
- ▶ License of a professional participant of the securities market for custody services No. 177-06413-000100 dated 26 September 2003.

The Bank accepts deposits from legal entities and individuals and extends credit, transfers payments in Russia and abroad, exchanges currencies and provides other banking services to its commercial and retail customers. The Bank's main office is in Moscow. The Bank has 4 additional offices, 11 internal structural divisions and a representative office in London (United Kingdom). The Bank's registered legal address is Russia 119017, Moscow, Pyatnitskaya ulitsa, 31/2, bld. 1.

Starting 11 November 2004, the Bank is a member of the deposit insurance system. The system operates under the Federal laws and regulations and is governed by State Corporation "Agency for Deposits Insurance". Insurance covers the Bank's liabilities to individual depositors for the amount up to 1,400 thousand of Russian rubles for each individual in case of business failure or revocation of the CBR banking license.

As at 31 December 2017 and 2016, the Bank employed 490 and 493 people, respectively.

As at 31 December 2017 and 2016, the Bank's shareholders were as follows:

<b>Shareholder</b>	<b>2017, %</b>	<b>2016, %</b>
CENTRORIVER HOLDINGS LTD	67.85	67.85
Trial LLC	13.81	13.81
Andrey Igorevich Tarasov	11.96	11.96
Ilya Yuryevich Korbashov	6.34	6.34
Other	0.04	0.04
<b>Total</b>	<b>100.00</b>	<b>100.00</b>

As at 31 December 2017 and 2016, the Bank's ultimate controlling party is Andrey Igorevich Tarasov.

As at 31 December 2017 and 2016, the composition of the Bank's Board of Directors was as follows:

<b>Name</b>	<b>Position on the Board of Directors</b>	<b>Ownership of the Bank's shares (ultimate) 2017, %</b>	<b>Ownership of the Bank's shares (ultimate) 2016, %</b>
Andrey Igorevich Tarasov	Chairman of the Board of Directors	81.84	81.84
Ilya Yuryevich Korbashov	Member of the Board of Directors	18.12	18.12
Jacques Der Megreditchian	Member of the Board of Directors	-	-
Nikolay Aleksandrovich Anoshko	Member of the Board of Directors	-	-
Artyom Albertovich Dilenyan	Member of the Board of Directors	-	-

(thousands of Russian rubles)

## 2. Basis of preparation

### General

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The Bank is required to maintain accounting records and prepare financial statements for regulatory purposes in accordance with Russian accounting and banking legislation and related instructions ("RAL"). These financial statements are based on these RAL accounting records and financial statements, as adjusted and reclassified in order to comply with IFRS. The financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, securities at fair value through profit or loss, available-for-sale securities, held-to-maturity securities, derivative financial instruments and investment property have been measured at fair value. These financial statements are presented in thousands of Russian rubles ("RUB"), unless otherwise indicated.

These financial statements will be disclosed at the Bank's web site ([www.ccb.ru](http://www.ccb.ru)) not later than in 30 days from the deadline for its presentation to the participants (shareholders, founders) or owners of the entity's assets in accordance with Part 7 of Article 4 of Law No. 208-FZ *On the Consolidated Financial Statements*.

## 3. Summary of accounting policies

### Changes in accounting policies

The Bank applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2017. The Bank has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective. The nature and the impact of each amendment are described below:

#### *Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative*

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). These amendments do not affect the Bank's financial statements as it does not have liabilities related to the financial activities other than dividends paid to the Bank's shareholders.

#### *Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealized Losses*

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealized losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. Application of the amendments has no effect on the Bank's financial position and performance, as the Bank has no deductible temporary differences or assets that are in the scope of the amendments.

#### *Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the Scope of Disclosure Requirements in IFRS 12*

The amendments clarify that certain disclosure requirements in IFRS 12 apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified as held for sale or included in a disposal group. These amendments did not affect the Bank's financial position or performance.

### Fair value measurement

The Bank measures financial instruments, such as trading and available-for-sale securities, derivatives and non-financial assets such as investment property, at fair value at each balance sheet date. Fair values of financial instruments are disclosed in Note 26.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- ▶ In the principal market for the asset or liability; or
- ▶ In the absence of a principal market, in the most advantageous market for the asset or liability.

(thousands of Russian rubles)

### 3. Significant accounting policies (continued)

#### Fair value measurement (continued)

The principal or the most advantageous market must be accessible by the Bank. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- ▶ Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- ▶ Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- ▶ Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

#### Financial assets

##### *Initial recognition*

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. The Bank determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

##### *Date of recognition*

All regular way purchases and sales of financial assets are recognized on the trade date i.e. the date that the Bank commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

##### *Financial assets at fair value through profit or loss*

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets held for trading are recognized in profit or loss.

##### *Held-to-maturity investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Bank has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortized cost. Gains and losses are recognized in profit or loss when the investments are impaired, as well as through the amortization process.

##### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as available-for-sale investment securities. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

(thousands of Russian rubles)

### 3. Significant accounting policies (continued)

#### Financial assets (continued)

##### *Available-for-sale financial assets*

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with changes in fair value being recognized in other comprehensive income until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is reclassified to the statement of profit or loss. However, interest calculated using the effective interest method is recognized in profit or loss.

##### **Reclassification of financial assets**

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- ▶ A financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Bank has the intention and ability to hold it for the foreseeable future or until maturity.
- ▶ Other financial assets may be reclassified to available for sale or held to maturity categories only in rare circumstances.

A financial asset classified as available for sale that would have met the definition of loans and receivables may be reclassified to loans and receivables category of the Bank has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognized in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

#### **Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand, amounts due from the CBR, excluding obligatory reserves, and amounts due from credit institutions on current, clearing and deposit accounts, as well as reverse repurchase agreements with credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

#### **Precious metals**

Gold and other precious metals are recorded at the CBR bid prices, which approximate fair values and are quoted at a discount to London Bullion Market rates. Changes in the CBR bid prices are recorded in net gains/(losses) from precious metals.

#### **Repurchase and reverse repurchase agreements and securities lending**

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to the CBR, credit institutions or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from credit institutions or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest income and accrued over the life of repo agreements using the effective interest method.

Securities lent to counterparties are retained in the statement of financial position. Securities borrowed are not recorded in the statement of financial position, unless these are sold to third parties, in which case the purchase and sale are recorded within gains less losses from trading securities in the statement of profit or loss. The obligation to return them is recorded at fair value as a trading liability.



(thousands of Russian rubles)

### 3. Significant accounting policies (continued)

#### Derivative financial instruments

In the normal course of business, the Bank enters into various derivative financial instruments including futures, forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Fair value of standardized exchange-traded contracts providing for the daily transfer of variation margin, is determined as the amount of claims for (obligation to pay) a variation margin at the end of the operating day. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the statement of profit or loss as net gains/(losses) from financial instruments at fair value through profit or loss or net gains/(losses) from foreign currencies, depending on the nature of the instrument.

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair value in the trading portfolio with changes in fair value recognized in profit or loss.

#### Promissory notes

Promissory notes purchased are included in trading securities, in available-for-sale investments or in amounts due from credit institutions or in loans to customers, depending on their substance and are accounted for in accordance with the accounting policies for these categories of assets.

#### Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to the CBR, amounts due to credit institutions, amounts due to customers and debt securities issued. After initial recognition, borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the borrowings are derecognized as well as through the amortization process.

#### Leases

##### *i. Finance – Bank as lessee*

The Bank recognizes finance leases as assets and liabilities in the statement of financial position at the date of commencement of the lease term at amounts equal to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. In calculating the present value of the minimum lease payments the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the Bank's incremental borrowing rate is used. Initial direct costs incurred are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The costs identified as directly attributable to activities performed by the lessee for a finance lease, are included as part of the amount recognized as an asset under the lease.

##### *ii. Finance – Bank as lessor*

The Bank recognizes lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

##### *iii. Operating – Bank as lessee*

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognized as expenses on a straight-line basis over the lease term and included into other operating expenses.

(thousands of Russian rubles)

### 3. Significant accounting policies (continued)

#### Leases (continued)

##### *iv. Operating – Bank as lessor*

The Bank presents assets subject to operating leases in the statement of financial position according to the nature of the asset. Lease income from operating leases is recognized in profit or loss on a straight-line basis over the lease term. The aggregate cost of incentives provided to lessees is recognized as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

#### Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The right of set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

- ▶ The normal course of business;
- ▶ The event of default; and
- ▶ The event of insolvency or bankruptcy of the entity and all of the counterparties.

These conditions are not generally met in master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

#### Impairment of financial assets

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

##### *Amounts due from credit institutions and loans to customers*

For amounts due from credit institutions and loans to customers carried at amortized cost, the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the statement of profit or loss.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

(thousands of Russian rubles)

### 3. Significant accounting policies (continued)

#### Impairment of financial assets (continued)

For the purpose of a collective evaluation of impairment, financial assets are grouped considering credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of losses incurred by the Bank or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

##### *Held-to-maturity financial investments*

For held-to-maturity investments the Bank assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognized in profit or loss.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, any amounts formerly charged are credited to the statement of profit or loss.

##### *Available-for-sale financial investments*

For available-for-sale financial investments, the Bank assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss – is reclassified from other comprehensive income to the statement of profit or loss. Impairment losses on equity investments are not reversed through the statement of profit or loss; increases in their fair value after impairment are recognized in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in profit or loss. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the statement of profit or loss.

##### *Renegotiated loans*

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original or current effective interest rate.

(thousands of Russian rubles)

### 3. Significant accounting policies (continued)

#### Derecognition of financial assets and liabilities

##### *Financial assets*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- ▶ The rights to receive cash flows from the asset have expired;
- ▶ The Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; and
- ▶ The Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Bank’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank’s continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Bank’s continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

##### *Financial liabilities*

A financial liability is derecognized when the obligation under the liability is discharged or canceled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

#### Guarantees

In the ordinary course of business, the Bank provides guarantees. Financial guarantee is an agreement, according to which a guarantor undertakes to pay a specified amount to reimburse a beneficiary thereunder a loss resulting from failure of a certain borrower to make a payment when due in accordance with the terms of a debt instrument. Financial guarantees include letters of credit, acceptances and guarantees of contractual payments.

Guarantees also include performance guarantees providing for a compensation if one party fails to follow the contractual terms, bid guarantees, customs guarantees, etc. These agreements do not transfer the credit risk.

Guarantees are initially recognized in the financial statements at fair value, in “Other liabilities”, being the premium received. Subsequent to initial recognition, the Bank’s liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the statement of profit or loss. The premium received is recognized in profit or loss on a straight-line basis over the life of the guarantee.

#### Taxation

The current income tax expense is calculated in accordance with the regulations of the Russian Federation.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying amount for financial reporting purposes, except where the deferred income tax arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

## Translation from original Russian version

(thousands of Russian rubles)

### 3. Significant accounting policies (continued)

#### Taxation (continued)

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Russia also has various operating taxes, that are assessed on the Bank's activities. These taxes are included as a component of other operating expenses.

#### Property and equipment

Property and equipment are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

The carrying amounts of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	<u>Years</u>
Buildings and facilities	20
Furniture and equipment	3
Bank equipment	4
Motor vehicles	5

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

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

#### Investment property

Investment property is land or building or a part of building held to earn rental income or for capital appreciation and which is not used by the Bank or held for the sale in the ordinary course of business. Property that is being constructed or developed or redeveloped for future use as investment property is also classified as investment property.

Investment property is initially recognized at cost, including transaction costs, and subsequently remeasured at fair value reflecting market conditions at the end of the reporting period. Fair value of the Bank's investment property is determined on the base of various sources including reports of independent appraisers, who hold a recognized and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

Investment property that is being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value. Earned rental income is recorded in the statement of profit or loss within other income. Gains and losses resulting from changes in the fair value of investment property are recorded in the statement of profit or loss and presented within other income or other operating expense.

Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with it will flow to the Bank and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to property and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

(thousands of Russian rubles)

### 3. Significant accounting policies (continued)

#### Intangible assets

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic lives of 1.1-35 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

#### Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

#### Retirement and other employee benefit obligations

The Bank does not have any pension arrangements separate from the State pension system of the Russian Federation, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned.

#### Share capital

##### *Share capital*

Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity.

##### *Dividends*

Dividends are recognized as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorized for issue.

#### Contingencies

Contingent liabilities are not recognized in the statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the statement of financial position but disclosed when an inflow of economic benefits is probable.

#### Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

##### *Interest and similar income and expense*

For all financial instruments measured at amortized cost and interest bearing securities classified as at fair value through profit or loss, available for sale or held to maturity, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

(thousands of Russian rubles)

### 3. Significant accounting policies (continued)

#### Recognition of income and expenses (continued)

##### *Fee and commission income*

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- ▶ *Fee income earned from services that are provided over a certain period of time*

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as an adjustment to the effective interest rate on the loan.

- ▶ *Fee income from providing transaction services*

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognized on completion of the underlying transaction. Fees (or components of fees) that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

##### *Dividend income*

Revenue is recognized when the Bank's right to receive the payment is established.

#### Foreign currency translation

The financial statements are presented in Russian rubles, which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the statement of profit or loss as gains less losses from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the CBR exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official CBR exchange rates as at 31 December 2017 and 2016 were RUB 57.6002 and RUB 60.6569 to 1 USD, respectively, and RUB 68.8668 and RUB 63.8111 to 1 EUR, respectively.

#### Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

##### *IFRS 9 Financial Instruments*

In July 2014, the IASB issued IFRS 9 *Financial Instruments* that replaces IAS 39 *Financial Instruments: Recognition and Measurement*. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, Except for hedge accounting, retrospective application is required but restating comparative information is not compulsory.

The Bank plans to adopt the new standard by recognizing the cumulative transition effect in opening retained earnings on 1 January 2018 and will not restate comparative information. Based on the data as at 31 December 2017 and current implementation status, the Bank is in the process of quantifying the effect of adoption of IFRS 9, however no reasonable estimate of this effect is yet available.

(thousands of Russian rubles)

### 3. Significant accounting policies (continued)

#### Standards issued but not yet effective (continued)

##### (a) Classification and measurement

Under IFRS 9, all debt financial assets that do not meet a “solely payment of principal and interest” (SPPI) criterion, are classified at initial recognition as fair value through profit or loss (FVPL). Under this criterion, debt instruments that do not correspond to a “basic lending arrangement”, such as instruments containing embedded conversion options or “non-recourse” loans, are measured at FVPL. For debt financial assets that meet the SPPI criterion, classification at initial recognition is determined based on the business model, under which these instruments are managed:

- ▶ Instruments that are managed on a “hold to collect” basis are measured at amortized cost;
- ▶ Instruments that are managed on a “hold to collect and for sale” basis are measured at fair value through other comprehensive income (FVOCI);
- ▶ Instruments that are managed on other basis will be measured at FVPL.

Equity financial assets are required to be classified at initial recognition as FVPL unless an irrevocable designation is made to classify the instrument as FVOCI. For equity investments classified as FVOCI, all realized and unrealized gains and losses, except for dividend income, are recognized in other comprehensive income with no subsequent reclassification to profit and loss.

##### Assessment of the effect

The Bank does not expect significant changes in classification and measurement of financial instruments recorded in the Bank's accounting records.

- ▶ Derivative financial assets that are measured at FVPL in accordance with IAS 39 will continue to be recognized through FVPL in accordance with IFRS 9.
- ▶ Trading debt and equity securities will continue to be classified as FVPL.
- ▶ Loans to customers, which are classified as loans and receivables and are measured at amortized cost in accordance with IAS 39 will in general be measured at amortized cost in accordance with IFRS 9, however some of the loans may be reclassified to FVPL.
- ▶ Debt investment securities, which are classified as available for sale and are measured at FVOCI in accordance with IAS 39, will be continue to be measured though FVOCI.
- ▶ Held-to-maturity investment securities, which are measured at amortized cost in accordance with IAS 39 will in general be measured at amortized cost in accordance with IFRS 9.
- ▶ The classification and measurement of financial liabilities remain largely unchanged from the current IAS 39 requirements.

##### (b) Impairment

IFRS 9 requires the Bank to record an allowance for expected credit losses (ECL) on all of its debt financial assets at amortized cost or FVOCI, as well as loan commitments and financial guarantees. The allowance is based on the ECL associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case the allowance is based on the ECL over the life of the asset. If the financial asset meets the definition of purchased or originated credit impaired, the allowance is based on the change in the lifetime ECL.

##### Assessment of the effect

According to the preliminary estimates, the Bank does not expect that its allowance for loan impairment will change significantly. This results from the fact that as at 31 December 2017, most loans to customers were considered to be individually impaired according to IAS 39. After adoption of IFRS 9 the Bank will continue to treat these loans as credit-impaired financial instruments, i.e. financial instruments demonstrating impairment indicators as at the reporting date and will apply the existing approach to the allowance calculation on an individual basis during the expected life of the loan.



(thousands of Russian rubles)

### 3. Significant accounting policies (continued)

#### Standards issued but not yet effective (continued)

##### *IFRS 15 Revenue from Contracts with Customers*

IFRS 15 was issued in May 2014, and amended in April 2016. The new standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. The Bank plans to adopt the new standard using the modified retrospective method by recognizing the cumulative transition effect in opening retained earnings on 1 January 2018, without restating comparative information.

IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. However, interest and fee income integral to financial instruments and leases will fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (IFRS 9 and IFRS 16 Leases). As a result, the majority of the Bank's income will not be impacted by the adoption of this standard.

The Bank does not expect a significant impact of IFRS 15.

##### *Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognized in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Bank does not expect a material effect from application of these amendments.

##### *Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions*

The IASB issued amendments to IFRS 2 *Share-based Payment* that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Bank does not expect a material effect from application of these amendments.

##### *IFRS 16 Leases*

IFRS 16 was issued in January 2016 and replaces IAS 17 *Leases*, IFRIC 4 *Determining Whether an Arrangement Contains a Lease*, SIC 15 *Operating Leases – Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of "low-value" assets and short-term leases (i.e., leases with a lease term of 12 months or less). As at the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e. the lease liability), and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

(thousands of Russian rubles)

### 3. Significant accounting policies (continued)

#### Standards issued but not yet effective (continued)

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. In 2018, the Bank will continue to assess the potential effect of IFRS 16 on its financial statements.

#### *IFRS 17 Insurance Contracts*

In May 2017, the IASB issued IFRS 17 *Insurance Contracts*, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance) regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects.

#### *Transfers of Investment Property – Amendments to IAS 40*

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application in accordance with IAS 8 is only permitted if it is possible without the use of hindsight. Effective for annual periods beginning on or after 1 January 2018. The Bank does not expect a material effect from application of these amendments.

#### **Annual improvements 2014-2016 cycle (issued in December 2016)**

These improvements include:

#### *IFRS 1 First-time Adoption of International Financial Reporting Standards – deletion of short-term exemptions for first time adopters*

Short-term exemptions in paragraphs E3-E7 of IFRS 1 were deleted because they have now served their intended purpose. The amendment is effective from 1 January 2018. This amendment is not applicable to the Bank.

#### *IAS 28 Investments in Associates and Joint Ventures – clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice*

The amendments clarify that:

- ▶ An entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. This election is made separately for each investment at initial recognition.
- ▶ If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

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### 3. Significant accounting policies (continued)

#### Standards issued but not yet effective (continued)

The amendments should be applied retrospectively and are effective from 1 January 2018. The Bank does not expect a material effect from the application of these amendments.

##### *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – Amendments to IFRS 4*

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17 *Insurance Contracts*, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after 1 January 2018. An entity may elect the overlay approach when it first applies IFRS 9 and apply that approach retrospectively to financial assets designated on transition to IFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying IFRS 9. These amendments are not applicable to the Bank.

##### *IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration*

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. The Interpretation is effective for annual periods beginning on or after 1 January 2018. Since the Bank's current practice is in line with the Interpretation, the Bank does not expect any effect on its financial statements.

##### *IFRIC Interpretation 23 Uncertainty over Income Tax Treatment*

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The Interpretation also addresses the assumptions an entity makes about the examination of tax treatments by taxation authorities, as well as how it considers changes in facts and circumstances.

The Interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Bank will apply the Interpretation from its effective date. Since the Bank operates in a complex tax environment, applying the Interpretation may affect its financial statements and the required disclosures. In addition, the Bank may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

#### **Annual improvements 2015-2017 cycle (issued in December 2017)**

These improvements are applied for annual reporting periods beginning on or after 1 January 2019 and include:

##### *IFRS 3 Business Combinations and IFRS 11 Joint Arrangements – previously held interest in a joint operation*

These amendments clarify whether the previously held interest in a joint operation (that is a business as defined in IFRS 3) should be remeasured to fair value, when:

- ▶ A party to a joint operation obtains control over the joint operation (IFRS 3);
- ▶ A party that participates in (but does not have joint control over a joint operation) obtains joint control over the joint operation (IFRS 11).

The amendments are not expected to have any impact on the Bank's financial statements.

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### 3. Significant accounting policies (continued)

#### Standards issued but not yet effective (continued)

*IAS 12 Income Taxes – income tax consequences of payments on financial instruments classified as equity*

These amendments clarify that an entity must recognize all income tax consequences of dividends in profit or loss, other comprehensive income or equity, depending on where the entity recognized the originating transaction or event that generated the distributable profits giving rise to the dividend. Earlier application is permitted and must be disclosed. The amendments must first be applied to income tax consequences of dividends recognized on or after the beginning of the earliest comparative period. Since the Bank's current practice is in line with the amendments, the Bank does not expect any effect on its financial statements.

*IAS 23 Borrowing Costs – borrowing costs eligible for capitalization*

These amendments clarify that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally. Earlier application is permitted and should be disclosed. The Bank does not expect any effect on its financial statements.

### 4. Significant accounting judgments and estimates

In the process of applying the Bank's accounting policies, management has made the following judgments and estimates, which have the most significant effect on the amounts recognized in the financial statements:

#### Valuation of financial instruments

As described in Note 26, the Bank uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Note 26 provides detailed information about the key assumptions used in the determination of the fair value of financial instruments, as well as the detailed sensitivity analysis for these assumptions. Management of the Bank believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

#### Valuation of investment property

The Bank records land and buildings within investment property at fair value. For this purpose, the Bank engages an independent qualified appraiser. The most recent revaluation of investment property was carried out as at 1 January 2018 by an independent qualified appraiser (KG Lair LLC) applying an appropriate valuation methodology and information on transactions with similar real estate objects in the same location.

#### Impairment of loans and receivables

The Bank regularly reviews its loans and receivables to assess for impairment. The Bank's allowances for loan impairment are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Bank considers accounting estimates related to allowance for impairment of loans and receivables a key source of estimation uncertainty because (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired loans and receivables are based on recent performance experience, and (ii) any significant difference between the Bank's estimated losses and actual losses would require the Bank to record allowances, which could have a material impact on its financial statements in future periods.

The Bank uses management's judgment to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on past performance, past customer behavior, observable data indicating an adverse change in the payment status of borrowers in a group, and national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans. The Bank uses management's judgment to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data.

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### 5. Cash and accounts with the CBR

Cash comprises:

	<b>2017</b>	<b>2016</b>
Cash on hand	1,054,494	1,566,887
Accounts with the CBR	1,557,100	1,905,661
<b>Cash and accounts with the CBR</b>	<b>2,611,594</b>	<b>3,472,548</b>

Credit institutions are required to maintain a non-interest earning cash deposit (obligatory reserve) with the CBR, the amount of which depends on the level of funds attracted by the credit institution. The Bank's ability to withdraw such deposit is significantly restricted by the statutory legislation.

As at 31 December 2017 and 2016, obligatory reserve with the CBR amounted to RUB 176,607 thousand and RUB 189,206 thousand, respectively.

Cash and cash equivalents for the purposes of the statement of cash flows comprise the following:

	<b>2017</b>	<b>2016</b>
Current and clearing accounts with credit institutions (Note 7)	4,042,758	9,196,299
Cash and accounts with the CBR	2,611,594	3,472,548
Time deposits with credit institutions up to 90 days (Note 7)	780,483	697,554
Reverse repurchase agreements with credit institutions up to 90 days (Note 7)	-	627,171
	<b>7,434,835</b>	<b>13,993,572</b>
Less:		
obligatory reserve with the CBR	(176,607)	(189,206)
Encumbered current and clearing accounts with credit institutions	(53,895)	(50,782)
<b>Cash and cash equivalents</b>	<b>7,204,333</b>	<b>13,753,584</b>

### 6. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise:

	<b>2017</b>	<b>2016</b>
Equity securities	18,085,000	14,347,589
Bonds of credit institutions	548,394	-
Russian State bonds	510,248	-
Derivative financial assets	68,334	926,518
Eurobonds of the Russian Federation	-	5,687,091
<b>Financial assets at fair value through profit or loss</b>	<b>19,211,976</b>	<b>20,961,198</b>

Financial assets at fair value through profit or loss pledged under repurchase agreements comprise:

	<b>2017</b>	<b>2016</b>
Russian State bonds	20,009,816	-
Equity securities	185,340	1,937,610
Eurobonds of the Russian Federation	-	11,078,519
<b>Financial assets at fair value through profit or loss pledged under repurchase agreements</b>	<b>20,195,156</b>	<b>13,016,129</b>

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### 6. Financial assets at fair value through profit or loss (continued)

Equity securities at fair value through profit or loss, including those pledged as collateral under repurchase agreements comprise:

	2017	2016
PJSC Unipro (previously, OJSC E.ON Russia)	2,622,973	3,452,400
PJSC Bashneft	1,587,920	2,089,791
PJSC Rosneft	1,584,224	726,153
PJSC Gazprom	1,561,508	259,260
PJSC Transneft	1,427,200	-
PJSC Mosenergo	1,029,188	781,673
ALROSA (PJSC)	955,995	338,170
PJSC TGK-1	946,400	328,460
PJSC Rostelecom	733,139	1,134,935
PJSC MOESK	730,635	694,400
PJSC Megafon	562,650	959,922
PJSC Sberbank	475,650	-
PJSC RusHydro	438,237	715,213
PJSC Severstal	424,270	-
PJSC MMK	423,400	-
Other	2,766,951	4,804,822
<b>Total equity securities at fair value through profit or loss</b>	<b>18,270,340</b>	<b>16,285,199</b>

### Derivative financial instruments

The Bank enters into derivative financial instruments for trading purposes. The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

	2017			2016		
	Notional amount	Fair value		Notional amount	Fair value	
		Asset	Liability		Asset	Liability
<b>Foreign exchange contracts</b>						
Futures – foreign	771,342	-	-	1,709,898	-	-
Futures – domestic	3,024,011	-	-	4,093,734	-	-
<b>Credit derivative financial instruments</b>						
Credit default swaps – foreign	6,183,773	68,334	-	19,094,868	925,272	-
<b>Derivative financial instruments</b>						
RTS Index futures – domestic	-	-	-	5,382,051	-	-
<b>Equity contracts</b>						
Forwards (equity securities) – domestic	-	-	-	16,927	534	-
Share futures – domestic	-	-	-	343,700	-	-
<b>Contracts for precious metals</b>						
Precious metal forwards – domestic	-	-	-	712,569	712	-
<b>Total derivative assets/liabilities</b>		<b>68,334</b>	<b>-</b>		<b>926,518</b>	<b>-</b>

Foreign and domestic in the table above stand for counterparties where foreign means non-Russian entities and domestic means Russian entities.

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### 6. Financial assets at fair value through profit or loss (continued)

#### Derivative financial instruments (continued)

As at 31 December 2017 and 2016, the Bank has positions in the following types of derivatives:

##### Forwards and futures

Forwards and futures contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market. Futures contracts are transacted in standardized amounts on regulated exchanges and are subject to daily cash margin requirements. The fair value of standardized exchange-traded contracts providing for the daily transfer of a variation margin is determined as the amount of claims for (obligation to pay) a variation margin at the end of the operating day.

##### Swaps

Swaps are contractual agreements between two parties to exchange movements in interest and foreign currency rates and equity indices, and (in the case of credit default swaps) to make payments with respect to defined credit events based on specified notional amounts.

### 7. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2017	2016
Current and clearing accounts with credit institutions	4,042,758	9,196,299
Time deposits with credit institutions up to 90 days	780,483	697,554
Reverse repurchase agreements with credit institutions up to 90 days	-	627,171
<b>Amounts due from credit institutions</b>	<b>4,823,241</b>	<b>10,521,024</b>

As at 31 December 2017, the Bank placed RUB 2,315,208 thousand (31 December 2016: RUB 6,991,920 thousand) and RUB 1,238,412 thousand (31 December 2016: RUB 1,417,043 thousand) on current and clearing accounts with a Russian credit institution and internationally recognized OECD banks, respectively.

As at 31 December 2017, time deposits with credit institutions included RUB 780,483 thousand (31 December 2016: RUB 697,554 thousand) placed with an internationally recognized OECD bank.

As at 31 December 2017, the Bank did enter in reverse repurchase agreements with credit institutions.

As at 31 December 2016, the Bank entered into a reverse repurchase agreement with a Russian credit institution.

	2017		2016	
	<i>Carrying amount of loans</i>	<i>Fair value of collateral</i>	<i>Carrying amount of loans</i>	<i>Fair value of collateral</i>
Russian State bonds	-	-	442,602	486,082
Corporate bonds	-	-	142,560	152,669
Corporate equity securities	-	-	42,009	52,735
<b>Total</b>	<b>-</b>	<b>-</b>	<b>627,171</b>	<b>691,486</b>

### 8. Loans to customers

Loans to customers comprise:

	2017	2016
Loans to legal entities	18,834,416	19,016,005
Loans to individuals	5,720,962	6,659,471
Reverse repurchase agreements	4,240,356	4,689,962
Net investment in finance leases	1,342,301	1,350,875
<b>Total loans to customers</b>	<b>30,138,035</b>	<b>31,716,313</b>
Less: allowance for impairment	(15,102,429)	(14,654,717)
<b>Loans to customers</b>	<b>15,035,606</b>	<b>17,061,596</b>

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### 8. Loans to customers (continued)

#### Allowance for impairment of loans to customers

A reconciliation of the allowance for impairment of loans is as follows:

	<i>Loans to legal entities</i>	<i>Loans to individuals</i>	<i>Reverse repurchase agreements</i>	<i>Net investment in finance leases</i>	<i>Total</i>
<b>1 January 2017</b>	<b>11,087,306</b>	<b>1,636,238</b>	<b>580,898</b>	<b>1,350,275</b>	<b>14,654,717</b>
Allowance/(reversal of allowance)	(309,736)	1,188,242	271,414	(7,974)	<b>1,141,946</b>
Loans written off against allowance	(210,081)	(91,462)	–	–	<b>(301,543)</b>
Write-off on sale of assets	(392,691)	–	–	–	<b>(392,691)</b>
<b>31 December 2017</b>	<b>10,174,798</b>	<b>2,733,018</b>	<b>852,312</b>	<b>1,342,301</b>	<b>15,102,429</b>
Individual impairment	10,030,760	2,733,018	852,312	1,342,301	<b>14,958,391</b>
Collective impairment	144,038	–	–	–	<b>144,038</b>
	<b>10,174,798</b>	<b>2,733,018</b>	<b>852,312</b>	<b>1,342,301</b>	<b>15,102,429</b>
<b>Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance</b>	<b>17,777,236</b>	<b>5,720,962</b>	<b>4,240,356</b>	<b>1,342,301</b>	<b>29,080,855</b>
	<i>Loans to legal entities</i>	<i>Loans to individuals</i>	<i>Reverse repurchase agreements</i>	<i>Net investment in finance leases</i>	<i>Total</i>
<b>1 January 2016</b>	<b>11,271,747</b>	<b>423,474</b>	<b>2,486,281</b>	<b>582,911</b>	<b>14,764,413</b>
Allowance/(reversal of allowance)	169,883	1,212,764	(1,905,383)	879,255	<b>356,519</b>
Loans written off against allowance	(354,324)	–	–	(111,891)	<b>(466,215)</b>
<b>31 December 2016</b>	<b>11,087,306</b>	<b>1,636,238</b>	<b>580,898</b>	<b>1,350,275</b>	<b>14,654,717</b>
Individual impairment	10,894,079	1,636,238	580,898	1,350,275	<b>14,461,490</b>
Collective impairment	193,227	–	–	–	<b>193,227</b>
	<b>11,087,306</b>	<b>1,636,238</b>	<b>580,898</b>	<b>1,350,275</b>	<b>14,654,717</b>
<b>Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance</b>	<b>18,329,275</b>	<b>6,659,471</b>	<b>4,689,962</b>	<b>1,350,875</b>	<b>31,029,583</b>



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### 8. Loans to customers (continued)

#### Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- ▶ For reverse repurchase transactions, securities;
- ▶ For commercial lending, charges over real estate properties, securities issued by the Bank and vehicles;
- ▶ For retail lending, mortgages over residential properties and charges over vehicles.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

In 2017, the Bank obtained the assets through foreclosure and accord and satisfaction agreements relating to loans to customers in the amount of RUB 93,483 thousand (in 2016 the Bank obtained no such assets). Assets acquired through foreclosure in 2017 are recognized as investment property within other assets (Note 14).

As at 31 December 2017 and 2016, loans to customers included reverse repurchase agreements maturing on 9 January 2018 and 20 January 2017, respectively. Fair value of assets pledged as collateral and carrying amount of reverse repurchase agreements comprised:

	2017		2016	
	<i>Carrying amount of loans</i>	<i>Fair value of collateral</i>	<i>Carrying amount of loans</i>	<i>Fair value of collateral</i>
Debt securities of the Russian Federation	4,240,356	4,626,933	2,890,142	2,966,744
Corporate equity securities	-	-	1,799,820	2,386,608
<b>Total</b>	<b>4,240,356</b>	<b>4,626,933</b>	<b>4,689,962</b>	<b>5,353,352</b>

#### Concentration of loans to customers

As at 31 December 2017, the total outstanding amount of loans to four major borrowers was RUB 18,208,661 thousand, equivalent to 60.4% of the Bank's gross loan portfolio (31 December 2016: RUB 17,053,044 thousand, or 53.8%). As at 31 December 2017, an allowance for impairment of RUB 9,635,118 thousand (31 December 2016: RUB 5,763,931 thousand) was recognized against these loans.

Loans have been extended to the following types of customers:

	2017	2016
Private companies	24,417,073	25,056,842
Individuals	5,720,962	6,659,471
	<b>30,138,035</b>	<b>31,716,313</b>
Less: allowance for impairment	(15,102,429)	(14,654,717)
<b>Loans to customers</b>	<b>15,035,606</b>	<b>17,061,596</b>

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### 8. Loans to customers (continued)

#### Concentration of loans to customers (continued)

Loans are made principally within Russia in the following industry sectors:

	<b>2017</b>	<b>2016</b>
Construction	6,311,742	6,218,446
Individuals	5,720,962	6,659,471
Finance	5,063,856	5,939,962
Real estate	4,094,701	4,286,297
Trade	2,065,363	2,164,809
Agribusiness	1,667,731	1,547,950
Mining	1,514,000	1,489,603
Transport	1,509,030	881,779
Machine building	819,450	1,130,000
Timber, furniture and woodworking industry	347,582	347,582
Metallurgy	340,333	214,431
Chemical industry	23,000	168,933
Other	660,285	667,050
	<b>30,138,035</b>	<b>31,716,313</b>
Less: allowance for impairment	(15,102,429)	(14,654,717)
<b>Loans to customers</b>	<b>15,035,606</b>	<b>17,061,596</b>

#### Finance lease receivables

Included in corporate lending portfolio are finance lease receivables. The analysis of finance lease receivables as at 31 December 2017 is as follows:

	<i>Less than 1 year</i>	<i>1 to 5 years</i>	<i>Later than 5 years</i>	<i>Total</i>
Gross investment in finance leases	55,747	731,497	1,067,673	<b>1,854,917</b>
Unearned future finance income on finance leases	(2,567)	(181,191)	(328,858)	<b>(512,616)</b>
<b>Net investment in finance leases</b>	<b>53,180</b>	<b>550,306</b>	<b>738,815</b>	<b>1,342,301</b>

The analysis of finance lease receivables as at 31 December 2016 is as follows:

	<i>Less than 1 year</i>	<i>1 to 5 years</i>	<i>Later than 5 years</i>	<i>Total</i>
Finance lease receivables	93,529	690,438	1,164,482	<b>1,948,449</b>
Unearned future finance income on finance leases	(7,780)	(202,211)	(387,583)	<b>(597,574)</b>
<b>Net investment in finance leases</b>	<b>85,749</b>	<b>488,227</b>	<b>776,899</b>	<b>1,350,875</b>

As at 31 December 2017 and 2016, the amount of allowance for loan impairment was RUB 1,342,301 thousand and RUB 1,350,275 thousand, respectively.

### 9. Available-for-sale investments

As at 31 December 2017, available-for-sale investments in the amount of RUB 245,676 thousand (31 December 2016: RUB 422,485 thousand) included equity securities of Russian companies.

### 10. Held-to-maturity investments

As at 31 December 2017, held-to-maturity investments of RUB 7,962,781 thousand (31 December 2016: none) include Russian State bonds with nominal interest rate of 7.7% p.a. that mature on 23 March 2033.

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### 11. Property and equipment

The movements in property and equipment were as follows:

	<i>Buildings and facilities</i>	<i>Furniture and equipment</i>	<i>Bank equipment</i>	<i>Motor vehicles</i>	<i>Total</i>
<b>Cost</b>					
<b>31 December 2016</b>	<b>156,320</b>	<b>132,436</b>	<b>35,714</b>	<b>15,405</b>	<b>339,875</b>
Additions	–	8,300	–	–	8,300
Disposals and write-offs	–	(1,691)	(3,567)	–	(5,258)
<b>31 December 2017</b>	<b>156,320</b>	<b>139,045</b>	<b>32,147</b>	<b>15,405</b>	<b>342,917</b>
<b>Accumulated depreciation</b>					
<b>31 December 2016</b>	<b>99,654</b>	<b>109,909</b>	<b>25,117</b>	<b>10,887</b>	<b>245,567</b>
Depreciation charge	7,816	13,280	4,763	1,562	27,421
Disposals and write-offs	–	(1,690)	(3,156)	–	(4,846)
<b>31 December 2017</b>	<b>107,470</b>	<b>121,499</b>	<b>26,724</b>	<b>12,449</b>	<b>268,142</b>
<b>Net book value</b>					
<b>31 December 2016</b>	<b>56,666</b>	<b>22,527</b>	<b>10,597</b>	<b>4,518</b>	<b>94,308</b>
<b>31 December 2017</b>	<b>48,850</b>	<b>17,546</b>	<b>5,423</b>	<b>2,956</b>	<b>74,775</b>

  

	<i>Buildings and facilities</i>	<i>Furniture and equipment</i>	<i>Bank equipment</i>	<i>Motor vehicles</i>	<i>Total</i>
<b>Cost</b>					
<b>31 December 2015</b>	<b>156,320</b>	<b>128,384</b>	<b>38,727</b>	<b>14,961</b>	<b>338,392</b>
Additions	–	15,870	3,159	1,105	20,134
Disposals and write-offs	–	(12,237)	(5,753)	(661)	(18,651)
Transfers	–	419	(419)	–	–
<b>31 December 2016</b>	<b>156,320</b>	<b>132,436</b>	<b>35,714</b>	<b>15,405</b>	<b>339,875</b>
<b>Accumulated depreciation</b>					
<b>31 December 2015</b>	<b>91,838</b>	<b>104,080</b>	<b>26,387</b>	<b>9,087</b>	<b>231,392</b>
Depreciation charge	7,816	15,470	4,483	2,431	30,200
Disposals and write-offs	–	(9,641)	(5,753)	(631)	(16,025)
<b>31 December 2016</b>	<b>99,654</b>	<b>109,909</b>	<b>25,117</b>	<b>10,887</b>	<b>245,567</b>
<b>Net book value</b>					
<b>31 December 2015</b>	<b>64,482</b>	<b>24,304</b>	<b>12,340</b>	<b>5,874</b>	<b>107,000</b>
<b>31 December 2016</b>	<b>56,666</b>	<b>22,527</b>	<b>10,597</b>	<b>4,518</b>	<b>94,308</b>

### 12. Taxation

The corporate income tax expense comprises:

	<b>2017</b>	<b>2016</b>
Current tax charge	282,196	1,645,985
Deferred tax charge/(credit) – origination and reversal of temporary differences	10,969	(1,401,499)
<b>Income tax expense</b>	<b>293,165</b>	<b>244,486</b>

Russian legal entities have to file individual corporate income tax declarations. Standard income tax rate for companies (including banks) comprised 20% in 2017 and 2016. Corporate income tax rate applicable to interest (coupon) income on state and municipal bonds was 15% in 2017 and 2016. Dividends are subject to Russian income tax at a standard rate of 13%, which can be reduced to 0% subject to certain criteria.

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### 12. Taxation (continued)

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	2017	2016
<b>Profit/(loss) before tax</b>	<b>2,043,451</b>	<b>(4,559,502)</b>
Statutory tax rate	20%	20%
<b>Theoretical income tax expense/(benefit) at the statutory tax rate</b>	<b>408,690</b>	<b>(911,900)</b>
Effect of different tax rates	(126,520)	(110,806)
Non-deductible expenditures	10,995	137,250
Adjustment to current income tax of prior years	-	1,129,942
<b>Income tax expense</b>	<b>293,165</b>	<b>244,486</b>

Deferred tax assets and liabilities as at 31 December and their movements for the respective years comprise:

	<i>Origination and reversal of temporary differences</i>			<i>Origination and reversal of temporary differences</i>			
	2015	<i>In the statement of profit or loss</i>	<i>In other comprehensive income</i>	2016	<i>In the statement of profit or loss</i>	<i>In other comprehensive income</i>	2017
<b>Tax effect of deductible temporary differences</b>							
Change in fair value of financial assets at fair value through profit or loss	-	166,760	-	166,760	99,949	-	266,709
Change in fair value of available-for-sale investments	994	-	(994)	-	-	2,419	2,419
Other provisions	322,215	82,262	-	404,477	(206,525)	-	197,952
Tax losses carried forward	728,668	(728,668)	-	-	-	-	-
Debt securities issued	36,621	(36,326)	-	295	652	-	947
Investment property	30,424	40,160	-	70,584	13,380	-	83,964
Property and equipment	11,602	(1,558)	-	10,044	1,061	-	11,105
Other	201,694	130,268	-	331,962	84,559	-	416,521
<b>Gross deferred tax asset</b>	<b>1,332,218</b>	<b>(347,102)</b>	<b>(994)</b>	<b>984,122</b>	<b>(6,924)</b>	<b>2,419</b>	<b>979,617</b>
Unrecognized deferred tax asset	(994)	-	994	-	-	(2,419)	(2,419)
<b>Deferred tax asset</b>	<b>1,331,224</b>	<b>(347,102)</b>	<b>-</b>	<b>984,122</b>	<b>(6,924)</b>	<b>-</b>	<b>977,198</b>
<b>Tax effect of taxable temporary differences</b>							
Change in fair value of financial assets at fair value through profit or loss	1,243,082	(1,243,082)	-	-	-	-	-
Change in fair value of available-for-sale investments	-	(170)	9,439	9,269	1,272	(9,439)	1,102
Derivative financial instruments	395,441	(210,137)	-	185,304	(171,637)	-	13,667
Allowance for impairment	1,451,539	(651,410)	-	800,129	92,653	-	892,782
Property and equipment	100	15	-	115	(8)	-	107
Debt securities issued	3,556	1,890	-	5,446	9,249	-	14,695
Other	38,245	112,259	-	150,504	61,710	-	212,214
Allowance for impairment of securities	156,557	242,034	-	398,591	10,806	-	409,397
<b>Deferred tax liability</b>	<b>3,288,520</b>	<b>(1,748,601)</b>	<b>9,439</b>	<b>1,549,358</b>	<b>4,045</b>	<b>(9,439)</b>	<b>1,543,964</b>
<b>Deferred tax liability</b>	<b>1,957,296</b>	<b>(1,401,499)</b>	<b>9,439</b>	<b>565,236</b>	<b>10,969</b>	<b>(9,439)</b>	<b>566,766</b>

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### 13. Other impairment and provisions

The movements in other impairment allowances and provisions were as follows:

	<b>Other assets</b>	<b>Guarantees, credit facilities and overdrafts issued</b>	<b>Total</b>
<b>31 December 2015</b>	<b>8,743</b>	<b>1,571,132</b>	<b>1,579,875</b>
Charge	19,851	419,469	439,320
<b>31 December 2016</b>	<b>28,594</b>	<b>1,990,601</b>	<b>2,019,195</b>
(Reversal)	(10,514)	(1,021,958)	(1,032,472)
Write-off against allowance	(152)	-	(152)
<b>31 December 2017</b>	<b>17,928</b>	<b>968,643</b>	<b>986,571</b>

Allowance for impairment of assets is deducted from the carrying amounts of the related assets. Provisions for guarantees, credit facilities and overdrafts issued are recorded in other provisions in the statement of financial position.

### 14. Other assets and liabilities

Other assets comprise:

	<b>2017</b>	<b>2016</b>
<b>Financial assets</b>		
Settlements on broker operations	143,812	506,334
Commemorative coins	57,407	96,890
Settlements with suppliers and other debtors	48,430	38,801
Dividends receivable	11,110	63,118
Other financial assets	48,179	104,147
	<b>308,938</b>	<b>809,290</b>
Less: allowance for impairment (Note 13)	(17,928)	(28,594)
<b>Total financial assets less allowance</b>	<b>291,010</b>	<b>780,696</b>
<b>Non-financial assets</b>		
Investment property	547,820	503,319
Intangible assets	43,471	36,736
Precious metals	41,118	10,872
Prepaid taxes other than income tax	542	327
<b>Total non-financial assets</b>	<b>632,951</b>	<b>551,254</b>
<b>Total other assets</b>	<b>923,961</b>	<b>1,331,950</b>

#### Investment property

Movements in investment property were as follows:

	<b>2017</b>	<b>2016</b>
<b>Opening balance at 1 January</b>	<b>503,319</b>	<b>501,475</b>
Additions	159,893	-
Disposals	(48,493)	-
Transfer to finance lease	-	(90,000)
Revaluation recognized in profit or loss	(66,899)	91,844
<b>Closing balance at 31 December</b>	<b>547,820</b>	<b>503,319</b>

As at 31 December 2017, the amount of fair value of investment property is based on results of a valuation performed by an independent certified appraiser. The Bank has neither restrictions on the realizability of its investment property nor contractual obligations to purchase, construct or develop investment properties, or to repair, maintain or enhance them.

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### 14. Other assets and liabilities (continued)

#### Investment property (continued)

Amounts recorded in profit or loss:

	<b>2017</b>	<b>2016</b>
Rental income derived from investment property	5,551	26,879
Direct operating expenses (including repairs and maintenance) arising from investment property	(9,052)	(8,310)
	<b>(3,501)</b>	<b>18,569</b>

#### Intangible assets

Other assets include intangible assets in the amount of RUB 51,917 thousand (31 December 2016: RUB 40,955 thousand), less accumulated amortization of RUB 8,446 thousand (31 December 2016: RUB 4,219 thousand). For the year ended 31 December 2017, additions to intangible assets amounted to RUB 6,735 thousand (2016: RUB 5,195 thousand). The respective amortization charges for the year ended 31 December 2017 were RUB 4,226 thousand (year ended 31 December 2016: RUB 3,434 thousand), which were included in non-interest expenses within amortization.

Other liabilities comprise:

	<b>2017</b>	<b>2016</b>
Settlements with customers	95,079	83,010
Settlements with employees	94,079	76,353
Current tax liabilities other than income tax	7,939	10,474
Other	31,628	20,153
<b>Other liabilities</b>	<b>228,725</b>	<b>189,990</b>

### 15. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	<b>2017</b>	<b>2016</b>
Repurchase agreements (Notes 6, 27)	22,616,227	14,415,191
Time deposits and loans	-	58,505
<b>Amounts due to credit institutions</b>	<b>22,616,227</b>	<b>14,473,696</b>

As at 31 December 2017 and 2016, amounts due to credit institutions included repurchase agreements with Russian credit institutions maturing on 12 January 2018 and 11 January 2017, respectively.

### 16. Amounts due to customers

Amounts due to customers comprise:

	<b>2017</b>	<b>2016</b>
Time deposits	5,964,754	4,336,790
Current accounts	5,906,484	7,951,815
Brokerage accounts	1,985,447	6,562,808
<b>Amounts due to customers</b>	<b>13,856,685</b>	<b>18,851,413</b>

As at 31 December 2017, amounts due to customers of RUB 6,572,672 thousand (47.4%) were due to the ten largest customers (2016: RUB 12,395,180 thousand (65.8%)).

Included in time deposits are deposits of individuals in the amount of RUB 3,621,591 thousand (2016: RUB 3,213,835 thousand). In accordance with the Russian Civil Code, the Bank is obliged to repay such deposits upon demand of a depositor. In case a term deposit is repaid upon demand of the depositor prior to maturity, interest on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

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### 16. Amounts due to customers (continued)

Amounts due to customers include accounts with the following types of customers:

	<b>2017</b>	<b>2016</b>
Private companies	9,111,811	14,477,605
Individuals	3,690,807	3,669,007
Employees	1,054,067	704,801
<b>Amounts due to customers</b>	<b>13,856,685</b>	<b>18,851,413</b>

An analysis of customer accounts by economic sector is as follows:

	<b>2017</b>	<b>2016</b>
Finance	5,387,064	11,084,984
Individuals	3,690,807	3,669,007
Employees	1,054,067	704,801
Machine building	1,011,873	821,344
Trade	939,535	1,512,591
Transport	513,702	236,569
Timber, furniture and woodworking industry	426,616	4,015
Real estate	236,726	155,155
Construction	174,527	245,339
Mining	117,346	13,632
Electric energy	38,013	42,569
Agribusiness	13,230	11,497
Metallurgy	12,601	17,056
Chemical industry	1,340	17,759
Other	239,238	315,095
<b>Amounts due to customers</b>	<b>13,856,685</b>	<b>18,851,413</b>

### 17. Debt securities issued

Debt securities issued comprise:

	<b>2017</b>	<b>2016</b>
Savings certificates	4,504,952	2,544,176
Promissory notes	172,169	723,809
<b>Debt securities issued</b>	<b>4,677,121</b>	<b>3,267,985</b>

Interest-bearing promissory notes and savings certificates issued by the Bank as at 31 December 2017 bear annual interest rates ranging from 0.01% to 13.20% (31 December 2016: from 0.01% to 13.20%) and mature through 21 December 2026 (31 December 2016: through 19 December 2025).

### 18. Equity

As at 31 December 2017 and 2016, the authorized, issued and fully paid share capital comprised:

	<i>Number of shares</i>		<i>Nominal amount</i>		<i>Inflation adjustment</i>	<i>Total</i>
	<i>Preferred</i>	<i>Ordinary</i>	<i>Preferred</i>	<i>Ordinary</i>		
31 December 2016	48	17,168,974	5	6,695,900	250,235	<b>6,946,140</b>
31 December 2017	48	17,168,974	5	6,695,900	250,235	<b>6,946,140</b>

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

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## 18. Equity (continued)

At the shareholders' meeting held in September 2017, the Bank declared and paid dividends in respect of the six months of 2017 using retained earnings for prior years, totaling RUB 600,228 thousand on shares (RUB 34.96 per ordinary share and RUB 8.74 per preferred share). At the shareholders' meeting held in June 2017, the Bank declared and paid dividends for 2016 using retained earnings for prior years totaling RUB 309,729 thousand on shares (RUB 18.04 per ordinary share and RUB 4.51 per preferred share).

At the shareholders' meeting held in October 2016, the Bank declared and paid dividends for the nine months of 2016 using retained earnings for prior years totaling RUB 1,000,609 thousand (RUB 58.28 per ordinary share and RUB 14.57 per preferred share). At the shareholders' meeting held in June 2016, the Bank declared and paid dividends in respect of the year ended 31 December 2015 in the amount of RUB 210,149 thousand (RUB 12.24 per ordinary share and RUB 3.06 per preferred share).

Dividends, which have not been demanded by shareholders within the timeframe established by Russian law, amounted to RUB 39 thousand (2016: RUB 6 thousand).

## 19. Commitments and contingencies

### Operating environment

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Russian government.

The Russian economy has been negatively impacted by a decline in oil prices and sanctions imposed on Russia by a number of countries. The ruble interest rates remained high. The combination of the above resulted in reduced access to capital, a higher cost of capital, and increased uncertainty regarding economic growth, which could negatively affect the Bank's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances.

### Legal

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

### Taxation

Major part of the Bank's business activity is carried out in the Russian Federation. Russian tax, currency and customs legislation as currently in effect is vaguely drafted and is subject to varying interpretations, selective and inconsistent application and changes, which can occur frequently, at short notice and may apply retrospectively. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation and application of this legislation and assessments. It is therefore possible that transactions and activities of the Bank that have not been challenged in the past may be challenged at any time in the future. As a result, significant additional taxes, penalties and interest may be assessed by the relevant authorities. Tax reviews of the accuracy of tax calculation and payment conducted by the tax authorities may cover three calendar years immediately preceding the year in which the decision to conduct a tax review is taken. Under certain circumstances tax reviews may cover longer periods.

As at 31 December 2017, management believes that its interpretation of the relevant legislation is appropriate and that the Bank's tax, currency and customs positions will be sustained.



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### 19. Commitments and contingencies (continued)

#### Taxation (continued)

As at 31 December, the Bank's commitments and contingencies comprised the following:

	<b>2017</b>	<b>2016</b>
<b>Credit-related commitments</b>		
Guarantees	6,579,682	6,208,784
Undrawn loan commitments	550,807	992,934
	<b>7,130,489</b>	<b>7,201,718</b>
<b>Operating lease commitments</b>		
Less than 1 year	5,774	6,590
1 to 5 years	-	-
Over 5 years	-	-
	<b>5,774</b>	<b>6,590</b>
Less: provisions (Note 13)	(968,643)	(1,990,601)
<b>Commitments and contingencies</b>	<b>6,167,620</b>	<b>5,217,707</b>

The Bank entered into agreements on the provision of guarantees within established limits. As at 31 December 2017, the unused limits on guarantee issuance amounted to RUB 13,188,812 thousand (31 December 2016: RUB 5,891,127 thousand).

#### Insurance

The Bank has not currently obtained insurance coverage related to liabilities arising from errors or omissions. Liability insurance is generally not available in Russia at present.

### 20. Interest income and expense

	<b>2017</b>	<b>2016</b>
Loans to customers	3,605,744	3,372,472
Investment securities	114,466	-
Amounts due from banks (including under reverse repurchase agreements)	84,369	210,680
	<b>3,804,579</b>	<b>3,583,152</b>
Financial assets at fair value through profit or loss	842,213	971,973
<b>Interest income</b>	<b>4,646,792</b>	<b>4,555,125</b>
Amounts due to credit institutions	547,168	1,574,597
Debt securities issued	270,221	283,575
Amounts due to customers	217,684	220,922
Amounts due to the CBR	-	49,275
<b>Interest expense</b>	<b>1,035,073</b>	<b>2,128,369</b>

Most part of the interest income on loans to customers relates to interest accrued on loans individually determined to be impaired.

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### 21. Net (losses) from financial instruments at fair value through profit or loss

Net (losses) from assets and liabilities at fair value through profit or loss comprise:

	<b>2017</b>	<b>2016</b>
Net gains on sale of securities	900,532	835,362
Adjustment of the fair value of securities	(1,794,147)	386,169
Net (losses) on sale of derivative financial instruments	(169,871)	(4,006,988)
Net (losses) on revaluation of derivative financial instruments	(573,371)	(1,656,056)
<b>Net (losses) from financial assets and liabilities at fair value through profit or loss</b>	<b>(1,636,857)</b>	<b>(4,441,513)</b>

### 22. Net fee and commission income

Net fee and commission income comprises:

	<b>2017</b>	<b>2016</b>
Issuance of bank guarantees	190,729	143,516
Settlement and cash operations	76,748	77,987
Cash transfers	50,374	65,057
Brokerage services	45,829	41,367
Foreign currency operations	40,056	44,578
Other	16,948	20,999
<b>Fee and commission income</b>	<b>420,684</b>	<b>393,504</b>
Cash transfers	26,061	27,328
Settlement operations	15,604	15,293
Cash operations	4,730	3,936
Foreign currency operations	2,979	55,718
Other	11,436	8,485
<b>Fee and commission expense</b>	<b>60,810</b>	<b>110,760</b>
<b>Net fee and commission income</b>	<b>359,874</b>	<b>282,744</b>

### 23. Dividends received

Dividends received include the following:

	<b>2017</b>	<b>2016</b>
<b>Dividends from investments in shares of</b>		
Russian entities	1,211,885	1,445,946
non-resident entities	203	-
credit institutions	2	-
	<b>1,212,090</b>	<b>1,445,946</b>

In 2017, the Bank received dividends from Russian entities totaling RUB 1,211,885 thousand, including RUB 224,871 thousand from PJSC Unipro, RUB 178,156 thousand from PJSC Bashneft and RUB 128,616 thousand from Alrosa (PJSC).

In 2016, the Bank received dividends from Russian entities totaling RUB 1,445,946 thousand, including RUB 381,296 thousand from PJSC Unipro, RUB 272,732 thousand from PJSC Bashneft and RUB 240,882 thousand from OJSC Surgutneftegas.

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### 24. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	<b>2017</b>	<b>2016</b>
Employee compensation	599,211	593,602
Social security costs	137,246	128,644
<b>Personnel expenses</b>	<b>736,457</b>	<b>722,246</b>
Occupancy and rent	111,255	94,460
Change in fair value of investment property	66,899	-
Operating taxes	42,988	56,748
Communications	40,679	42,636
Legal, consulting and professional services	38,560	47,793
Deposit insurance	20,012	22,932
Entertainment	18,360	19,589
Repair and maintenance	15,980	13,548
Office supplies	10,937	15,062
Business travel and related expenses	9,379	13,583
Investment property maintenance	9,052	8,310
Marketing and advertising	7,484	17,525
Loss on disposal of investment property	4,992	-
Personnel training	4,586	481
Security	4,078	4,267
Charity	3,329	6,406
Insurance	2,170	2,666
Data processing	695	1,087
Loss on disposal of property and equipment	407	206
Fines and penalties (including income tax penalties)	258	218,153
Other	9,508	13,428
<b>Other operating expenses</b>	<b>421,608</b>	<b>598,880</b>

### 25. Risk management

#### Risk management structure

Risk management system is a part of the Bank's overall corporate governance structure, and is aimed at sustainable development of the Bank in accordance with the Development Strategy approved by the Board of Directors.

Risk management is performed in accordance with *Risks and capital management strategy* in the course of internal capital adequacy testing.

The Bank's internal bodies that accept risks include the following governance bodies:

#### General Shareholders' Meeting

- ▶ Makes decisions in respect of increase/decrease of share capital, share split/consolidation, issue/conversion of bonds and other issuable securities;
- ▶ Makes decisions in respect of the dividend distribution;
- ▶ Approves the Bank's charter.

(thousands of Russian rubles)

## 25. Risk management (continued)

### Risk management structure (continued)

#### *Board of Directors:*

- ▶ Determines the development priorities, including approval of the Development Strategy and Budget parameters;
- ▶ Approves key components and criterion of the risk and capital management system, including the Risk Strategy and such parameters as appetite to risk and target levels of risks. It also approves risk and capital management guidelines in respect of risks that are significant for the Bank;
- ▶ Determines staffing of risk-taking committees;
- ▶ Reviews and assesses limit compliance reports and results of capital adequacy stress-testing;
- ▶ Makes decisions on changes in equity in accordance with its competencies set forth in the Bank's Charter, including decisions on raising additional capital in the form of subordinated loans;
- ▶ Assesses efficiency of risk management and capital adequacy system in general.

#### *Management Board:*

- ▶ Approves risk and capital management procedures in respect of all types of risks inherent to the Bank's operations (other than significant ones), including segregation of duties and responsibilities of divisions and certain employees that may include setting limits on the types of risks and/or transactions;
- ▶ Approves stress-testing procedures, including parameters and frequency of testing;
- ▶ Verifies determination of significant risks;
- ▶ Ensures conditions for efficient internal capital adequacy testing in general and sustains capital adequacy on the level that meets conditions for mitigation of inherent risks in line with the Bank's business needs.

In addition to the governance bodies that accept risks directly, the following Management Board's committees and divisions are involved in the risk acceptance process, including the preliminary expertise (to find out whether they comply with internal regulations and applicable laws), calculation, assessment of their impact on the final performance indicators, etc.:

*The Assets and Liabilities Committee (ALCO)* approves limits for certain types of transactions, assets and risks (and allocates the planned amount of credit risk among the respective divisions), reviews interim reports prepared in the course of internal capital adequacy testing, and holds responsibility for requirements to capital set for transactions performed by the Bank's divisions.

*The Credit Committee* makes decisions on credit transactions and sets limits for borrowers (group of related borrowers) and the terms of each particular credit-related transaction (except for reverse repurchase transactions) and respective support.

*The Client Committee* considers and makes decisions on the introduction of new banking products/services, including based on the systematization of the results of expert reviews performed by the Legal Department and other departments of the Bank to verify compliance with applicable legislation and internal regulatory documents.

*The Main Treasury Transactions Department (the Treasury)* brings the Bank's asset and derivative structure in line with the Bank's Development Strategy, manages the portfolios of funds raised and placed, sets internal rates for raising and placing funds, manages liquidity, as well as determines tools and ways of hedging the Bank's inherent market risk.

(thousands of Russian rubles)

## 25. Risk management (continued)

### Risk management structure (continued)

The Bank's internal functions responsible for risk management include the following:

*The Risk Assessment Department:*

- ▶ Designs, implements, supports and improves the Bank's risk management system in general. It also designs methodologies to identify, calculate and monitor risks (both significant and insignificant), forms an opinion on their mitigation and participates in determining certain stress-testing parameters;
- ▶ Determines fair value of credit claims for IFRS purposes and controls existence and condition of property pledged as collateral for the commercial loan portfolio;
- ▶ Participates in preparing the internal capital adequacy testing documentation;
- ▶ Prepares an aggregate report on the significant risks inherent to the Bank's operations for the Bank's sole executive body and collegial executive body to ensure proper management decision-making;
- ▶ Assists in update of applied risk assessment models and risk management models.

*The General Financial Department:*

- ▶ Prepares drafts of the Bank's Development Strategy and Budget, other business-planning documents that consider target risk appetite and limits imposed;
- ▶ Prepares suggestions for limits values, appetite to risk, target risk indicators, ensures approval of suggested parameters by the respective risk-taking divisions;
- ▶ Calculates; monitors and interprets the Bank's performance indicators (for the entire Bank and for separate business segments), prepares analytical materials (management accounts) for the Bank's management decision-making;
- ▶ Controls some of the Bank's risks and ensures comprehensive control over compliance with limits on all risks accepted by the Bank, including aggregate stress-testing of the capital adequacy;
- ▶ Ensures methodological support of risk identification and assessment of the certain risk types, as well as forms an opinion of the risk mitigation procedures.

*The Internal Control Function* is responsible for regulatory risk management.

*The Consolidated Financial Statements Unit of the Accounting and Reporting Department* calculates prudential ratios in accordance with the instructions of the Bank of Russia and provides this information to the General Financial Department and sole executive body in order to ensure control and timely management decision-making.

The Bank's only division responsible for the audit of the risk management system is *the Internal Audit Function*, which exercises, on an ongoing basis, preliminary, current and subsequent control over the compliance of the risk management process with the approved internal documents and the requirements established by the Bank of Russia.

### Risk measurement and reporting systems

Risk identification and assessment of their effect for the purpose of internal capital adequacy testing is performed annually and ends before the start of a new annual business-planning cycle. If internal and external factors affecting the Bank's business structure changed significantly, an extraordinary risk identification and assessment of the effect may take place.

The Bank is exposed to credit risk, liquidity risk, market risk (comprising price risk, interest rate risk and currency risk), and operating risk.

The Bank has respective risk management policies and procedures, risk measurement methodology and methodology to assess capital requirements, as well as a limit system to ensure control over such risks.

*Limit system* is a multilevel structure reflecting limits on assets (investments) and limits for risk exposure (potential loss limits) in both absolute and relative terms.

The Bank's internal control system includes components and tools to maintain control over the limit compliance, namely, a range of *indicators showing a level of the risks utilization*.

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## 25. Risk management (continued)

### Risk measurement and reporting systems (continued)

If the Bank reaches a set level of such indicators or fails to comply with the set limits of any level, the respective information is immediately communicated to the Bank's Board of Directors, Management Board, Asset and Liability Management Committee, heads of the Risk Assessment Department and the Treasury.

The Bank prepared corrective procedures for each *indicator* (by types of respective risks), including risk mitigation procedures and/or procedures to relocate and increase equity.

The Risk Assessment Department systematizes information on compliance with limits for significant risks that also includes their utilization (reach of indicator levels) on a daily basis.

The full cycle of internal capital adequacy testing procedures with issue of the report on its results is performed annually, usually for the nine month of the reporting year and in the period of forecasting indicators for the next financial year, and includes the following:

- ▶ Calculation of necessary capital (i.e. capital the Bank needs in the long-term to cover significant, but unlikely risk events);
- ▶ Stress-testing and analysis of its results;
- ▶ Check of whether the risk management procedure is in line with the Bank's current operations and regulatory requirements/recommendations;
- ▶ Assessment of sufficiency and effectiveness of internal capital adequacy testing (i.e. quality of information contained in such reports, whether all risk were identified, whether risk mitigation activities were relevant and prompt, occurrence of risk limit violations, etc.).

As a result of efficiency analysis of internal capital adequacy testing, the Board of Directors and other authorized governance bodies of the Bank make a decision to amend the respective procedures and methodologies.

### Credit risk

*Credit risk* is a risk that the Bank will incur a loss because its counterparties failed to discharge their contractual obligations (improperly fulfilled their contractual obligations).

The objective of credit risk management is to maintain a level of risk accepted by the Bank based on its strategic development objectives. Credit risk management is also performed in order to:

- ▶ Identify, measure and determine level of the credit risk acceptable for the Bank;
- ▶ Take measures to maintain credit risk at a level not threatening to financial stability of the Bank and interests of its creditors and depositors;
- ▶ Ensure on-going control over the credit risk accepted by the Bank.

*Credit risk management*, as well as identification of a credit risk is an ongoing process, which takes place throughout the entire cycle of any credit transaction and includes the following credit risk management procedures:

- ▶ Reflecting transactions that bear a credit risk in the Bank's internal regulations mandatory for all divisions involved in the credit transactions;
- ▶ Setting and maintaining control over compliance with the multilevel credit risk limits that reflect the type and specifics of the credit transactions;
- ▶ Use of credit mitigation tools determined on the stage when the lending terms are agreed.

In order to maintain control over the credit risk, the Bank applies *three lines of defense* principle determined by *Principles of Corporate Governance for the Banks* (July 2015) of the Basel Committee on Banking Supervision, which is actually implemented by organizing a three-level control system:

- ▶ Control on the level of divisions accepting risks (Credit Committee, Treasury) and control on the level of operating units that document and register credit transactions (Credit Department, Department of Financial Market Transaction Support);
- ▶ Control on the level of information and analytical and control functions (Risk Assessment Department, General Financial Department, Internal Control Function); and
- ▶ Control on the level of control functions (Internal Audit Function).

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### 25. Risk management (continued)

#### Credit risk (continued)

Based on the nature of transactions and the Bank's corporate structure, acceptance of credit risk may be attributed to either *Business operations* or *Treasury*.

In *Business operations*, the credit risk is accepted by the *Credit Committee of the Bank's Management Board*.

When preparing a credit application to be submitted to the Credit Committee of the Bank, the departments involved (Risk Assessment Department, Security Department, Legal Department, Credit Department) prepare a conclusion with respect to the borrower and provide recommendations with respect to credit conditions (assessment of a credit risk, assessment of quality and adequacy of collateral used as a main risk mitigation tool, maximum credit exposure, maturities, interest rates, conditions of finance leases or factoring transactions, guarantees, addenda to the contacts in force, etc.). As the Bank is focused on the complex credit products that require an individual approach to the inherent risks and has no credit retail operations that include a large-scale issuance of similar credit products, each individual commercial lending transaction is made on *the individual basis* only.

Collateral for the commercial loan portfolio is monitored by the Risk Assessment Department. The essence of control over collateral is to ensure its physical availability, monitor its market value, and assess a potential demand from willing buyers and other determinants of collateral liquidity.

For the *Treasury*, the credit risk is accepted by the *Main Treasury Department* within the set *limits*.

The Treasury, the Risk Assessment Department and the Accounting and Financial Reporting Department prepare substantiated limit proposals. Upon additional request of the Management Board, such proposals are prepared by the Security Department and the Legal Department. The main credit risk management tools for transactions in financial markets are limits, as these are homogeneous and short-term transactions conducted on a regular basis and involving a significant number of absolutely identical deals (in terms of their type and degree of risk).

#### *Credit quality per class of financial assets*

The table below shows the analysis of the following items based on the ratings of international rating agencies: cash and cash equivalents, amounts due from credit institutions, financial assets at fair value through profit or loss, available-for-sale investments and held-to-maturity investments. For these items, high grade is equivalent to Moody's Baa3 rating and above, standard – below Baa3 but above B3, sub-standard – below B3. As for loans to customers, the majority of the Bank's borrowers are not rated by international rating agencies. Individually impaired loans include all overdue loans. The information is based on carrying amounts before allowance for impairment. More details on allowance for impairment of loans to customers are provided in Note 8.

2017	Notes	Neither past due nor impaired			Individually impaired	Total
		High grade	Standard grade	Sub-standard grade		
Accounts with the CBR	5	1,557,100	-	-	-	1,557,100
Financial assets at fair value through profit or loss (debt securities)	6	-	21,068,458	-	-	21,068,458
Amounts due from credit institutions	7	4,607,834	8,983	206,424	-	4,823,241
Loans to customers	8	-	-	1,056,132	29,081,903	30,138,035
Held-to-maturity investments	10	-	7,962,781	-	-	7,962,781
Other financial assets	14	-	-	291,010	-	291,010
<b>Total</b>		<b>6,164,934</b>	<b>29,040,222</b>	<b>1,553,566</b>	<b>29,081,903</b>	<b>65,840,625</b>

  

2016	Notes	Neither past due nor impaired			Individually impaired	Total
		High grade	Standard grade	Sub-standard grade		
Accounts with the CBR	5	1,905,661	-	-	-	1,905,661
Financial assets at fair value through profit or loss (debt securities)	6	16,765,610	-	-	-	16,765,610
Amounts due from credit institutions	7	10,050,902	347,802	122,320	-	10,521,024
Loans to customers	8	-	-	686,730	31,029,583	31,716,313
Other financial assets	14	-	-	780,696	-	780,696
<b>Total</b>		<b>28,722,173</b>	<b>347,802</b>	<b>1,589,746</b>	<b>31,029,583</b>	<b>61,689,304</b>

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### 25. Risk management (continued)

#### Credit risk (continued)

##### Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 30 days or there are any known difficulties in the cash flows of counterparties, loan restructuring, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

##### Individually assessed allowances

The Bank determines the allowances appropriate for each individually significant loan or advance on an individual basis. Due to a limited number of borrowers, the Bank considers the majority of loans as individually significant. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of financial support, the realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date.

Financial guarantees and letters of credit are also assessed for impairment, and allowance is created in a similar manner as for loans.

The geographical concentration of the Bank's assets and liabilities is set out below:

	2017				2016			
	Russia	OECD	Non-OECD countries	Total	Russia	OECD	Non-OECD countries	Total
<b>Assets</b>								
Cash and accounts with the CBR	2,611,594	-	-	2,611,594	3,472,548	-	-	3,472,548
Financial assets at fair value through profit or loss	39,005,169	401,963	-	39,407,132	33,052,055	925,272	-	33,977,327
Amounts due from credit institutions	2,803,635	2,018,896	710	4,823,241	8,405,677	2,114,597	750	10,521,024
Loans to customers	11,647,562	-	3,388,044	15,035,606	12,952,330	-	4,109,266	17,061,596
Available-for-sale investments	245,627	49	-	245,676	422,436	49	-	422,485
Held-to-maturity investments	7,962,781	-	-	7,962,781	-	-	-	-
Other financial assets	133,125	157,827	58	291,010	269,056	511,640	-	780,696
<b>Total financial assets</b>	<b>64,409,493</b>	<b>2,578,735</b>	<b>3,388,812</b>	<b>70,377,040</b>	<b>58,574,102</b>	<b>3,551,558</b>	<b>4,110,016</b>	<b>66,235,676</b>
Property and equipment	74,775	-	-	74,775	94,308	-	-	94,308
Current income tax assets	208,860	-	-	208,860	21,092	-	-	21,092
Other non-financial assets	632,951	-	-	632,951	551,254	-	-	551,254
<b>Total non-financial assets</b>	<b>916,586</b>	<b>-</b>	<b>-</b>	<b>916,586</b>	<b>666,654</b>	<b>-</b>	<b>-</b>	<b>666,654</b>
<b>Total assets</b>	<b>65,326,079</b>	<b>2,578,735</b>	<b>3,388,812</b>	<b>71,293,626</b>	<b>59,240,756</b>	<b>3,551,558</b>	<b>4,110,016</b>	<b>66,902,330</b>
<b>Liabilities</b>								
Amounts due to credit institutions	22,616,227	-	-	22,616,227	14,415,192	58,504	-	14,473,696
Amounts due to customers	11,157,495	4,389	2,694,801	13,856,685	9,729,500	6,086	9,115,827	18,851,413
Debt securities issued	4,124,903	-	552,218	4,677,121	3,267,985	-	-	3,267,985
Other financial liabilities	164,384	480	55,922	220,786	137,303	495	41,718	179,516
<b>Total financial liabilities</b>	<b>38,063,009</b>	<b>4,869</b>	<b>3,302,941</b>	<b>41,370,819</b>	<b>27,549,980</b>	<b>65,085</b>	<b>9,157,545</b>	<b>36,772,610</b>
Other provisions	968,643	-	-	968,643	1,990,601	-	-	1,990,601
Current income tax liabilities	25,536	-	-	25,536	-	-	-	-
Deferred income tax liabilities	566,766	-	-	566,766	565,236	-	-	565,236
Other non-financial liabilities	7,939	-	-	7,939	10,474	-	-	10,474
<b>Total non-financial liabilities</b>	<b>1,568,884</b>	<b>-</b>	<b>-</b>	<b>1,568,884</b>	<b>2,566,311</b>	<b>-</b>	<b>-</b>	<b>2,566,311</b>
<b>Total liabilities</b>	<b>39,631,893</b>	<b>4,869</b>	<b>3,302,941</b>	<b>42,939,703</b>	<b>30,116,291</b>	<b>65,085</b>	<b>9,157,545</b>	<b>39,338,921</b>
<b>Net assets and liabilities</b>	<b>25,694,186</b>	<b>2,573,866</b>	<b>85,871</b>	<b>28,353,923</b>	<b>29,124,465</b>	<b>3,486,473</b>	<b>(5,047,529)</b>	<b>27,563,409</b>



(thousands of Russian rubles)

## 25. Risk management (continued)

### Liquidity risk

*Liquidity risk* is a risk that the Bank will fail to fulfill its liabilities in full and on a timely manner.

Strategic asset and liability management, including that aimed to support the target liquidity level, is the responsibility of the Bank's Management Board which determines funding sources and investment areas. Operational liquidity management is the responsibility of the Bank's Treasury and involves maintaining such a structure and quality of assets and liabilities that allow the Bank to ensure an adequate level of liquidity in a prompt manner without a marked decline in the profitability of banking transactions and a deterioration of the Bank's other performance indicators. *The General Financial Department* prepares a set of analytical materials for management decision making purposes and performs the stress testing of the Bank's liquidity in line with approved scenarios and stress test parameters. When planned transactions have certain parameters, the Bank's departments that place and raise funds must obtain approval for their actions from a supervising body (in most cases, the Treasury) which may suspend a planned transaction in the event of its negative impact on liquidity.

The level of the Bank's liquidity required for the proper performance of obligations as they fall due is assessed by type of liquidity: instant, current, medium-term and long-term liquidity.

Depending on the Bank's needs and taking into account the applicable requirements of the Bank of Russia, the Bank uses four methods for the assessment of the liquidity level:

- ▶ Calculation of financial ratios;
- ▶ Stress testing;
- ▶ Comparison of assets and liabilities by maturities;
- ▶ Calculation of short-term liquidity indicator.

To assess instant, current and long-term liquidity, the Bank uses ratios N2, N3 and N4 calculated in accordance with the methodology established by the Bank of Russia. *The Consolidated Financial Statements Unit of the Accounting and Reporting Department* calculates these liquidity ratios on a daily basis. Ratios with detailed breakdowns are immediately transferred to the Bank's *Treasury*.

The stress testing method is used to assess the level of current liquidity and determine expected loss from liquidity risk that are considered when planning the required capital in the course of internal capital adequacy testing, and involves the comparison of the consequences of a simultaneous occurrence of several possible unfavorable events posing the current liquidity risk for the Bank with the effect of a number of measures taken by the Bank to improve liquidity. The parameters of scenarios are revised as planned, and the scenario of a stress test developed by the working group and its parameters are approved by the Bank's Management Board. The General Financial Department makes calculations for stress tests in line with the approved scenario at least once in three months.

To assess medium-term and long-term liquidity, the Bank compares the remaining maturities of assets and liabilities.

When the liquidity deficit is identified, the Bank may do the following:

- ▶ Take organizational measures (e.g. reduce management expenses);
- ▶ Take asset-management measures (e.g. review the lending policy, consider the possibility to sell the securities portfolio);
- ▶ Take liability management measures (e.g., use previously opened credit facilities, raise loans under repurchase agreements or under collateral of securities).

The *Risk Assessment Department and the Internal Control Function* maintain control over liquidity management procedures.

In the reporting period, the estimated instant and current liquidity ratios exceeded the minimum acceptable values, and the long-term liquidity ratio did not exceed the limits established by the Bank of Russia.

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### 25. Risk management (continued)

#### Liquidity risk (continued)

The N2 ratio (instant liquidity, acceptable minimum value of 15.0%) as at 31 December 2017 was 68.9% (31 December 2016: 102.5%).

The N3 ratio (current liquidity, acceptable minimum value of 50.0%) as at 31 December 2017 was 103.3% (31 December 2016: 102.3%).

The N4 ratio (long-term liquidity, acceptable maximum value of 120.0%) as at 31 December 2017 was 10.5% (31 December 2016: 22.5%).

Reports on liquidity risk prepared in the reporting period in the form of a stress test of the Bank's balance sheet show that upon occurrence of stress events, the implementation of the respective intended measures will fully allow the Bank to ensure an adequate level of liquidity.

The tables below show the analysis of liquidity risk as at 31 December 2017 and 2016:

<b>As at 31 December 2017</b>	<b>Less than 1 month</b>	<b>1 to 3 months</b>	<b>3 to 12 months</b>	<b>1 to 5 years</b>	<b>Over 5 years</b>	<b>No stated maturity</b>	<b>Total</b>
<b>Assets</b>							
Cash and accounts with the CBR	2,434,987	-	-	-	-	176,607	2,611,594
Financial assets at fair value through profit or loss	39,407,132	-	-	-	-	-	39,407,132
Amounts due from credit institutions	4,769,346	-	-	-	-	53,895	4,823,241
Loans to customers	3,798,202	179,818	6,174,118	4,709,677	173,791	-	15,035,606
Available-for-sale investments	245,676	-	-	-	-	-	245,676
Held-to-maturity investments	-	-	-	-	7,962,781	-	7,962,781
Other financial assets	291,010	-	-	-	-	-	291,010
<b>Total financial assets</b>	<b>50,946,353</b>	<b>179,818</b>	<b>6,174,118</b>	<b>4,709,677</b>	<b>8,136,572</b>	<b>230,502</b>	<b>70,377,040</b>
Property and equipment	-	-	-	-	-	74,775	74,775
Current income tax assets	-	-	208,860	-	-	-	208,860
Other non-financial assets	85,116	15	-	-	-	547,820	632,951
<b>Total non-financial assets</b>	<b>85,116</b>	<b>15</b>	<b>208,860</b>	<b>-</b>	<b>-</b>	<b>622,595</b>	<b>916,586</b>
<b>Total assets</b>	<b>51,031,469</b>	<b>179,833</b>	<b>6,382,978</b>	<b>4,709,677</b>	<b>8,136,572</b>	<b>853,097</b>	<b>71,293,626</b>
<b>Liabilities</b>							
Amounts due to credit institutions	22,616,227	-	-	-	-	-	22,616,227
Amounts due to customers	13,856,685	-	-	-	-	-	13,856,685
Debt securities issued	4,569,840	-	106,705	576	-	-	4,677,121
Other financial liabilities	165,479	-	-	55,307	-	-	220,786
<b>Total financial liabilities</b>	<b>41,208,231</b>	<b>-</b>	<b>106,705</b>	<b>55,883</b>	<b>-</b>	<b>-</b>	<b>41,370,819</b>
Other provisions	223,956	277,385	420,777	46,503	22	-	968,643
Current income tax liabilities	25,536	-	-	-	-	-	25,536
Deferred income tax liabilities	-	-	-	-	-	566,766	566,766
Other non-financial liabilities	6,026	1,913	-	-	-	-	7,939
<b>Total non-financial liabilities</b>	<b>255,518</b>	<b>279,298</b>	<b>420,777</b>	<b>46,503</b>	<b>22</b>	<b>566,766</b>	<b>1,568,884</b>
<b>Total liabilities</b>	<b>41,463,749</b>	<b>279,298</b>	<b>527,482</b>	<b>102,386</b>	<b>22</b>	<b>566,766</b>	<b>42,939,703</b>
<b>Net assets and liabilities</b>	<b>9,567,720</b>	<b>(99,465)</b>	<b>5,855,496</b>	<b>4,607,291</b>	<b>8,136,549</b>	<b>286,331</b>	<b>28,353,923</b>
<b>Accumulated gap</b>	<b>9,567,720</b>	<b>9,468,255</b>	<b>15,323,751</b>	<b>19,931,042</b>	<b>28,067,592</b>	<b>28,353,923</b>	

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### 25. Risk management (continued)

#### Liquidity risk (continued)

<b>As at 31 December 2016</b>	<b>Less than 1 month</b>	<b>1 to 3 months</b>	<b>3 to 12 months</b>	<b>1 to 5 years</b>	<b>Over 5 years</b>	<b>No stated maturity</b>	<b>Total</b>
<b>Assets</b>							
Cash and accounts with the CBR	3,283,342	-	-	-	-	189,206	<b>3,472,548</b>
Financial assets at fair value through profit or loss	33,977,327	-	-	-	-	-	<b>33,977,327</b>
Amounts due from credit institutions	10,470,242	-	-	-	-	50,782	<b>10,521,024</b>
Loans to customers	4,469,829	870,075	3,323,842	8,031,562	366,288	-	<b>17,061,596</b>
Available-for-sale investments	422,485	-	-	-	-	-	<b>422,485</b>
Other financial assets	780,696	-	-	-	-	-	<b>780,696</b>
<b>Total financial assets</b>	<b>53,403,921</b>	<b>870,075</b>	<b>3,323,842</b>	<b>8,031,562</b>	<b>366,288</b>	<b>239,988</b>	<b>66,235,676</b>
Property and equipment	-	-	-	-	-	94,308	<b>94,308</b>
Current income tax assets	-	-	21,092	-	-	-	<b>21,092</b>
Other non-financial assets	47,935	-	-	-	-	503,319	<b>551,254</b>
<b>Total non-financial assets</b>	<b>47,935</b>	<b>-</b>	<b>21,092</b>	<b>-</b>	<b>-</b>	<b>597,627</b>	<b>666,654</b>
<b>Total assets</b>	<b>53,451,856</b>	<b>870,075</b>	<b>3,344,934</b>	<b>8,031,562</b>	<b>366,288</b>	<b>837,615</b>	<b>66,902,330</b>
<b>Liabilities</b>							
Amounts due to credit institutions	14,415,191	-	58,505	-	-	-	<b>14,473,696</b>
Amounts due to customers	18,851,413	-	-	-	-	-	<b>18,851,413</b>
Debt securities issued	2,607,827	15,025	632,766	12,367	-	-	<b>3,267,985</b>
Other financial liabilities	144,498	130	1,490	33,398	-	-	<b>179,516</b>
<b>Total financial liabilities</b>	<b>36,018,929</b>	<b>15,155</b>	<b>692,761</b>	<b>45,765</b>	<b>-</b>	<b>-</b>	<b>36,772,610</b>
Other provisions	257,690	83,206	1,351,319	294,211	4,175	-	<b>1,990,601</b>
Deferred income tax liabilities	-	-	-	-	-	565,236	<b>565,236</b>
Other non-financial liabilities	10,371	103	-	-	-	-	<b>10,474</b>
<b>Total non-financial liabilities</b>	<b>268,061</b>	<b>83,309</b>	<b>1,351,319</b>	<b>294,211</b>	<b>4,175</b>	<b>565,236</b>	<b>2,566,311</b>
<b>Total liabilities</b>	<b>36,286,990</b>	<b>98,464</b>	<b>2,044,080</b>	<b>339,976</b>	<b>4,175</b>	<b>565,236</b>	<b>39,338,921</b>
<b>Net assets and liabilities</b>	<b>17,164,866</b>	<b>771,611</b>	<b>1,300,854</b>	<b>7,691,586</b>	<b>362,113</b>	<b>272,379</b>	<b>27,563,409</b>
<b>Accumulated gap</b>	<b>17,164,866</b>	<b>17,936,477</b>	<b>19,237,331</b>	<b>26,928,917</b>	<b>27,291,030</b>	<b>27,563,409</b>	

Financial assets at fair value through profit or loss and available-for-sale investments owned by the Bank were classified into the "Less than 1 month" category, as management believes that all these assets can be realized within one month in the ordinary course of business.

Amounts due to customers and debt securities issued include term deposits of individuals and savings certificates. In accordance with the Russian legislation, the Bank is obliged to repay such deposits upon demand of a depositor (refer to Note 16). The Bank also classifies time deposits of legal entities in into the "Less than 1 month" category.

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### 25. Risk management (continued)

#### Liquidity risk (continued)

*Analysis of financial liabilities by remaining contractual maturities*

The table below summarizes the maturity profile of the Bank's financial liabilities at 31 December based on contractual undiscounted repayment obligations. Repayments, which are subject to notice, are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

<b>As at 31 December 2017</b>	<b>Less than 3 months</b>	<b>3 to 12 months</b>	<b>1 to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>Financial liabilities</b>					
Amounts due to credit institutions	22,666,378	-	-	-	<b>22,666,378</b>
Amounts due to customers	10,306,437	3,582,212	7,484	-	<b>13,896,133</b>
Debt securities issued	866,970	473,386	514,826	5,619,107	<b>7,474,289</b>
Other financial liabilities	165,479	-	64,057	-	<b>229,536</b>
<b>Total undiscounted financial liabilities</b>	<b>34,005,264</b>	<b>4,055,598</b>	<b>586,367</b>	<b>5,619,107</b>	<b>44,266,336</b>

<b>As at 31 December 2016</b>	<b>Less than 3 months</b>	<b>3 to 12 months</b>	<b>1 to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>Financial liabilities</b>					
Amounts due to credit institutions	14,431,045	59,302	-	-	<b>14,490,347</b>
Amounts due to customers	17,090,529	1,811,650	3,939	-	<b>18,906,118</b>
Debt securities issued	223,129	895,562	1,010,273	3,009,893	<b>5,138,857</b>
Other financial liabilities	144,628	-	46,377	-	<b>191,005</b>
<b>Total undiscounted financial liabilities</b>	<b>31,889,331</b>	<b>2,766,514</b>	<b>1,060,589</b>	<b>3,009,893</b>	<b>38,726,327</b>

The table below shows the contractual expiry by maturity of the Bank's financial commitments and contingencies. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

	<b>Less than 3 months</b>	<b>3 to 12 months</b>	<b>1 to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
2017	4,281,707	2,171,224	674,808	2,750	<b>7,130,489</b>
2016	1,540,710	4,356,768	1,296,737	7,503	<b>7,201,718</b>

The Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

#### Market risk

*Market risk* is a risk that the Bank will incur a financial loss due to an adverse change of the market (fair) value of securities or due to unfavorable fluctuations of parameters of deals that comprise derivative financial instruments, adverse fluctuation of foreign exchange rates, interest rates, precious metal prices, commodities and raw materials prices, as well as other market indicators affecting the Bank's open positions.

The Bank forms assets that bear a market risk and opens up/ adjusts respective limits on *the Treasury's* request only. When accepting risks, the Treasury relies on the Bank's *Development Strategy* while maintaining reasonable risk to yield ratio for the transactions planned.

Control and analytical functions in respect of monitoring of such type of risk are distributed among the *Risk Assessment Department*, *the General Financial Department* and governance bodies in accordance with their competencies. Therefore, when accepting risk management role, the conflict of interest is eliminated by segregation of duties and responsibilities between collegial bodies, divisions and responsible employees.

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## 25. Risk management (continued)

### Market risk (continued)

Market risk is measured by obtaining numeric value characterizing possible loss the Bank may incur as a result of such risk and by comparing this value with the respective risk capital (i.e. with a portion of capital the Bank plans to use to cover the market risk) in order to determine whether it is sufficient to cover those losses.

The Bank calculates aggregate market risk value on a daily basis.

The Bank applies the following market risk valuation techniques:

- ▶ Market risk valuation techniques based on value-at-risk (VaR);
- ▶ Modified duration method in order to measure interest rate risk of the debt securities;
- ▶ Gap analysis to measure interest rate risk of the bank book;
- ▶ Stress testing.

VaR is a method used in measuring the maximum loss due to realization of the market risk that will not be exceeded at a given confidence level and over a specified time horizon.

Based on recommendations of the Basel Committee on Banking Supervision, the Bank uses VaR with a 99% confidence level and a 10-day projection horizon. Therefore, for the risk measurement purposes, the Bank with a 99% confidence level assumes that its maximal loss over a 10-day projection horizon will not be exceeded.

Expected loss is determined for the entire trading portfolio, by certain components of trading portfolio and by each financial instrument (security) included in the trading portfolio.

The Bank assesses its VaR-based expected loss for the trading portfolio on a daily basis.

Analysis of VaR-based expected loss for the trading portfolio is as follows:

	<u>2017</u>	<u>2016</u>
VaR (trading portfolio)	1,607,594	1,054,139

Mitigation of the market risks assumes a set of measures aimed at reducing the probability of events or circumstances that cause losses and/or reducing (limiting) the amount of potential losses from the market risk.

The general approaches to the market risk mitigation include the following:

- ▶ Reasonable decision-making on any transaction;
- ▶ Implementation and application of aligned approach towards acceptance and monitoring of the market risk;
- ▶ Compliance with segregation of duties principle in terms of acceptance and measurement of the market risk;
- ▶ Normalizing of transactions and deals with financial instruments.

The specific approaches to the market risk mitigation include the following:

- ▶ Entering into a matched bargain with derivatives for the purpose of insurance against possible losses;
- ▶ Diversification of investments in financial instruments sensitive to the change of market indicators;
- ▶ Limit setting that is a key market risk management tool.

The Bank identifies *the following types of market risks*: interest rate risk, stock exchange risk, currency risk and commodity risk.

### Interest rate risk

*Interest rate risk* is a risk the Bank will incur a financial loss due to adverse changes in interest rates for open positions in the debt securities and other instruments sensitive to the interest rates fluctuations.

Interest rate risk of the securities portfolio among other things results from adding to such portfolio debt securities sensitive to the interest rate fluctuations.

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### 25. Risk management (continued)

#### Interest rate risk (continued)

The Bank applies a *modified duration* to assess the impact of changes in interest rates on the market value of debt securities, using a stress test where the interest rate changes by 200 basis points. However, a modified duration is considered an indicator characterizing the bond's reaction to change in yield to maturity (mathematically, it is a first derivative of the price with respect to the yield). A modified duration shows volatility of the bond's overall price that includes accumulated coupon income and reflects the average age of the payment flow (principal and coupon) weighted on the payment schedule.

This method that considers the maturity of principal and interest (coupon) rate and helps to evaluate the extent to which an instrument is dependent on fluctuations in interest rates and, therefore, to prepare an overall forecast of the market value of the debt securities' portfolio.

Interest rate risk directly depends on a modified duration: the larger is the instrument's duration, the more significant are changes in its market value when the interest rate changes, i.e. the larger is the interest rate risk.

The table below shows impact the interest rate risk of the bonds portfolio has on the equity:

	<u>2017</u>	<u>2016</u>
Russian State bonds	4,724,525	-
Bonds of credit institutions	23,513	-
Eurobonds of the Russian Federation	-	2,058,795
Equity (capital) (Note 30)	<u>23,954,014</u>	<u>24,523,752</u>
<b>Effect on equity,%</b>	<b><u>19.8</u></b>	<b><u>8.4</u></b>

#### *Interest rate risk of the banking book*

In order to assess the interest rate risk of the banking book, the Bank uses gap analysis, i.e. analysis of a gap in contractual maturities of assets and liabilities, using a stress test of the sensitivity of the Bank's interest income to *change in the interest rate by 200 basis points*.

*The gap* is determined in absolute terms (i.e. in Russian rubles) as a difference between the amount of assets sensitive to changes in the market's interest rates and the amount of liabilities sensitive to the interest rate fluctuations in the respective period (up to 30 days, from 30 days to three months, from three to six months, etc.).

*The gap amount*, which may be positive or negative shows a change in the Bank's interest income as a result of the interest rate fluctuations: the larger the gap is, the more the Bank is exposed to the interest rate risk.

*Positive gap* (a long position) takes place when assets sensitive to the interest rate fluctuations exceed liabilities sensitive to the interest rate fluctuations. It means that the Bank's net interest income will increase when the interest rates grow and decrease when the interest rates decline. *Negative gap* (a short position) takes place when assets sensitive to the interest rate fluctuations are less than liabilities sensitive to the interest rate fluctuations. It means that the net interest income will increase when the interest rates decline and decrease when the interest rates grow.

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### 25. Risk management (continued)

#### Interest rate risk (continued)

Calculation of the interest rate risk of the banking book (except for debt securities) is as follows:

<b>As at 31 December 2017</b>	<b>Less than 1 month</b>	<b>1 to 3 months</b>	<b>3 to 6 months</b>	<b>6 month to 1 year</b>	<b>Total within 1 year</b>
<b>Total assets sensitive to changes in interest rates</b>	<b>6,450,174</b>	<b>353,406</b>	<b>5,668,219</b>	<b>6,948,617</b>	<b>19,420,416</b>
Loans to legal entities	1,848,702	295,368	5,597,933	6,651,179	14,393,182
Loans to individuals	361,116	58,038	70,286	297,438	786,878
Loans under reverse repurchase agreements	4,240,356	-	-	-	4,240,356
<b>Total liabilities sensitive to changes in interest rates</b>	<b>24,116,816</b>	<b>1,761,533</b>	<b>2,631,926</b>	<b>1,383,118</b>	<b>29,893,393</b>
Customer deposits	1,156,816	1,244,787	2,430,060	1,131,852	5,963,515
Liabilities arising from repurchase transactions	22,616,227	-	-	-	22,616,227
Promissory notes and savings certificates of the Bank	343,773	516,746	201,866	251,266	1,313,651
<b>Difference between assets and liabilities sensitive to changes in interest rates</b>	<b>(17,666,642)</b>	<b>(1,408,127)</b>	<b>3,036,293</b>	<b>5,565,499</b>	<b>(10,472,977)</b>
Effect on the financial performance in case of changes in interest rates					
+ 200 basis points	(338,599)	(23,468)	37,954	27,827	(296,286)
- 200 basis points	338,599	23,468	(37,954)	(27,827)	296,286
<b>As at 31 December 2016</b>	<b>Less than 1 month</b>	<b>1 to 3 months</b>	<b>3 to 6 months</b>	<b>6 month to 1 year</b>	<b>Total within 1 year</b>
<b>Total assets sensitive to changes in interest rates</b>	<b>7,552,814</b>	<b>1,134,377</b>	<b>3,710,560</b>	<b>4,436,513</b>	<b>16,834,264</b>
Loans to legal entities	1,746,507	1,107,368	3,550,371	4,204,685	10,608,931
Loans to individuals	489,174	27,009	160,189	231,828	908,200
Loans under reverse repurchase agreements	5,317,133	-	-	-	5,317,133
<b>Total liabilities sensitive to changes in interest rates</b>	<b>16,030,494</b>	<b>1,151,231</b>	<b>1,164,556</b>	<b>1,485,780</b>	<b>19,832,061</b>
Customer deposits	1,443,396	1,101,137	843,196	945,492	4,333,221
Liabilities arising from repurchase transactions	14,415,191	-	-	-	14,415,191
Promissory notes and savings certificates of the Bank	171,907	50,094	321,360	540,288	1,083,649
<b>Difference between assets and liabilities sensitive to changes in interest rates</b>	<b>(8,477,680)</b>	<b>(16,854)</b>	<b>2,546,004</b>	<b>2,950,733</b>	<b>(2,997,797)</b>
Effect on the financial performance in case of changes in interest rates					
+ 200 basis points	(162,483)	(281)	31,825	14,754	(116,185)
- 200 basis points	162,483	281	(31,825)	(14,754)	116,185

\* The information is based on carrying amounts before allowance for impairment and presented by contractual maturities of the assets and liabilities.

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### 25. Risk management (continued)

#### Stock exchange risk

*Stock exchange risk* is a risk that the Bank will incur a financial loss due to an adverse change in the fair value of stock exchange financial instruments (securities and derivatives) due to factors related to the securities' issuer and overall fluctuations of the financial instruments' quotes at the stock exchange.

For the purpose of additional analysis of stock exchange risk, the Bank uses a valuation technique that includes evaluation of a decline in the trading portfolio's value by calculation of the expected loss for its components that are exposed to such risk.

The expected loss is determined on the basis of *value-at-risk (VaR)* with a 99% confidence level and a 10-day projection horizon.

The analysis of expected losses by components of trading portfolio that are exposed to the stock exchange risk is as follows:

	2017	2016
VaR (securities portfolio)	995,512	1,016,425

Monitoring and controlling the risk is performed based on the limits established by the Bank. These limits reflect the Bank's behavioral strategy in the stock market, its understanding of macroeconomic factors and other market conditions, in which the Bank is operating, as well as the level of the risk accepted by the Bank.

The effect on profit before tax and equity (as a result of change in fair value of equity instruments) due to a reasonably possible change in the MICEX equity price indices is as follows:

	<i>Effect on profit before tax 2017</i>	<i>Effect on equity 2017</i>
<b><i>Change in equity price 2017</i></b>		
15%	2,740,551	204,326
-15%	(2,740,551)	(204,326)
<b><i>Change in equity price 2016</i></b>		
24%	3,908,448	100,645
-10%	(1,628,520)	(41,935)

#### Currency risk

*Currency risk* is the risk that the Bank may incur financial losses due to adverse changes in foreign exchange rates and/or gold prices under the Bank's open positions in foreign currencies and/or gold.

In order to evaluate currency risk due to negative revaluation of the open currency positions, the Bank applies VaR method.

The expected loss is determined for positions in foreign currencies (for all currencies in aggregate or for specific currencies) and gold.

VaR is determined on the basis of historical foreign exchange rates and gold prices with a calculation step equal to one calendar year, 99% confidence level and a 10-day projection horizon. The Bank believes that forecasting of foreign exchange rates and gold prices fluctuations for larger period is not reasonable as the high liquidity of the above currency instruments helps to adjust the currency risk in the short period of time (namely in no more than two working days). For the purpose of VaR calculation, the Bank also eliminates sharp fluctuations of the foreign exchange rates and gold prices in the planning horizon.

VaR for the Bank's open currency positions is as follows:

	2017	2016
VaR	19,086	33,583



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### 25. Risk management (continued)

#### Currency risk (continued)

According to the applicable CBR regulations, currency risk is limited by open positions in certain currencies and precious metals.

The table below indicates the currencies to which the Bank has significant exposure as at 31 December with its assets and liabilities. The analysis calculates the effect of a reasonably possible change in currency rates against the ruble, with all other variables held constant on the statement of profit or loss (due to the fair value of currency sensitive financial assets and liabilities). The effect on equity does not differ from the effect on the statement of profit or loss. Negative amounts in the table reflect a potential net reduction in the statement of profit or loss or the equity, while positive amounts reflect a net potential increase:

<b>Currency</b>	<b>Change in currency rate in % 2017</b>	<b>Effect on profit before tax 2017</b>	<b>Change in currency rate in % 2016</b>	<b>Effect on profit before tax 2016</b>
USD	11.0%	3,268	20.0%	(74,001)
	-11.0%	(3,268)	-20.0%	74,001
EUR	12.5%	(8,957)	20.0%	(121,897)
	-12.5%	8,957	-20.0%	121,897

The Bank's exposure to currency risk as at 31 December 2017 is as follows:

<b>As at 31 December 2017</b>	<b>RUB</b>	<b>USD</b>	<b>EUR</b>	<b>Other currencies</b>	<b>Total</b>
<b>Assets</b>					
Cash and accounts with the CBR	1,954,606	238,551	268,225	150,212	<b>2,611,594</b>
Financial assets at fair value through profit or loss	39,073,503	-	151,872	181,757	<b>39,407,132</b>
Amounts due from credit institutions	1,850,682	1,789,006	620,437	563,116	<b>4,823,241</b>
Loans to customers	14,866,496	1,968	167,142	-	<b>15,035,606</b>
Available-for-sale investments	245,676	-	-	-	<b>245,676</b>
Held-to-maturity investments	7,962,781	-	-	-	<b>7,962,781</b>
Other financial assets	114,170	161,705	5,563	9,572	<b>291,010</b>
<b>Total financial assets</b>	<b>66,067,914</b>	<b>2,191,230</b>	<b>1,213,239</b>	<b>904,657</b>	<b>70,377,040</b>
Property and equipment	74,775	-	-	-	<b>74,775</b>
Current income tax assets	208,860	-	-	-	<b>208,860</b>
Other non-financial assets	591,833	-	-	41,118	<b>632,951</b>
<b>Total non-financial assets</b>	<b>875,468</b>	<b>-</b>	<b>-</b>	<b>41,118</b>	<b>916,586</b>
<b>Total assets</b>	<b>66,943,382</b>	<b>2,191,230</b>	<b>1,213,239</b>	<b>945,775</b>	<b>71,293,626</b>
<b>Liabilities</b>					
Amounts due to credit institutions	22,616,227	-	-	-	<b>22,616,227</b>
Amounts due to customers	7,044,711	4,359,201	1,651,468	801,305	<b>13,856,685</b>
Debt securities issued	4,621,129	1,730	54,262	-	<b>4,677,121</b>
Other financial liabilities	170,933	47,181	976	1,696	<b>220,786</b>
<b>Total financial liabilities</b>	<b>34,453,000</b>	<b>4,408,112</b>	<b>1,706,706</b>	<b>803,001</b>	<b>41,370,819</b>
Other provisions	968,643	-	-	-	<b>968,643</b>
Current income tax liabilities	25,536	-	-	-	<b>25,536</b>
Deferred income tax liabilities	566,766	-	-	-	<b>566,766</b>
Other non-financial liabilities	7,939	-	-	-	<b>7,939</b>
<b>Total non-financial liabilities</b>	<b>1,568,884</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,568,884</b>
<b>Total liabilities</b>	<b>36,021,884</b>	<b>4,408,112</b>	<b>1,706,706</b>	<b>803,001</b>	<b>42,939,703</b>
<b>Open balance sheet position</b>	<b>31,614,914</b>	<b>(2,216,882)</b>	<b>(493,467)</b>	<b>101,656</b>	<b>29,006,221</b>
Open position on derivative financial instruments	(3,017,929)	2,246,587	421,809	349,533	-
<b>Open position</b>	<b>28,596,985</b>	<b>29,705</b>	<b>(71,658)</b>	<b>451,189</b>	<b>29,006,221</b>

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### 25. Risk management (continued)

#### Currency risk (continued)

<b>As at 31 December 2016</b>	<b>RUB</b>	<b>USD</b>	<b>EUR</b>	<b>Other currencies</b>	<b>Total</b>
<b>Assets</b>					
Cash and accounts with the CBR	2,527,558	471,552	341,129	132,309	<b>3,472,548</b>
Financial assets at fair value through profit or loss	17,211,717	16,765,610	–	–	<b>33,977,327</b>
Amounts due from credit institutions	6,894,096	2,639,260	409,883	577,785	<b>10,521,024</b>
Loans to customers	14,713,894	2,312,473	35,027	202	<b>17,061,596</b>
Available-for-sale investments	422,485	–	–	–	<b>422,485</b>
Other financial assets	232,452	520,424	23,403	4,417	<b>780,696</b>
<b>Total financial assets</b>	<b>42,002,202</b>	<b>22,709,319</b>	<b>809,442</b>	<b>714,713</b>	<b>66,235,676</b>
Property and equipment	94,308	–	–	–	<b>94,308</b>
Current income tax assets	21,092	–	–	–	<b>21,092</b>
Other non-financial assets	540,382	–	–	10,872	<b>551,254</b>
<b>Total non-financial assets</b>	<b>655,782</b>	<b>–</b>	<b>–</b>	<b>10,872</b>	<b>666,654</b>
<b>Total assets</b>	<b>42,657,984</b>	<b>22,709,319</b>	<b>809,442</b>	<b>725,585</b>	<b>66,902,330</b>
<b>Liabilities</b>					
Amounts due to credit institutions	1,696,519	12,718,673	58,504	–	<b>14,473,696</b>
Amounts due to customers	11,719,128	5,282,443	1,239,139	610,703	<b>18,851,413</b>
Debt securities issued	3,130,630	16,394	120,961	–	<b>3,267,985</b>
Other financial liabilities	137,453	41,741	322	–	<b>179,516</b>
<b>Total financial liabilities</b>	<b>16,683,730</b>	<b>18,059,251</b>	<b>1,418,926</b>	<b>610,703</b>	<b>36,772,610</b>
Other provisions	1,990,601	–	–	–	<b>1,990,601</b>
Deferred income tax liabilities	565,236	–	–	–	<b>565,236</b>
Other non-financial liabilities	10,474	–	–	–	<b>10,474</b>
<b>Total non-financial liabilities</b>	<b>2,566,311</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>2,566,311</b>
<b>Total liabilities</b>	<b>19,250,041</b>	<b>18,059,251</b>	<b>1,418,926</b>	<b>610,703</b>	<b>39,338,921</b>
<b>Open balance sheet position</b>	<b>25,318,472</b>	<b>4,650,068</b>	<b>(609,484)</b>	<b>104,010</b>	<b>29,463,066</b>
Open position on derivative financial instruments	5,020,073	(5,020,073)	–	–	–
<b>Open position</b>	<b>30,338,545</b>	<b>(370,005)</b>	<b>(609,484)</b>	<b>104,010</b>	<b>29,463,066</b>

#### Operational risk

*Operational risk* is the risk that the credit institution will incur losses arising from unreliability of and deficiency in internal management procedures, failure of information and other systems, or external events affecting the credit institution's operations.

The Bank's operational risk managements includes the following stages: identification, measurement, monitoring, control and mitigation of operational risk.

Identification of operational risk is done through preparation and subsequent review of the Bank's operational risks profile. To identify operational risk, the Risk Assessment Department uses the valuation method by the Bank's divisions.

Measurement of operational risk assumes assessment of probability of the events or circumstances leading to operational losses, and estimate of the size of potential losses. The Bank performs both quantitative and qualitative measurement of its operational risk. The Risk Assessment Department performs qualitative assessment of the operational risk by preparing its operational risk profile and map.

For the monitoring purposes, the Bank uses a system of indicators showing the amount of operational risk both at the level of the Bank as a whole and on the level of divisions exposed to the operational risk. For each indicator *the Bank's Management Board* sets limits (indicator levels) that help to identify operational risks significant for the Bank and adequately address them on a timely manner.

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## 25. Risk management (continued)

### Operational risk (continued)

Control over the compliance with the established operational risk management rules and procedures is maintained as a part of the internal control system. The controllers include the Bank's governance bodies (*Board of Directors, Management Board*), *the Internal Audit Function, the Risk Assessment Department*, as well as heads of all divisions of the Bank, making decisions that affect the operational risk.

For the purposes of monitoring the Bank's operational risk, it has and continuously updates analytical database of all identified cases of operational risk. Analytical database of incurred operational losses comprises quarterly reports that include reasons of events that took place in the reporting quarter and that resulted on realizations of operational risk, and the risk indicators.

The key method of mitigating the operational risk controlled at the Bank level is to develop and/or review the organizational structure and internal policies and procedures for banking and other operations so as to eliminate (mitigate) the operating risk factors.

The Bank organizes and sets internal control procedures over the operations of the Bank's divisions that are relevant to the scope of their operations.

## 26. Fair value measurement

### Fair value measurement procedures

Classification of fair value measurement is based on the fair value hierarchy (Level 1, 2 or 3). The levels correlate to the possibility of direct measurement of fair value using the market data and reflect the materiality of the inputs used for the fair value measurement:

- ▶ Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets which are available to the Bank at the measurement date;
- ▶ Level 2 inputs are inputs other than Level 1 quoted prices, that are observable on the market either directly or indirectly; and
- ▶ Level 3 inputs are unobservable inputs for the asset or liability.

### Fair value hierarchy

The Bank maximizes the use of observable inputs and minimizes the use of unobservable inputs.

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

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### 26. Fair value measurement (continued)

#### Fair value hierarchy (continued)

<b>As at 31 December 2017</b>	<i>Fair value measurement using</i>			<b>Total</b>
	<b>Quoted prices in active markets (Level 1)</b>	<b>Significant observable inputs (Level 2)</b>	<b>Significant unobservable inputs (Level 3)</b>	
<b>Assets measured at fair value</b>				
<i>Financial assets at fair value through profit or loss</i>	39,027,639	379,493	-	39,407,132
Russian State bonds	20,520,064	-	-	20,520,064
Bonds of credit institutions	548,394	-	-	548,394
Equity securities	17,959,181	311,159	-	18,270,340
Derivative financial instruments, including:	-	68,334	-	68,334
- Credit default swaps – foreign	-	68,334	-	68,334
<i>Available-for-sale investments</i>	100,797	144,879	-	245,676
Equity securities	100,797	144,879	-	245,676
<i>Investment property</i>	-	-	547,820	547,820
<b>Assets for which fair values are disclosed</b>				
<i>Cash and accounts with the CBR</i>	-	-	2,611,594	2,611,594
<i>Amounts due from credit institutions</i>	-	-	4,823,241	4,823,241
<i>Loans to customers</i>	-	-	15,259,529	15,259,529
<i>Held-to-maturity investments</i>	7,970,427	-	-	7,970,427
<i>Russian State bonds</i>	7,970,427	-	-	7,970,427
<i>Other financial assets</i>	-	-	291,010	291,010
<b>Liabilities for which fair values are disclosed</b>				
<i>Amounts due to credit institutions</i>	-	-	22,616,227	22,616,227
<i>Amounts due to customers</i>	-	-	13,875,060	13,875,060
<i>Debt securities issued</i>	-	-	4,716,466	4,716,466
<i>Other financial liabilities</i>	-	-	220,786	220,786
<b>As at 31 December 2016</b>				
<i>Fair value measurement using</i>				
	<b>Quoted prices in active markets (Level 1)</b>	<b>Significant observable inputs (Level 2)</b>	<b>Significant unobservable inputs (Level 3)</b>	<b>Total</b>
<b>Assets measured at fair value</b>				
<i>Financial assets at fair value through profit or loss</i>	33,050,809	926,518	-	33,977,327
Eurobonds of the Russian Federation	16,765,610	-	-	16,765,610
Equity securities	16,285,199	-	-	16,285,199
Derivative financial instruments, including:	-	926,518	-	926,518
- Forwards (equity securities) – domestic	-	534	-	534
- Credit default swaps – foreign	-	925,272	-	925,272
- Forwards (precious metals) – domestic	-	712	-	712
<i>Available-for-sale investments</i>	422,485	-	-	422,485
Equity securities	422,485	-	-	422,485
<i>Investment property</i>	-	-	503,319	503,319
<b>Assets for which fair values are disclosed</b>				
<i>Cash and accounts with the CBR</i>	-	-	3,472,548	3,472,548
<i>Amounts due from credit institutions</i>	-	-	10,521,024	10,521,024
<i>Loans to customers</i>	-	-	17,036,880	17,036,880
<i>Other financial assets</i>	-	-	780,696	780,696
<b>Liabilities for which fair values are disclosed</b>				
<i>Amounts due to credit institutions</i>	-	-	14,473,696	14,473,696
<i>Amounts due to customers</i>	-	-	18,862,769	18,862,769
<i>Debt securities issued</i>	-	-	3,281,711	3,281,711
<i>Other financial liabilities</i>	-	-	179,516	179,516

Except as detailed above, the fair value of financial assets and liabilities approximates their carrying amount.

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### 26. Fair value measurement (continued)

#### Fair value of financial assets and liabilities not carried at fair value

Set out below is a comparison by class of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

	<i>Carrying amount 2017</i>	<i>Fair value 2017</i>	<i>Unrecognized gain/(loss) 2017</i>	<i>Carrying amount 2016</i>	<i>Fair value 2016</i>	<i>Unrecognized gain/(loss) 2016</i>
<b>Financial assets</b>						
Cash and accounts with the CBR	2,611,594	2,611,594	-	3,472,548	3,472,548	-
Amounts due from credit institutions	4,823,241	4,823,241	-	10,521,024	10,521,024	-
Loans to customers	15,035,606	15,259,529	223,923	17,061,596	17,036,880	(24,716)
Held-to-maturity investments	7,962,781	7,970,427	7,646	-	-	-
Other financial assets	291,010	291,010	-	780,696	780,696	-
<b>Financial liabilities</b>						
Amounts due to credit institutions	22,616,227	22,616,227	-	14,473,696	14,473,696	-
Amounts due to customers	13,856,685	13,875,060	(18,375)	18,851,413	18,862,769	(11,356)
Debt securities issued	4,677,121	4,716,466	(39,345)	3,267,985	3,281,711	(13,726)
Other financial liabilities	220,786	220,786	-	179,516	179,516	-
<b>Total unrecognized change in fair value</b>			<b>173,849</b>			<b>(49,798)</b>

#### Valuation techniques and assumptions

The following describes the methodologies and assumptions used to determine fair values of assets and liabilities recorded at fair value in the financial statements and of those items that are not measured at fair value in the statement of financial position, but their fair value is disclosed.

##### *Assets for which carrying amount approximates fair value*

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to demand deposits and savings accounts without a specific maturity.

##### *Derivatives*

Derivatives valued using a valuation technique with market observable inputs are mainly credit default swaps. The valuation model incorporates various inputs, including forward and spot rates, the fair value of the underlying asset as well as interest rate curves.

##### *Financial assets at fair value through profit or loss and available-for-sale investments*

Securities valued using a valuation technique or pricing models primarily consist of unquoted equity and debt securities. These securities are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

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### 26. Fair value measurement (continued)

#### Valuation methodologies and assumptions (continued)

*Financial assets and financial liabilities carried at amortized cost*

The fair value of the quoted bonds is based on price quotations at the reporting date. The fair value of unquoted instruments, loans to customers, customer deposits, amounts due from credit institutions, amounts due to credit institutions, other financial assets and liabilities, and obligations under finance leases is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

*Investment property*

The Bank engages an independent appraiser for the investment property fair value measurement. For this purpose, the appraiser used income and market approaches.

Under the income approach, the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related re-letting, redevelopment, or refurbishment.

The market approach is based on the prices of market transactions significantly adjusted with regard to differences in nature, location or condition of a specific real estate item.

#### Movements in Level 3 assets and liabilities at fair value

The following table shows a reconciliation of the opening and closing amounts of Level 3 assets which are recorded at fair value:

	<b>1 January 2017</b>	<b>Total gains/ (losses) recorded in profit or loss</b>	<b>Total gains/ (losses) recorded in other comprehen- sive income</b>	<b>Purchases</b>	<b>Sales</b>	<b>Other movements</b>	<b>31 December 2017</b>
<b>Assets</b>							
Investment property	503,319	(66,899)	-	159,893	(48,493)	-	547,820
	<b>503,319</b>	<b>(66,899)</b>	<b>-</b>	<b>159,893</b>	<b>(48,493)</b>	<b>-</b>	<b>547,820</b>
	<b>1 January 2016</b>	<b>Total gains/ (losses) recorded in profit or loss</b>	<b>Total gains/ (losses) recorded in other comprehen- sive income</b>	<b>Purchases</b>	<b>Sales</b>	<b>Other movements</b>	<b>31 December 2016</b>
<b>Assets</b>							
Investment property	501,475	91,844	-	-	-	(90,000)	503,319
	<b>501,475</b>	<b>91,844</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(90,000)</b>	<b>503,319</b>

*Transfers between Level 1 and Level 2.*

The following table shows transfers between Level 1 and Level 2 of the fair value hierarchy for financial assets which are recorded at fair value, during the reporting year:

	<b>Transfers from Level 1 to Level 2</b>	
	<b>2017</b>	<b>2016</b>
<b>Financial assets</b>		
Financial assets at fair value through profit or loss	159,287	-
Available-for-sale investments	79,311	-
	<b>238,598</b>	<b>-</b>

In 2017, the above financial assets were transferred from Level 1 to Level 2 as their fair values were obtained through valuation techniques using observable market inputs.

In 2016, financial assets were not transferred between Level 1 and Level 2.

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### 27. Transferred financial assets that are not derecognized

The table below provides a summary of the financial assets transferred by the Bank under repurchase agreements in such a way that all the transferred financial assets do not qualify for derecognition:

2017	Transferred financial asset	Financial assets at fair value through profit or loss			Total
		Government debt securities	Other debt securities	Other securities	
Carrying amount of assets	Repurchase agreements	20,009,816	-	185,340	20,195,156
<b>Total</b>		<b>20,009,816</b>	<b>-</b>	<b>185,340</b>	<b>20,195,156</b>
Carrying amount of associated liabilities	Repurchase agreements with credit institutions	18,258,699	-	161,950	18,420,649
<b>Total</b>		<b>18,258,699</b>	<b>-</b>	<b>161,950</b>	<b>18,420,649</b>

  

2016	Transferred financial asset	Financial assets at fair value through profit or loss			Total
		Government debt securities	Other debt securities	Other securities	
Carrying amount of assets	Repurchase agreements	11,078,519	-	1,937,610	13,016,129
<b>Total</b>		<b>11,078,519</b>	<b>-</b>	<b>1,937,610</b>	<b>13,016,129</b>
Carrying amount of associated liabilities	Repurchase agreements with credit institutions	10,441,526	-	1,198,539	11,640,065
<b>Total</b>		<b>10,441,526</b>	<b>-</b>	<b>1,198,539</b>	<b>11,640,065</b>

The securities sold under repurchase agreements are transferred to a third party and the Bank receives cash in exchange, or other financial assets. If the securities increase or decrease in value, the Bank may, in certain circumstances, require, or be required, to pay additional cash collateral. The Bank has determined that it retains substantially all the risks and rewards of these securities, which include credit risk, market risk, country risk and operational risk, and therefore has not derecognized them. In addition, it recognized a financial liability for cash received.

Likewise, the Bank may sell or repledge securities received as loans or purchased under reverse repurchase agreements but is obliged to return the securities, and the counterparty retains substantially all the risks and rewards of ownership. Consequently, the securities are not recognized by the Bank, which instead records a separate asset for any possible cash collateral given.

As at 31 December 2017, the fair value of securities purchased under reverse repurchase agreements and sold under repurchase agreements amounted to RUB 4,626,933 thousand (2016: RUB 2,966,640 thousand). The associated liabilities, which are recorded against the cash received for such transactions, are presented in the statement of financial position as at 31 December 2017 as amounts due to credit institutions of RUB 4,195,578 thousand (2016: RUB 2,775,126 thousand).

The carrying amount and fair value of securities sold under repurchase agreements was RUB 20,195,156 thousand as at 31 December 2017 (2016: RUB 13,016,129 thousand) and included financial assets at fair value through profit or loss.

The associated liabilities, which are recorded against the cash received for such transactions, are presented in the statement of financial position as at 31 December 2017 as amounts due to credit institutions of RUB 18,420,649 thousand (2016: RUB 11,640,065 thousand).

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### 28. Offsetting of financial instruments

The tables below show the effect of enforceable master netting agreements and similar agreements that do not result in an offset in the statement of financial position:

	<i>Gross amount of recognized financial assets</i>	<i>Gross amount of recognized financial liabilities set off in the statement of financial position</i>	<i>Net amount of financial assets presented in the statement of financial position</i>	<i>Related amounts not set off in the statement of financial position</i>		<i>Net amount</i>
				<i>Financial instruments</i>	<i>Cash collateral received</i>	
<b>2017</b>						
<b>Financial assets</b>						
Financial assets pledged under repurchase agreements	20,195,156	-	20,195,156	(18,420,649)	-	1,774,507
<b>Total</b>	<b>20,195,156</b>	<b>-</b>	<b>20,195,156</b>	<b>(18,420,649)</b>	<b>-</b>	<b>1,774,507</b>
<b>Financial liabilities</b>						
Payables under repurchase agreements	18,420,649	-	18,420,649	(18,420,649)	-	-
<b>Total</b>	<b>18,420,649</b>	<b>-</b>	<b>18,420,649</b>	<b>(18,420,649)</b>	<b>-</b>	<b>-</b>

	<i>Gross amount of recognized financial assets</i>	<i>Gross amount of recognized financial liabilities set off in the statement of financial position</i>	<i>Net amount of financial assets presented in the statement of financial position</i>	<i>Related amounts not set off in the statement of financial position</i>		<i>Net amount</i>
				<i>Financial instruments</i>	<i>Cash collateral received</i>	
<b>2016</b>						
<b>Financial assets</b>						
Financial assets pledged under repurchase agreements	13,016,129	-	13,016,129	(11,640,065)	-	1,376,064
<b>Total</b>	<b>13,016,129</b>	<b>-</b>	<b>13,016,129</b>	<b>(11,640,065)</b>	<b>-</b>	<b>1,376,064</b>
<b>Financial liabilities</b>						
Payables under repurchase agreements	11,640,065	-	11,640,065	(11,640,065)	-	-
<b>Total</b>	<b>11,640,065</b>	<b>-</b>	<b>11,640,065</b>	<b>(11,640,065)</b>	<b>-</b>	<b>-</b>



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### 29. Related party disclosures

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The outstanding balances of related party transactions at the end of the reporting period are as follows:

	<b>2017</b>		<b>2016</b>	
	<b>Transactions with related parties</b>	<b>Total category as per the financial statements</b>	<b>Transactions with related parties</b>	<b>Total category as per the financial statements</b>
<b>Loans to customers</b>	<b>517,317</b>	<b>30,138,035</b>	<b>501,068</b>	<b>31,716,313</b>
Key management personnel	56,147		68,794	
Entities under common control	461,170		432,274	
<b>Allowance for impairment of loans to customers</b>	<b>(394,403)</b>	<b>(15,102,429)</b>	<b>(363,379)</b>	<b>(14,654,717)</b>
Key management personnel	(37,045)		(39,254)	
Entities under common control	(357,358)		(324,125)	
<b>Amounts due to customers</b>	<b>(1,341,953)</b>	<b>(13,856,685)</b>	<b>(709,205)</b>	<b>(18,851,413)</b>
Shareholders	(919,505)		(593,203)	
Key management personnel	(161,113)		(115,920)	
Entities under common control	(261,335)		(82)	
<b>Debt securities issued</b>	<b>(3,463,422)</b>	<b>(4,677,121)</b>	<b>(1,986,498)</b>	<b>(3,267,985)</b>
Shareholders	(3,443,686)		(1,970,037)	
Key management personnel	(19,736)		(16,461)	
<b>Other liabilities</b>	<b>(24,563)</b>	<b>(228,725)</b>	<b>(31,471)</b>	<b>(189,990)</b>
Shareholders	(2,854)		(3,268)	
Key management personnel	(21,709)		(28,203)	
<b>Issued guarantees and loan commitments</b>	<b>8,584</b>	<b>7,130,489</b>	<b>11,186</b>	<b>7,201,718</b>
Key management personnel	3,000		4,000	
Entities under common control	5,584		7,186	

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### 29. Related party disclosures (continued)

The income and expense arising from related party transactions are as follows:

	2017		2016	
	<i>Transactions with related parties</i>	<i>Total category as per the financial statements</i>	<i>Transactions with related parties</i>	<i>Total category as per the financial statements</i>
<b>Interest income</b>	<b>66,778</b>	<b>4,646,792</b>	<b>61,477</b>	<b>4,555,125</b>
Key management personnel	4,145		4,618	
Entities under common control	62,633		56,859	
<b>Interest expense</b>	<b>(270,964)</b>	<b>(1,035,073)</b>	<b>(114,051)</b>	<b>(2,128,369)</b>
Shareholders	(265,759)		(106,119)	
Key management personnel	(4,419)		(7,932)	
Entities under common control	(786)		-	
<b>(Allowance) for impairment of interest-earning assets</b>	<b>(60,686)</b>	<b>(1,141,946)</b>	<b>(58,333)</b>	<b>(356,519)</b>
Key management personnel	(31,790)		393	
Entities under common control	(28,896)		(58,726)	
<b>Net (losses)/gains from foreign currencies</b>	<b>(21,900)</b>	<b>(309,143)</b>	<b>88,735</b>	<b>(2,027,396)</b>
Shareholders	(28,932)		66,548	
Key management personnel	3,196		22,187	
Entities under common control	3,836		-	
<b>Fee and commission income</b>	<b>803</b>	<b>420,684</b>	<b>1,286</b>	<b>393,504</b>
Shareholders	391		551	
Key management personnel	163		311	
Entities under common control	249		424	
<b>Other income</b>	<b>9,162</b>	<b>34,662</b>	<b>6,734</b>	<b>177,914</b>
Shareholders	9,159		6,698	
Key management personnel	3		36	
<b>Other operating expenses</b>	<b>(8,761)</b>	<b>(421,608)</b>	<b>(5,735)</b>	<b>(598,880)</b>
Shareholders	(1,321)		(3,255)	
Key management personnel	(2,054)		(2,480)	
Entities under common control	(5,386)		-	

Compensation to key management personnel comprises the following:

	2017	2016
Salaries and other short-term benefits	50,420	58,513
Long-term employee benefits	18,353	20,672
Mandatory pension contributions	6,610	7,387
Social security costs	3,063	3,467
<b>Total key management personnel compensation</b>	<b>78,446</b>	<b>90,039</b>

Key management personnel are represented by the Chairman of the Management Board, members of the Management Board, the Board of Directors and the Credit Committee.

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### 30. Capital adequacy

The Bank maintains an actively managed capital base to cover risks inherent in the business.

In view of adoption of the internationally recognized approaches for capital adequacy assessment established by the Basel Committee of Banking Supervision (Basel III), in the course of implementation of the capital management policy the Bank evaluates the capital adequacy based on the methodology set up in the regulations issued by the Bank of Russia.

During 2017 and 2016, the Bank was in full compliance with all externally imposed capital requirements.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. No changes were made in the objectives, policies and processes from the previous years.

#### Capital adequacy ratio

The Bank regularly monitors the capital adequacy to comply with the minimum capital adequacy ratios set up by the regulations issued by the CBR:

- ▶ Core capital adequacy ratio – not less than 4.5%;
- ▶ Main capital adequacy ratio – not less than 6.0%;
- ▶ Equity (capital) adequacy ratio – not less than 8.0%.

The following table shows the composition of the Bank's capital computed in accordance with the normative acts of the CBR, which are based on Basel III requirements, as at 31 December:

	<u>2017</u>	<u>2016</u>
<b>Core capital</b>	<b>23,865,205</b>	<b>24,523,752</b>
<b>Main capital</b>	<b>23,865,205</b>	<b>24,523,752</b>
Additional capital	88,809	–
<b>Total capital</b>	<b>23,954,014</b>	<b>24,523,752</b>
<b>Risk-weighted assets</b>	<b>94,627,059</b>	<b>136,123,926</b>
Core capital adequacy ratio	25.2%	18.0%
Main capital adequacy ratio	25.2%	18.0%
Equity (capital) adequacy ratio	25.3%	18.0%