Commercial Bank “J.P. Morgan Bank International” (Limited Liability Company)

International Financial Reporting Standards
Financial Statements and
Independent Auditor’s Report

31 December 2017

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To the Participants and Board of Directors of Commercial Bank "J.P. Morgan Bank International" (Limited Liability Company):

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Commercial Bank "J.P. Morgan Bank International" (Limited Liability Company) (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 (IFRS).

What we have audited

The financial statements of the Bank comprise:

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

Basis for opinion

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

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

Independence

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of 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 ability of the Bank 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.

Those charged with governance are responsible for overseeing the financial reporting process of the Bank.

Auditor's responsibilities 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 scepticism 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 internal control of the Bank.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Bank 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.
- 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

Report on other legal and regulatory requirements

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

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

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

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

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

We have identified the following based on our examination:

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

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

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

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

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

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

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

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

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

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

AO PricewaterhouseCoopers Audit

20 April 2018

Moscow, Russian Federation

N.V. Kossova, certified auditor (licence no. 01-000396),

AO PricewaterhouseCoopers Audit

In thousands of Russian Roubles	Note	31 December 2017	31 December 2016
ASSETS			
Cash and cash equivalents	7	17 682 500	16 137 142
Mandatory cash balances with the Central Bank of the Russian Federation		42 599	32 301
Trading securities	8	-	10 092
Investment securities available for sale	9	18	18
Derivative financial instruments	10	3 389 041	5 752 470
Deferred income tax asset	24	13 753	43 025
Premises and equipment	11	98 784	136 228
Intangible assets	12	99 868	95 787
Other financial assets	13	191 991	135 398
Other assets	14	90 441	108 885
TOTAL ASSETS		**21 608 995**	**22 451 346**
LIABILITIES			
Derivative financial instruments	10	3 384 217	5 815 410
Due to other banks	15	1 693 849	1 055 999
Customer accounts	16	1 676 474	1 875 044
Provision for commitments	27	44 490	108 323
Current income tax liability		91 966	80 977
Other liabilities	18	1 039 767	587 407
TOTAL LIABILITIES		**7 930 763**	**9 523 160**
EQUITY			
Charter capital	19	2 715 315	2 715 315
Share based compensation reserve	20	1 936 826	1 893 609
Other reserves	19	557 604	557 604
Retained earnings		8 468 487	7 761 658
TOTAL EQUITY		**13 678 232**	**12 928 186**
TOTAL LIABILITIES AND EQUITY		**21 608 995**	**22 451 346**

Approved for issue and signed on behalf of the Board of Directors on 20 April 2018.

L. Dudnick
Executive Director,
Head of Finance Department

A. Vorontsov
Chief Accountant

In thousands of Russian Roubles	**Note**	**2017**	**2016**
Interest income	21	518 506	371 582
Interest expense	21	(181 785)	(107 368)
Net interest income		**336 721**	**264 214**
Gains less losses from trading securities		142 610	125 709
Gains less losses from trading in foreign currencies		988 827	3 448 532
Foreign exchange translation gains less losses		226 914	(2 213 915)
Fee and commission income	22	1 721 376	1 875 447
Fee and commission expense	22	(12 283)	(17 041)
Dividends received		2	3
Other operating income		137	5 012
Administrative and other operating expenses	23	(2 469 801)	(2 675 399)
Share based payments	20	(43 217)	(113 816)
Provision for commitments	27	44 814	(9 065)
Profit before tax		**936 100**	**689 681**
Income tax expense	24	(229 271)	(202 510)
Profit for the year		**706 829**	**487 171**
Total comprehensive income for the year		**706 829**	**487 171**

In thousands of Russian Roubles	**Note**	**Charter capital**	**Share based compen-sation reserve**	**Other reserves**	**Retained earnings**	**Total**
At 1 January 2016		**2 715 315**	**1 779 793**	**557 604**	**7 274 487**	**12 327 199**
Profit for the year		-	-	-	487 171	**487 171**
Total comprehensive income for 2016		**-**	**-**	**-**	**487 171**	**487 171**
Share based payments	20	-	113 816	-	-	**113 816**
Balance at 31 December 2016		**2 715 315**	**1 893 609**	**557 604**	**7 761 658**	**12 928 186**
At 1 January 2017		**2 715 315**	**1 893 609**	**557 604**	**7 761 658**	**12 928 186**
Profit for the year		-	-	-	706 829	**706 829**
Total comprehensive income for 2017		**-**	**-**	**-**	**706 829**	**706 829**
Share based payments	20	-	43 217	-	-	**43 217**
Balance at 31 December 2017		**2 715 315**	**1 936 826**	**557 604**	**8 468 487**	**13 678 232**

In thousands of Russian Roubles	Note	2017	2016
Cash flows from operating activities			
Interest received		517 691	371 429
Interest paid		(179 698)	(94 312)
Gains less losses from trading securities		142 610	125 709
Gains less losses from trading in foreign currencies		1 013 327	3 485 410
Fees and commissions received		1 659 446	1 993 772
Fees and commissions paid		(12 283)	(17 041)
Staff costs paid		(1 926 474)	(2 003 589)
Administrative and other operating expenses paid		(691 858)	(690 257)
Income tax paid		(189 009)	(209 933)
Other operating income received		65 020	75 558
Dividends received		2	3
Cash flows from operating activities before changes in operating assets and liabilities		**398 774**	**3 036 749**
Changes in operating assets and liabilities			
Net changes in mandatory cash balances with the Central Bank of the Russian Federation		(10 298)	15 971
Net changes in trading securities		9 765	(9 765)
Net changes in other financial assets and other assets		26 762	101 616
Net changes in due to other banks		634 216	(1 435 438)
Net changes in customer accounts		(209 547)	(1 830 727)
Payment under onerous lease contract	27	(41 613)	(66 189)
Net changes in other liabilities		568 118	26 048
Net changes in subordinated debt		-	(2 332 246)
Net cash from/(used in) operating activities		**1 376 177**	**(2 493 981)**
Cash flows from investing activities			
Acquisition of premises and equipment	11	(4 061)	(7 043)
Disposals of premises and equipment	11	21 878	14 930
Acquisition of intangible assets	12	(21 372)	(14 905)
Net cash used in investing activities		**(3 555)**	**(7 018)**
Effect of exchange rate changes on cash and cash equivalents		**172 736**	**(2 708 714)**
Net increase/(decrease) in cash and cash equivalents		**1 545 358**	**(5 209 713)**
Cash and cash equivalents at the beginning of the year	7	16 137 142	21 346 855
Cash and cash equivalents at the end of the year	**7**	**17 682 500**	**16 137 142**

1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2017 for Commercial Bank "J.P. Morgan Bank International" (Limited Liability Company) (the "Bank").

Principal activity. The Bank is incorporated and domiciled in the Russian Federation. The Bank's principal business activity is commercial banking operations within the Russian Federation. The Bank has operated under a full banking license issued by the Central Bank of the Russian Federation ("CBRF") since 1993. The Bank previously operated as Chase Manhattan Bank International (Limited Liability Company) and in 2001 changed its name to the current one as a part of a worldwide merger of Chase, J.P. Morgan and Flemings groups. The change in the name did not result in a change in the principal business activity of the Bank.

The Bank is 99.9944% owned by J.P. Morgan International Finance Limited (USA) with a small share of 0.0056% owned by J.P. Morgan Limited (UK). The ultimate parent of the Bank is JPMorgan Chase & Co. The Bank is a member of JPMorgan Chase & Co. group (the "Group").

The Bank is a Russian limited liability company and in accordance with its charter and related Russian legislation the participants of the Bank have no right to request redemption of their interest in the Bank at amount. Refer to Note 19.

Registered address and place of business. The Bank's registered address is: 10 Butyrsky Val, Moscow, 125047, Russia.

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

Publication of the financial statements. These financial statements are published by the Bank electronically on its internet website: http://www.jpmorgan.ru.

2 Operating Environment of the Bank

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations. The Russian economy was growing in 2017, after overcoming the economic recession of 2015 and 2016. The economy is negatively impacted by low oil prices, ongoing political tension in the region and international sanctions against certain Russian companies and individuals. The financial markets continue to be volatile. This operating environment has a significant impact on the Bank's operations and financial position. Management is taking necessary measures to ensure sustainability of the Bank's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

3 Significant Accounting Policies

Basis of Preparation. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention as modified by the initial recognition of financial instruments based on fair value, by the revaluation of trading securities, investment securities available for sale, derivatives, and by the valuation of share-based payment transactions. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 5).

3 Significant Accounting Policies (Continued)

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

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

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market’s normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for assets carried at fair value on a recurring basis if the Bank: (a) manages the group of financial assets and financial liabilities on the basis of the entity’s net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity’s documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity’s key management personnel; and (c) the market risks, including duration of the entity’s exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same. Valuation techniques such as discounted cash flow models or models based on recent arm’s length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Refer to Note 28.

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

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

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount.

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

3 Significant Accounting Policies (Continued)

All purchases and sales of financial instruments that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Bank commits to deliver a financial instrument. All other purchases and sales are recognised when entity becomes a party to the contractual provisions of the instrument.

The Bank uses discounted cash flow valuation techniques to determine the fair value of currency and interest rate swaps and foreign exchange forwards that are not traded in an active market. Differences may arise between the fair value at initial recognition which is considered to be the transaction price and the amount determined at initial recognition using the valuation technique. Any such differences are amortised on a straight-line basis over the term of the currency and interest rate swaps and foreign exchange forwards.

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

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include all interbank placements with original maturities of less than three months. Funds restricted for a period of more than three months are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

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

Trading securities. Trading securities are financial assets, which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Bank classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. within 12 months. Trading securities are not reclassified out of this category even when the Bank's intentions subsequently change.

Financial assets that would meet the definition of loans and receivables may be reclassified if the Bank has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

Trading securities are carried at fair value. Interest earned on trading securities calculated using the effective interest method is presented in the statement of profit or loss and other comprehensive income as interest income. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in profit or loss for the year as gains less losses from trading securities in the period in which they arise.

Investment securities available for sale. This classification includes investment securities which the Bank intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Investment securities available for sale are carried at fair value. Interest income on debt securities available for sale is calculated using the effective interest method and recognised in profit or loss for the year. Dividends on available-for-sale equity instruments are recognised in profit or loss for the year when the Bank's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired, at which time the cumulative gain or loss is reclassified from other comprehensive income to profit or loss for the year.

3 Significant Accounting Policies (Continued)

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

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

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

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by borrower's financial information that the Bank obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower;
- the value of collateral significantly decreases as a result of deteriorating market conditions.

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

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

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

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

3 Significant Accounting Policies (Continued)

Credit related commitments. The Bank enters into credit related commitments, including letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans.

Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period.

Sale and repurchase agreements and lending of securities**.** Sale and repurchase agreements ("repo agreements") which effectively provide a lender's return to the counterparty are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognised. The securities are not reclassified in the statement of financial position unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as repurchase receivables. The corresponding liability is presented within amounts due to other banks or other borrowed funds.

Securities purchased under agreements to resell ("reverse repo agreements") which effectively provide a lender's return to the Bank are recorded as due from other banks or loans and advances to customers, as appropriate. The difference between the 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 for a fixed fee are retained in the financial statements in their original statement of financial position category unless the counterparty has the right by contract or custom to sell or repledge the securities, in which case they are reclassified and presented separately. Securities borrowed for a fixed fee are not recorded in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded in profit or loss for the year within gains less losses arising from trading securities. The obligation to return the securities is recorded at fair value in other borrowed funds.

Premises and equipment. Equipment includes office and computer equipment and is stated at cost, less accumulated depreciation and provision for impairment, where required.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of equipment items are capitalised and the replaced part is retired. Cost of leasehold improvements is capitalised using the same principles as for an acquired asset.

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

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss for the year within other operating income of expenses.

Depreciation. Depreciation of items of premises and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives at 20% annual rate. Depreciation of leasehold improvements is calculated over the term of the underlying lease.

Intangible assets. All of the Bank's intangible assets have definite useful life and consist of capitalised computer software.

3 Significant Accounting Policies (Continued)

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful live of 10 years.

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

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

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

Customer accounts. Customer accounts are non-derivative liabilities to corporate customers and are carried at amortised cost.

Share-based payments. The Bank participates in the Group's motivation program, which grants share based awards to eligible employees. The awards are issued by the ultimate parent. Since the award involves equity instruments of the parent and the rights to those instruments are granted by the parent, the Bank accounts for it as an equity-settled share-based payment. The award is measured at fair value of the equity instruments granted on the grant date, taking into consideration the estimated number of the instruments expected to vest. The resulting amount is recognised as an expense in the statement of profit or loss and other comprehensive income and a share-based payments reserve in equity, over the vesting period. Changes in the estimated number of the instruments expected to vest are reflected in the statement of profit or loss and other comprehensive income until the award vests.

Subordinated debt. Subordinated debt represents long-term funds attracted by the Bank from the participant and is carried at amortised cost. The holders of the subordinated debt would be subordinate to all other creditors to receive repayment of debt in case of liquidation.

Derivative financial instruments. Derivative financial instruments are carried at their fair value.

All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year. The Bank does not apply hedge accounting.

Charter capital. Charter capital is classified as equity.

Income taxes. Income taxes have been provided for in the financial statements in accordance with Russian legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in the profit or loss for the year.

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

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

3 Significant Accounting Policies (Continued)

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued 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 the obligation can be made.

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

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

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

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

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

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

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

Monetary assets and liabilities are translated into functional currency at the official exchange rate of the CBRF at the end of respective reporting period. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into functional currency at year-end official exchange rates of the CBRF are recognised in profit or loss for the year (as foreign exchange translation gains less losses).

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

3 Significant Accounting Policies (Continued)

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

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

Presentation of statement of financial position in order of liquidity. The Bank does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the statement of financial position. Instead, analysis of assets and liabilities by their expected maturities is presented in Note 25.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

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

Fair value of derivatives. The fair values of financial derivatives that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair values.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 27.

Related party transactions. In the normal course of business the Bank enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 30.

5 Adoption of New or Revised Standards and Interpretations

The following amended standards became effective from 1 January 2017, but did not have a material impact on the Bank.

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

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2016 or later, and which the Group has not early adopted.

IFRS 9 "Financial Instruments: Classification and Measurement" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018).

IFRS 9 was issued by the International Accounting Standards Board ("IASB") in July 2014 and replaces the existing guidance in IAS 39 'Financial Instruments: Recognition and Measurement' ("IAS 39"). The standard introduces new guidance on the classification and measurement of financial assets and a single, forward-looking expected credit loss ("ECL") impairment model. The standard also requires entities to provide users of financial statements with additional disclosures. IFRS 9 is applicable retrospectively, except where otherwise prescribed by transitional provisions of the standard, and is effective for annual periods beginning on or after 1 January 2018. The Bank plans to adopt the new standard on 1 January 2018.

Implementation program

The Bank has a centrally managed IFRS 9 project team which is focused on ensuring compliance with the standard and any additional requirements associated thereof. Overall governance of the program's implementation is through the IFRS 9 Steering Committee which includes representation from senior leaders in Finance, Corporate Accounting Policy, Risk, Technology and Audit.

Classification and Measurement of Financial Assets and Liabilities

Under IFRS 9, new 'Business Model' and 'Cash Flow Characteristic' tests are introduced which classify financial assets to one of the following three measurement categories: amortised cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL"). Encompassing the guidance provided by IFRS 9 on classification and measurement, the Bank has reviewed and deemed financial assets held within a business model with the intention to hold and collect contractual cash flow, and financial assets with the intention to hold and collect contractual cash flow or sell the asset as measured at amortised cost and FVOCI respectively under the condition that contractual cash flows also meet the solely payment of principal and interest ("SPPI") criteria. Financial assets which are not categorised with the intentions highlighted above are deemed to be measured at FVTPL. Additionally, the Bank may elect the option to classify financial assets as measured at FVTPL upon initial recognition if such designation may eliminate or reduce an accounting mismatch. On initial adoption of IFRS 9 the Bank may also elect the option to designate a currently recognised financial liability as measured at FVTPL to eliminate or reduce an accounting mismatch.

Upon initial assessment of the classification and measurement changes imposed by IFRS 9, the Bank anticipates reclassifications to exist for certain populations falling under securities borrowed and securities purchased under agreements to resell which were previously measured at amortised cost but will be measured at FVTPL. Similarly, certain loans and advances to customers measured at amortised cost will be measured at FVOCI. These anticipated reclassifications reflect the business models used to manage these types of assets. In addition, the Bank anticipates designating certain financial liability populations falling under securities loaned and securities sold under agreements to repurchase as measured at FVTPL to eliminate or reduce an accounting mismatch that would have otherwise arisen on adoption of IFRS 9. No further reclassifications were identified that were considered to bear a potential material impact on existing asset measurement bases, however, this represents preliminary results from which actual impacts measured from 1 January 2018 may deviate.

IFRS 9 retains most of the existing requirements for financial liabilities. Under the current requirements of IAS 39, the gains and losses attributable to changes in the Bank's own credit risk ("DVA") for financial liabilities designated at FVTPL are recognised in profit or loss. However, upon implementation of IFRS 9, this DVA component will be recognised in other comprehensive income. While the standard allows for the early adoption of this recognition, the Bank will implement on the effective date of 1 January 2018.

Impairment of Financial Assets

IFRS 9 impairment requirements apply to financial assets that are measured at amortised cost or FVOCI, and specified off-balance sheet lending-related commitments such as loan commitments and financial guarantee contracts.

6 New Accounting Pronouncements (Continued)

The determination of impairment losses and allowance will change from an incurred credit loss model under IAS 39 to an ECL model under IFRS 9. In an ECL model, provisions for credit losses are recorded upon initial recognition of the financial asset based on expectations of potential credit losses at that time. The credit loss allowance includes ECLs for financial instruments that may default in the next 12-month period for financial instruments that have not observed a significant increase in credit risk since initial recognition ("stage 1") or over a lifetime period for financial instruments that have observed a significant increase in credit risk since initial recognition ("stage 2"). The allowance also adopts lifetime ECLs for financial instruments where there is objective evidence of credit-impairment at the reporting date ("stage 3"). In determining the appropriate stage for a financial instrument, the Bank applies the definition of default consistent with the Basel definition of default to maintain uniformity of the definition across the Firm.

The stage determination for credit losses under the ECL model is dependent on the measurement of a significant increase in credit risk ('SICR'). In determining SICR, the Bank plans to conduct quantitative tests taking into consideration, but not limited to, existing risk management indicators, credit rating changes and reasonable and supportable forward-looking information, the latter consisting of a range of scenarios incorporating macro-economic factors composed and monitored by an internal specialised economic forecasting team.

The key input components for the quantification of expected loss through the ECL model includes the probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD"). The Bank seeks to efficiently and effectively leverage as much as possible from existing regulatory and capital frameworks where overlap is present for the implementation of IFRS 9. Differences observed between content in existing frameworks and requirements under IFRS 9 have been identified and are adjusted accordingly. The inputs to the ECL model capture historical datasets and a reasonable and supportable forecasting horizon to estimate expected credit losses.

Expected impact

Based on 31 December 2017 data, the Bank estimates the adoption of the IFRS 9 impairment requirements to result in an overall reduction in the Bank's retained earnings by approximately RR 1 398 thousand. The degree to which the allowance for credit losses will change will depend on both the forward-looking information used on the day of implementation as well as the Bank's portfolio composition.

For the financial statements for the year ended 31 December 2018, the Bank will provide reconciliations and illustrative transition disclosures between IAS 39 and IFRS 9 where required, however the Bank will not restate prior periods.

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

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

6 New Accounting Pronouncements (Continued)

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

Plan Amendment, Curtailment or Settlement – Amendments to IAS 19 (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019). The amendments specify how to determine pension expenses when changes to a defined benefit pension plan occur. When a change to a plan - an amendment, curtailment or settlement - takes place, IAS 19 requires to remeasure net defined benefit liability or asset. The amendments require to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. Before the amendments, IAS 19 did not specify how to determine these expenses for the period after the change to the plan. By requiring the use of updated assumptions, the amendments are expected to provide useful information to users of financial statements.

IFRIC 22 "Foreign currency transactions and advance consideration" (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018). This interpretation considers how to determine the date of the transaction when applying the standard on foreign currency transactions, IAS 21. The interpretation applies where an entity either pays or received consideration in advance for foreign currency-denominated contracts. The interpretation specifies that the date of transaction is the date on which the entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration. The Bank is currently assessing the impact of the new interpretations on its financial statements.

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

6 New Accounting Pronouncements (Continued)

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

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).
- Amendments to IFRS 2, Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – Amendments to IFRS 4 (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).
- Transfers of Investment Property – Amendments to IAS 40 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Annual Improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 1 an IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019.
- Annual Improvements to IFRSs 2015-2017 cycle - Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).

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

7 Cash and Cash Equivalents

In thousands of Russian Roubles	**2017**	**2016**
Correspondent accounts and overnight placements with other banks	16 097 667	14 997 614
Balances on settlement accounts with trading system	1 245 591	928 603
Cash balances with stock exchange	299 521	-
Cash balances with the CBRF (other than mandatory reserve deposits)	39 721	210 925
Total cash and cash equivalents	**17 682 500**	**16 137 142**

Corresponding accounts and overnight deposits with other banks comprise:

In thousands of Russian Roubles	**2017**	**2016**
Large international banks	16 093 561	14 985 855
Russian banks	3 704	11 175
Russian subsidiaries of large international banks	402	584
Total corresponding accounts and overnight placements with other banks	**16 097 667**	**14 997 614**

Large international banks in the table above are multinational or OECD-based banks with investment grade ratings as at 31 December 2017 and 2016. An investment grade rating is a long-term international rating of A or above by Standard & Poor's, A or above by Fitch and A1 or above by Moody's.

7 Cash and Cash Equivalents (Continued)

As at 31 December 2017 the Bank had one counterparty (2016: one counterparty) with balances above RR 13 000 000 thousand. The aggregate balance of this counterparty was RR 15 928 194 thousand (2016: RR 13 951 087 thousand) or 90.1% (2016: 86.5%) of total cash and cash equivalents.

As at 31 December 2017 and 2016 the fair value of each class of financial assets included in cash and cash equivalents approximated their carrying value. Refer to Note 28.

Geographical, currency and interest rate analyses of cash and cash equivalents are disclosed in Note 25. Information on related party balances is disclosed in Note 30.

8 Trading Securities

In thousands of Russian Roubles	**2017**	**2016**
State bonds	-	10 092
Total trading securities	**-**	**10 092**

State bonds are debt securities denominated in Russian Roubles, issued by the Government of the Russian Federation and freely tradable in the Russian Federation.

The following table provides details of the trading securities as at 31 December 2016:

	Maturity		**Coupon rate per annum**		**Yield to maturity per annum**	
	Earliest	**Latest**	**Minimum**	**Maximum**	**Minimum**	**Maximum**
State bonds	20 July 2022	20 July 2022	7.60%	7.60%	8.22%	8.22%

The Bank did not hold any trading securities as at 31 December 2017.

The following table provides information on the credit quality of the Bank's trading securities as at 31 December 2017 and 2016:

In thousands of Russian Roubles	**2017**	**2016**
Credit rating between BB+	-	10 092
Total trading securities owned by the Bank	**-**	**10 092**

As trading securities are carried at their fair values based on observable market data, the Bank does not analyse or monitor impairment indicators. The Bank uses external ratings for evaluation of credit quality of debt securities.

The Bank is licensed by the Federal Service on Financial Markets (FSFM, whose functions are now performed by CBRF) for trading in securities.

Geographical, currency, maturity and interest rate analyses of trading securities are disclosed in Note 25.

9 Investment Securities Available For Sale

The movements in investment securities available for sale were as follows:

In thousands of Russian Roubles	2017	2016
Carrying amount at 1 January	**18**	**18**
Fair value gains less losses	-	-
Carrying amount at 31 December	**18**	**18**

At 31 December 2017 the principal equity investment securities available for sale were:

Name	Nature of business	Percentage of ownership as at 31 Dec 2017	Percentage of ownership as at 31 Dec 2016	Country of registration	Fair value 2017	Fair value 2016
ZAO "National Settlement Depositary"	Cash settlements for stock exchange participants	0.00008%	0.00008%	Russian Federation	18	18
Total					**18**	**18**

10 Derivative Financial Instruments

The fair values of derivative instruments held are set out in the following table:

In thousands of Russian Roubles	31 December 2017 Contract/ notional amount	31 December 2017 Fair values Assets	31 December 2017 Fair values Liabilities	31 December 2016 Contract/ notional amount	31 December 2016 Fair values Assets	31 December 2016 Fair values Liabilities
Foreign exchange derivative contracts						
- currency spot contracts	17 160 814	115	(388)	1 214 150	-	(6 721)
- currency forward contracts	6 162 576	66 303	(61 206)	45 911 408	722 786	(779 005)
- knock-in knock-out currency forwards	7 845 781	672 154	(672 154)	8 396 249	1 425 057	(1 425 057)
- currency options	2 304 008	3 843	(3 843)	8 613 280	84 278	(84 278)
- knock-out currency options	-	-	-	121 314	23 108	(23 108)
Interest rate derivative contracts						
-cross-currency interest rate swaps	31 797 469	2 457 430	(2 457 430)	50 888 750	3 408 216	(3 408 216)
- single-currency interest rate swaps	23 040 080	189 196	(189 196)	24 262 760	89 025	(89 025)
Total derivative assets/(liabilities)		**3 389 041**	**(3 384 217)**		**5 752 470**	**(5 815 410)**

Currency spot transactions are regular way foreign exchange contracts, which are settled within two working days after the trade date.

Currency forwards are over-the-counter contracts, which establish terms and conditions of a deal, which is settled at a future date.

10 Derivative Financial Instruments (Continued)

Cross currency swaps are over-the-counter contracts whereby one party swaps a set of payments in one currency for a set of payments in a different currency.

Interest rate swaps are over-the-counter contracts whereby one party swaps interest payments determined using a fixed rate for interest payments determined using a floating interest rate.

Knock-in knock-out currency forward ("KIKO") contracts are over-the-counter contracts whereby one party obtains a right to exercise the foreign exchange transaction if the underlying exchange rate hits one of the two barriers, called knock-in and knock-out respectively.

Currency options are over-the-counter contracts whereby one party obtains the right to buy and the other the obligation to sell an agreed amount of currency at some future date at a predetermined rate.

Knock-out currency options are over-the-counter contracts whereby one party obtains the right to buy and the other the obligation to sell an agreed amount of currency at some future date at a predetermined rate, which may be extinguished upon the exchange rate of the currency reaching a specified barrier level.

The following table provides information on the credit quality of the Bank's derivative instruments as at 31 December 2017 and 2016:

	31 December 2017		**31 December 2016**	
	Fair values		**Fair values**	
In thousands of Russian Roubles	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Currency spot contracts				
Credit rating above BBB+	28	(388)	-	-
Credit rating between BB+ and below	87	-	-	(6 721)
Currency forward contracts				
Credit rating above BBB+	15 454	(45 711)	1 345	(765 146)
Credit rating BB+ and below	-	-	182 465	(13 859)
Not rated	50 849	(15 495)	538 976	-
KIKO contracts				
Credit rating between BBB- and AA+	672 154	(672 154)	1 425 057	(1 425 057)
Currency options				
Credit rating between BBB- and AA+	-	(3 843)	-	(84 278)
Not rated	3 843	-	84 278	-
Knock-out currency options				
Credit rating between BBB- and AA+	-	-	-	(23 108)
Not rated	-	-	23 108	-
Interest rate contracts				
Credit rating between BBB- and AA+	2 646 626	(2 646 626)	3 497 241	(3 497 241)
Total derivative contracts	**3 389 041**	**(3 384 217)**	**5 752 470**	**(5 815 410)**

Geographical, currency analyses and maturity structure of derivative financial instruments are disclosed in Note 25. Information on related party transactions is disclosed in Note 30.

11 Premises and Equipment

The reconciliation of the carrying amount of property and equipment as at 31 December 2017 and 2016 is presented below:

In thousands of Russian Roubles	**Leasehold improvements**	**Office, computer and other equipment**	**Total property and equipment**
Net book amount as at 31 December 2015	**43 335**	**143 104**	**186 439**
Cost			
Opening balance	80 521	322 570	403 091
Additions	-	7 043	7 043
Disposals	-	(14 930)	(14 930)
Closing balance	**80 521**	**314 683**	**395 204**
Accumulated depreciation			
Opening balance	37 186	179 466	216 652
Depreciation charges (Note 23)	9 057	48 197	57 254
Disposals	-	(14 930)	(14 930)
Closing balance	**46 243**	**212 733**	**258 976**
Net book amount as at 31 December 2016	**34 278**	**101 950**	**136 228**
Cost			
Opening balance	80 521	314 683	395 204
Additions	-	4 061	4 061
Disposals	-	(21 878)	(21 878)
Closing balance	**80 521**	**296 866**	**377 387**
Accumulated depreciation			
Opening balance	46 243	212 733	258 976
Depreciation charges (Note 23)	9 141	32 297	41 438
Disposals	-	(21 811)	(21 811)
Closing balance	**55 384**	**223 219**	**278 603**
Net book amount as at 31 December 2017	**25 137**	**73 647**	**98 784**

As at 31 December 2017 the gross book value of fully depreciated equipment that was in use was RR 140 154 thousand (31 December 2016: RR 149 928 thousand).

Leasehold improvements represent capitalised cost of refurbishment of Bank premises leased under operating lease.

12 Intangible Assets

The reconciliation of the carrying amount of intangible assets as at 31 December 2017 and 2016 is presented below:

In thousands of Russian Roubles	Computer software	Total
Net book amount as at 31 December 2015	**96 706**	**96 706**
Cost		
Opening balance	160 372	160 372
Additions	14 905	14 905
Closing balance	**175 277**	**175 277**
Accumulated amortization		
Opening balance	63 666	63 666
Amortization charges (Note 23)	15 824	15 824
Closing balance	**79 490**	**79 490**
Net book amount as at 31 December 2016	**95 787**	**95 787**
Cost		
Opening balance	175 277	175 277
Additions	21 372	21 372
Closing balance	**196 649**	**196 649**
Accumulated amortization		
Opening balance	79 490	79 490
Amortization charges (Note 23)	17 291	17 291
Closing balance	**96 781**	**96 781**
Net book amount as at 31 December 2017	**99 868**	**99 868**

13 Other Financial Assets

In thousands of Russian Roubles	**2017**	**2016**
Accrued income	181 456	119 526
Other	10 535	15 872
Total financial assets	**191 991**	**135 398**

Accrued income represents accrued custody, equities, treasury services, equity and debt capital market consultancy and mergers and acquisitions advisory fees.

None of the assets classified under other financial assets are past due and are expected to be recovered within twelve months from the reporting date.

None of the assets are used as collateral or restricted in any manner for use by the Bank.

Geographical, currency, maturity and interest rate analyses of other financial assets are disclosed in Note 25. The information on related party balances is disclosed in Note 30.

14 Other Assets

In thousands of Russian Roubles	**2017**	**2016**
Prepaid services	89 651	108 740
Prepaid taxes other than on income payable	790	145
Total assets	**90 441**	**108 885**

The information on related party balances is disclosed in Note 30.

15 Due to Other Banks

In thousands of Russian Roubles	**2017**	**2016**
Correspondent accounts and overnight placements of other banks	1 405 848	1 055 999
Stock exchange placements of other banks	288 001	-
Total due to other banks	**1 693 849**	**1 055 999**

As at 31 December 2017 and 2016 the fair value of each class of financial liabilities included in due to other banks approximated their carrying value. Refer to Note 28.

Geographical, currency, maturity and interest rate analyses of due to other banks are disclosed in Note 25. The information on related party balances is disclosed in Note 30.

16 Customer Accounts

Customer accounts include current accounts and term deposits as follows:

In thousands of Russian Roubles	**2017**		**2016**	
	Amount	**%**	**Amount**	**%**
Current accounts	1 676 474	100	1 875 044	100
Total customer accounts	**1 676 474**	**100**	**1 875 044**	**100**

16 Customer Accounts (Continued)

Economic sector concentrations within customer accounts and term deposits are as follows:

In thousands of Russian Roubles	2017 Amount	2017 %	2016 Amount	2016 %
Information Technology	472 934	28.2	239 599	12.9
Market Research	408 967	24.4	825 799	44.0
Scientific Research and Technical Development	364 943	21.8	357 334	19.1
Consumer goods	149 578	8.9	66	0.0
Manufacturing	114 736	6.8	334 875	17.9
Publishing	63 531	3.8	38 549	2.0
Transport	-	-	2 522	0.1
Other	101 785	6.1	76 300	4.0
Total customer accounts	**1 676 474**	**100**	**1 875 044**	**100**

As at 31 December 2017 the Bank had two customers (2016: two customers) with balances above RR 300 000 thousand. The aggregate balance of these customers was RR 748 452 thousand (2016: RR 1 183 133 thousand) or 45% (2016: 63%) of total customer accounts.

As at 31 December 2017 and 2016 the fair value of each class of financial liabilities included in customer accounts approximated their carrying value. Refer to Note 28.

Geographical, currency, maturity and interest rate analyses of customer accounts are disclosed in Note 25. The information on related party balances is disclosed in Note 30.

17 Subordinated Debt

On 28 March 2006 the Bank received USD 32 000 thousand subordinated debt from its main participant, J.P. Morgan International Finance Limited (USA) (refer to Note 1), maturing in March 2016 at an interest rate of 6 months LIBOR. This subordinated debt was accounted for as part of additional capital for statutory prudential supervision ratios calculation purposes.

The loan was fully repaid in March 2016.

18 Other Liabilities

In thousands of Russian Roubles	2017	2016
Accrued employee benefit costs	727 803	533 793
Taxes other than on income payable	292 869	44 451
Other accrued expenses	19 095	9 163
Total other liabilities	**1 039 767**	**587 407**

As at 31 December 2017 and 2016 other liabilities represent non-financial liabilities.

The information on related party balances is disclosed in Note 30.

19 Charter Capital

As at 31 December 2017 and 31 December 2016 the nominal value of authorised, issued and fully paid charter capital of the Bank was RR 2 715 315 thousand. The Bank is a limited liability company. In accordance with effective Russian legislation, voting rights of participants of the organisations that are established in the form of limited liability company correspond to their share of nominal value of the charter capital. The charter capital was adjusted for inflation in accordance with IAS 29 for RR 557 604 thousand recognised in other reserves in equity as at 31 December 2017 and 31 December 2016.

20 Employee Share Plan

The ultimate parent of the Bank, JPMorgan Chase & Co. (the "Firm") has granted restricted stock units ("RSUs") to certain employees. The details of share based compensation in 2016 and 2017 are provided in the table below:

In thousands of Russian Roubles	**2017** RSUs	**2017** Weighted average grant price	**2016** RSUs	**2016** Weighted average grant price
Outstanding as at 1 January	**88 814**	**3.44**	**146 971**	**3.98**
Granted	91	4.85	6 395	3.47
Exercised	(59 092)	5.02	(69 956)	3.53
Cancelled	-	-	(1 113)	3.43
Transferred	-	-	6 517	3.44
Outstanding as at 31 December	**29 813**	**3.23**	**88 814**	**3.44**

RSUs were granted at no cost to the recipient. These awards are subject to forfeiture until certain restrictions have lapsed, including continued employment for a specified period. The recipient of RSU is entitled to voting rights and dividends on the common stock. The fair value of RSUs is measured on the basis of an observable market price of the underlying stock. The expense for RSUs is measured based upon the number of shares granted multiplied by the stock price at the grant date, and is recognised over the required service period.

Under long-term incentive compensation plans the Firm used to provide to its employees stock options with an exercise price equal to the fair value of the Firm's common stock on the grant date. No new stock options were granted in 2016 or 2017.

In thousands of Russian Roubles	**2017** Stock options and share appreciation rights	**2017** Weighted average grant price	**2016** Stock options and SARs	**2016** Weighted average grant price
Outstanding as at 31 December	-	-	6 000	2.69

Starting from 2016 the Bank replaced the existing long-term share based compensation program, including both RSUs and stock options, with a deferred cash-based incentive program. Accordingly, the RSU and stock option based programs are being phased out and no future grants of either instruments are expected by the Bank.

21 Interest Income and Expense

In thousands of Russian Roubles	Note	2017	2016
Interest income			
Cash and cash equivalents	7	504 732	350 973
Trading securities		13 774	20 609
Total interest income		**518 506**	**371 582**
Interest expense			
Term placements of other banks	15	159 887	55 284
Customer accounts	16	18 063	33 205
Onerous lease contract	27	3 835	18 879
Total interest expense		**181 785**	**107 368**
Net interest income		**336 721**	**264 214**

The information on income and expense items with related parties is disclosed in Note 30.

22 Fee and Commission Income and Expense

In thousands of Russian Roubles	2017	2016
Fee and commission income		
Commission on investment banking	797 492	1 012 617
Commission on custodian services	291 103	252 282
Commission on treasury services	180 533	170 244
Commission on arranging derivative financial instruments for clients	178 848	159 390
Commission on equity services	160 777	165 753
Other	112 623	115 161
Total fee and commission income	**1 721 376**	**1 875 447**
Fee and commission expense		
Commission on transactions with securities	8 670	2 255
Commission on settlement transactions	1 618	3 080
Commission on guarantees received	877	7 444
Commission on transactions with foreign currency	851	4 262
Other	267	-
Total fee and commission expense	**12 283**	**17 041**
Net fee and commission income	**1 709 093**	**1 858 406**

The information on income and expense items with related parties is disclosed in Note 30.

23 Administrative and Other Operating Expenses

In thousands of Russian Roubles	Note	2017	2016
Staff costs		1 814 176	2 025 235
Occupancy costs		221 180	214 770
Professional services		102 544	98 438
Business trip and representative expenses		91 054	66 843
Taxes other than on income		87 973	64 844
Communication and IT expenses		71 630	100 887
Depreciation of property and equipment and amortization of intangible assets	11, 12	58 729	73 078
Other		22 515	31 304
Total administrative and other operating expenses		**2 469 801**	**2 675 399**

Included in staff costs are statutory social security and pension contributions of RR 277 905 thousand (2016: RR 474 307 thousand).

24 Income Taxes

Income tax expense comprises the following:

In thousands of Russian Roubles	2017	2016
Current tax	199 998	197 613
Deferred tax	29 273	4 897
Income tax expense for the year	**229 271**	**202 510**

As at 31 December 2017 the income tax rate applicable to the majority of the Bank's income was 20% (2016: 20%). Reconciliation between the expected and the actual taxation charge is provided below.

In thousands of Russian Roubles	2017	2016
IFRS profit before tax	**936 100**	**689 681**
Theoretical tax charge at statutory rate (2017: 20%; 2016: 20%)	187 220	137 936
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-deductible expenses	42 712	65 552
- Impact of income on state securities taxed at different rates (15%)	(661)	(978)
Income tax expense for the year	**229 271**	**202 510**

24 Income Taxes (Continued)

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

In thousands of Russian Roubles	Note	31 December 2016	Movement	31 December 2017
Tax effect of deductible temporary differences				
Provision for commitments	27	21 665	(12 767)	8 898
Accrued expenses		7 737	(3 101)	4 636
Premises and equipment		1 096	87	1 183
Derivative financial instruments		12 588	(12 588)	-
Gross deferred tax asset		**43 086**	**(28 369)**	**14 717**
Tax effect of taxable temporary differences				
Fair value of trading securities	8	(61)	61	-
Derivative financial instruments		-	(965)	(964)
Gross deferred tax liability		(61)	(904)	(964)
Total net deferred tax asset		**43 025**	**(29 273)**	**13 753**

Deferred tax expense is recognized in profit or loss.

In thousands of Russian Roubles	2017	2016
Deferred tax expense recorded in profit or loss	29 273	4 897
Deferred income tax movement for the year	**29 273**	**4 897**

All of the deferred tax is expected to be recovered later than 12 months after the reporting date.

In thousands of Russian Roubles	Note	31 December 2015	Movement	31 December 2016
Tax effect of deductible temporary differences				
Provision for commitments	27	45 577	(23 912)	21 665
Accrued expenses		9 369	(1 632)	7 737
Premises and equipment		(9 727)	10 823	1 096
Derivative financial instruments		2 703	9 885	12 588
Gross deferred tax asset		**47 922**	**(4 836)**	**43 086**
Tax effect of taxable temporary differences				
Fair value of trading securities	8	-	(61)	(61)
Gross deferred tax liability		-	(61)	(61)
Total net deferred tax asset		**47 922**	**(4 897)**	**43 025**

25 Financial Risk Management

Risk Governance. Risk management is an inherent part of the business activities of the Bank. The Bank’s overall objective is to manage its business, and the associated risks, in a manner that balances serving the interests of its customers with protecting the safety and soundness of the Bank. The Bank exercises oversight over the risk management system and assessment of the risks through relevant control functions of the Bank on a permanent basis in compliance with internal documents.

Relevant governance forums of the Bank exercise overall control and oversight of the risk management system through a system of information and escalation. The Board of Directors is responsible for risk and capital management strategy of the Bank, ensuring sufficient capital and liquidity to mitigate the risks and approval of various risk and capital related policies and procedures. The Management Board performs the overall management of the Bank, including management of relevant risks and agreeing on appropriate mitigation measures. Other governance bodies include Credit and Balance Sheet Committee, Asset and Liability Committee, Operating Committee, which are responsible for management of credit, liquidity and operating risks respectively. Legal entity risk manager is a designated officer of the Bank responsible for overall coordination of risk management processes and oversight over departments involved in management of the Bank’s risks.

An overview of the key aspects of risk management and use of financial instruments is provided below.

Credit risk. Monitoring and control over credit risk is performed in the Bank in accordance with its risk management framework. The Board of Directors has the ultimate responsibility for the overall risk governance and strategy, while Credit department and Credit and Balance Sheet Committee perform the monitoring and management of the risk. Credit and Balance Sheet Committee has the principal responsibility over decision-making, including approval of business transactions. The Credit department monitors credit risk and limits adherence and escalates any risk events or limit breaches to the Management Board which then takes practical steps to eliminate or mitigate these events.

To measure credit risk, the Bank employs several methodologies for estimating the likelihood of obligor or counterparty default. These methodologies vary depending on certain factors, including type of asset, risk measurement parameters and collection processes.

The exposure to any one borrower including banks and brokers is restricted by limits covering on and off-balance sheet exposures. These limits can be set up for a specific type, maximum amount or maximum tenor of a transaction.

Exposure to credit risk is managed by Credit department through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate guarantees.

The Bank’s maximum exposure to credit risk is primarily reflected in the carrying amounts of financial assets on the statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

Market risk. Market risk represents the potential loss in value of portfolios and financial instruments caused by adverse movements in market variables such as interest and foreign exchange rates, credit spreads, and equity and commodity prices.

Market risk management is a function within the Bank that is independent of the business and is incorporated within the firmwide market risk management framework. The legal entity risk manager proposes materiality thresholds for material risks which are subject to approval by the Board of directors.

The Bank uses various measures of market risk, including statistical measures and non-statistical measures.

25 Financial Risk Management (Continued)

Currency risk. The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Treasury department sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

The table below summarises the Bank's exposure to foreign currency exchange rate risk as at 31 December 2017. The derivative financial instruments in assets and liabilities represent cash flows for currency spot and forward transactions, KIKO forwards and cross-currency interest swaps split by currency. Foreign exchange derivatives assets and liabilities include gross cash flows by each currency.

In thousands of Russian Roubles	**RR**	**USD**	**Euro**	**Other**	**Total**
Assets					
Cash and cash equivalents	707 643	16 809 477	118 854	46 526	17 682 500
Mandatory cash balances with the Central Bank of Russian Federation	42 599	-	-	-	42 599
Investment securities available for sale	18	-	-	-	18
Derivative financial instruments	66 170	(15 759 936)	-	19 082 807	3 389 041
Other financial assets	1 325	188 511	2 155	-	191 991
Total financial assets	**817 755**	**1 238 052**	**121 009**	**19 129 333**	**21 306 149**
Liabilities					
Derivative financial instruments	(61 206)	15 759 796	-	(19 082 807)	(3 384 217)
Due to other banks	(685 043)	(1 008 806)	-	-	(1 693 849)
Customer accounts	(1 200 346)	(399 812)	(74 449)	(1 867)	(1 676 474)
Provision for commitments	-	31 364	(75 854)	-	(44 490)
Total financial liabilities	**(1 946 595)**	**14 382 542**	**(150 303)**	**(19 084 674)**	**(6 799 030)**
Fair value of currency derivatives assets	66 170	247	-	-	66 417
Fair value of currency derivatives liabilities	(61 206)	(387)	-	-	(61 593)
Less total fair value of currency derivatives	4 964	(140)	-	-	4 824
Net balance sheet position less fair value of foreign exchange derivatives	**(1 123 876)**	**15 620 454**	**(29 294)**	**44 659**	**14 511 943**
Foreign exchange derivatives assets	19 319 938	3 057 228	959 605	-	23 336 771
Foreign exchange derivatives liabilities	(4 077 792)	(18 250 733)	(1 003 422)	-	(23 331 947)
Total foreign exchange derivatives	**15 242 146**	**(15 193 505)**	**(43 817)**	**-**	**4 824**
Net balance sheet and foreign exchange derivatives position as at 31 December 2017	**14 118 270**	**426 949**	**(73 111)**	**44 659**	**14 516 767**

25 Financial Risk Management (Continued)

As at 31 December 2016, the Bank had the following positions in currencies:

In thousands of Russian Roubles	RR	USD	Euro	Other	Total
Assets					
Cash and cash equivalents	538 638	15 533 303	13 775	51 426	16 137 142
Mandatory cash balances with the Central Bank of Russian Federation	32 301	-	-	-	32 301
Trading securities	10 092	-	-	-	10 092
Investment securities available for sale	18	-	-	-	18
Derivative financial instruments	722 786	(35 234 043)	-	40 263 727	5 752 470
Other financial assets	1 194	132 127	2 077	-	135 398
Total financial assets	**1 305 029**	**(19 568 613)**	**15 852**	**40 315 153**	**22 067 421**
Liabilities					
Derivative financial instruments	(691 888)	35 140 205	-	(40 263 727)	(5 815 410)
Due to other banks	(448 682)	(607 317)	-	-	(1 055 999)
Customer accounts	(1 253 832)	(606 983)	(13 246)	(983)	(1 875 044)
Provision for commitments	-	92 634	(200 957)	-	(108 323)
Total financial liabilities	**(2 394 402)**	**34 018 539**	**(214 203)**	**(40 264 710)**	**(8 854 776)**
Fair value of currency derivatives assets	722 786	-	-	-	722 786
Fair value of currency derivatives liabilities	(691 888)	(93 838)	-	-	(785 726)
Less total fair value of currency derivatives	30 898	(93 838)	-	-	(62 940)
Net balance sheet position less fair value of foreign exchange derivatives	**(1 058 475)**	**14 356 088**	**(198 351)**	**50 443**	**13 149 705**
Foreign exchange derivatives assets	28 392 508	8 228 410	5 266 946	6 200 939	48 088 803
Foreign exchange derivatives liabilities	(14 187 244)	(28 638 939)	(5 266 961)	(58 599)	(48 151 743)
Total foreign exchange derivatives	**14 205 264**	**(20 410 529)**	**(15)**	**6 142 340**	**(62 940)**
Net balance sheet and foreign exchange derivatives position as at 31 December 2016	**13 146 789**	**(6 054 441)**	**(198 366)**	**6 192 783**	**13 086 765**

The currency derivatives position in each column represents the fair value, at the reporting date, of the respective currency that the Bank agreed to buy (positive amount) or sell (negative amount). The amounts by currency are presented gross. The net total represents fair value of the derivatives.

The following table shows the effect of a reasonably possible change in exchange rates on the result of the activity of the Bank:

In thousands of Russian Roubles	2017	2016
40% increase in USD/RR exchange rate (2016: 20% increase)	170 780	(1 210 888)
40% decrease in USD/RR exchange rate (2016: 20% decrease)	(170 780)	1 210 888
40% increase in EUR/RR exchange rate (2016: 20% increase)	(29 244)	(39 673)
40% decrease in EUR/RR exchange rate (2016:20% decrease)	29 244	39 673

25 Financial Risk Management (Continued)

Interest rate risk. The Bank takes on exposure to effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise.

Derivative financial instruments in total financial assets and financial liabilities represent discounted cash flows for currency spot and forward transactions, KIKO forwards and cross-currency/single-currency interest swaps split by periods according to cash flow execution dates.

The following table summarises the Bank's exposure to interest rate risks as at 31 December 2017 by showing assets and liabilities at carrying amounts in categories based on the earlier of contractual repricing or maturity dates.

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 12 months**	**Over 12 months**	**Non-interest bearing**	**Total**
Assets					
Cash and cash equivalents	17 682 500	-	-	-	17 682 500
Mandatory cash balances with the Central Bank of the Russian Federation	42 599	-	-	-	42 599
Investment securities available for sale	-	-	-	18	18
Derivative financial instruments	53 260	537 340	2 798 441	-	3 389 041
Other financial assets	191 991	-	-	-	191 991
Total financial assets	**17 970 350**	**537 340**	**2 798 441**	**18**	**21 306 149**
Liabilities					
Derivative financial instruments	(49 704)	(536 072)	(2 798 441)	-	(3 384 217)
Due to other banks	(1 693 849)	-	-	-	(1 693 849)
Customer accounts	(1 676 474)	-	-	-	(1 676 474)
Provision for commitments	-	(44 490)	-	-	(44 490)
Total financial liabilities	**(3 420 027)**	**(580 562)**	**(2 798 441)**	**-**	**(6 799 030)**
Interest rate derivatives assets	-	(151 815)	2 798 441	-	2 646 626
Interest rate derivatives liabilities	-	151 815	(2 798 441)	-	(2 646 626)
Fair value of interest rate derivatives	**-**	**-**	**-**	**-**	**-**
Net sensitivity gap less fair value of interest rate derivatives	**14 550 323**	**(43 222)**	**-**	**18**	**14 507 119**
Interest rate derivatives inflows	-	4 855 956	74 565 085	-	79 421 041
Interest rate derivatives outflows	-	(4 855 956)	(74 565 085)	-	(79 421 041)
Effect of interest rate derivatives	**-**	**-**	**-**	**-**	**-**
Net sensitivity gap as at 31 December 2017	**14 550 323**	**(43 222)**	**-**	**18**	**14 507 119**
Cumulative sensitivity gap as at 31 December 2017	**14 550 323**	**14 507 101**	**14 507 101**	**14 507 119**	-

25 Financial Risk Management (Continued)

The following table summarises the Bank's exposure to interest rate risks as at 31 December 2016 by showing assets and liabilities in categories based on the earlier of contractual repricing or maturity dates.

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 12 months**	**Over 12 months**	**Non-interest bearing**	**Total**
Assets					
Cash and cash equivalents	16 137 142	-	-	-	16 137 142
Mandatory cash balances with the Central Bank of the Russian Federation	32 301	-	-	-	32 301
Trading securities	-	-	10 092	-	10 092
Investment securities available for sale	-	-	-	18	18
Derivative financial instruments	1 792 616	642 461	3 317 393	-	5 752 470
Other financial assets	16 577	118 821	-	-	135 398
Total financial assets	**17 978 636**	**761 282**	**3 327 485**	**18**	**22 067 421**
Liabilities					
Derivative financial instruments	(1 859 285)	(638 732)	(3 317 393)	-	(5 815 410)
Due to other banks	(1 055 999)	-	-	-	(1 055 999)
Customer accounts	(1 875 044)	-	-	-	(1 875 044)
Provision for commitments	-	-	-	(108 323)	(108 323)
Total financial liabilities	**(4 790 328)**	**(638 732)**	**(3 317 393)**	**(108 323)**	**(8 854 776)**
Interest rate derivatives assets	-	179 848	3 317 393	-	3 497 241
Interest rate derivatives liabilities	-	(179 848)	(3 317 393)	-	(3 497 241)
Fair value of interest rate derivatives	**-**	**-**	**-**	**-**	**-**
Net sensitivity gap less fair value of interest rate derivatives	**13 188 308**	**122 550**	**10 092**	**(108 305)**	**13 212 645**
Interest rate derivatives inflows	-	42 404 404	80 158 510	-	122 562 914
Interest rate derivatives outflows	-	(42 404 404)	(80 158 510)	-	(122 562 914)
Effect of interest rate derivatives	**-**	**-**	**-**	**-**	**-**
Net sensitivity gap as at 31 December 2016	**13 188 308**	**122 550**	**10 092**	**(108 305)**	**13 212 645**
Cumulative sensitivity gap as at 31 December 2016	**13 188 308**	**13 310 858**	**13 320 950**	**13 212 645**	-

The table below summarises the effective interest rates by major currencies for major debt instruments. The analysis has been prepared based on period-end effective rates used for amortisation of the respective assets/liabilities.

25 Financial Risk Management (Continued)

	2017			2016		
In % p.a.	**RR**	**USD**	**EUR**	**RR**	**USD**	**EUR**
Assets						
Cash and cash equivalents	0.0	0.8	(0.4)	0.0	0.1	(0.4)
Mandatory cash balances with the Central Bank of the Russian Federation	0.0	-	-	0.0	-	-
Liabilities						
Term placements of other banks	-	-	-	-	-	-
Term deposits of customers	-	-	-	-	-	-

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

The following table shows the effect of a reasonably possible change in interest rates on the financial profit of the Bank:

In thousands of Russian Roubles	**2017**	**2016**
400 basis points increase in local interest rates (2016: 300 basis points)	556 828	381 155
400 basis points decrease in local interest rates (2016: 300 basis points)	(556 828)	(381 155)

The Bank seeks to maintain a stable funding base primarily consisting of amounts due to other banks, customer accounts and financing from the Group. The Bank invests funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

Liquidity risk. Liquidity Risk is the risk arising from the Firm's inability to meet contractual and contingent obligations through normal cycles as well as during stress events. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, guarantees and other instruments. Liquidity risk is managed through such forums as asset and liability committee and management board of the Bank.

The following table shows the undiscounted cash flows on the Bank's liabilities on the basis of their earliest possible contractual maturity. The gross nominal (inflow)/outflow disclosed in the table is the contractual, undiscounted cash flow on the financial liability or commitment.

Derivative financial instruments represent the gross undiscounted cash flows under currency spot and forward transactions, KIKO forwards and cross-currency interest swaps split by periods according to the expected/contractual cash flow execution dates.

25 Financial Risk Management (Continued)

The position of the Bank as at 31 December 2017 was as follows:

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 month**	**From 6 to 12 months**	**More than 12 months**	**Total gross nominal (inflow)/ outflow**	**Carrying Amount**
Non-derivative financial liabilities						
Due to other banks	1 693 849	-	-	-	1 693 849	1 693 849
Customer accounts	1 676 474	-	-	-	1 676 474	1 676 474
Provision for commitments	-	44 490	-	-	44 490	44 490
Derivative financial instruments						
- Inflow	(49 416)	(3 086 546)	(2 462 409)	(74 565 085)	(80 163 456)	(3 389 041)
- Outflow	45 860	3 085 278	2 462 409	74 565 085	80 158 632	3 384 217
Letters of credit and guarantees	2 897 330	-	-	-	2 897 330	2 897 330
Total undiscounted cash flows on financial liabilities and other commitments	**6 264 097**	**43 222**	**-**	**-**	**6 307 319**	**6 307 319**

The position of the Bank as at 31 December 2016 was as follows:

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 month**	**From 6 to 12 months**	**More than 12 months**	**Total gross nominal (inflow)/ outflow**	**Carrying Amount**
Non-derivative financial liabilities						
Due to other banks	1 055 999	-	-	-	1 055 999	1 055 999
Customer accounts	1 875 044	-	-	-	1 875 044	1 875 044
Provision for commitments	-	37 228	37 228	37 228	111 684	108 323
Derivative financial instruments						
- Inflow	(1 558 533)	(39 963 468)	(2 456 478)	(80 158 510)	(124 136 989)	(5 752 470)
- Outflow	1 574 124	39 958 086	2 461 842	80 158 510	124 152 562	5 815 410
Letters of credit and guarantees	2 887 595	-	-	-	2 887 595	2 887 595
Total undiscounted cash flows on financial liabilities and other commitments	**5 834 229**	**31 846**	**42 592**	**37 228**	**5 945 895**	**5 989 901**

25 Financial Risk Management (Continued)

Derivative financial instruments represent the gross discounted cash flows under currency spot and forward transactions, KIKO forwards and cross-currency/single-currency interest swaps split by periods according to the expected/contractual cash flow execution dates.

The Bank does not use the above undiscounted maturity analysis to manage liquidity.

Instead, the Bank monitors expected maturities, which may be summarised as follows as at 31 December 2017.

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**Over 12 months**	**No stated maturity**	**Total**
Assets						
Cash and cash equivalents	17 682 500	-	-	-	-	17 682 500
Mandatory cash balances with the Central Bank of Russian Federation	42 599	-	-	-	-	42 599
Investment securities available for sale	-	-	-	-	18	18
Derivative financial instruments	53 259	583 825	(46 484)	2 798 441	-	3 389 041
Other financial assets	191 991	-	-	-	-	191 991
Total financial assets	**17 970 349**	**583 825**	**(46 484)**	**2 798 441**	**18**	**21 306 149**
Liabilities						
Derivative financial instruments	(49 704)	(582 556)	46 484	(2 798 441)	-	(3 384 217)
Due to other banks	(1 693 849)	-	-	-	-	(1 693 849)
Customer accounts	(1 676 474)	-	-	-	-	(1 676 474)
Provision for commitments	-	(44 490)	-	-	-	(44 490)
Total financial liabilities	**(3 420 027)**	**(627 046)**	**46 484**	**(2 798 441)**	**-**	**(6 799 030)**
Net liquidity gap	**14 550 322**	**(43 221)**	**-**	**-**	**18**	**14 507 119**
Cumulative liquidity gap as at 31 December 2017	**14 550 322**	**14 507 101**	**14 507 101**	**14 507 101**	**14 507 119**	**-**

25 Financial Risk Management (Continued)

The liquidity position of the Bank as at 31 December 2016 is set out below.

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**Over 12 months**	**No stated maturity**	**Total**
Assets						
Cash and cash equivalents	16 137 142	-	-	-	-	16 137 142
Mandatory cash balances with the Central Bank of Russian Federation	32 301	-	-	-	-	32 301
Trading securities	10 092	-	-	-	-	10 092
Investment securities available for sale	-	-	-	-	18	18
Derivative financial instruments	1 792 616	763 199	(120 738)	3 317 393	-	5 752 470
Other financial assets	16 577	118 821	-	-	-	135 398
Total financial assets	**17 988 728**	**882 020**	**(120 738)**	**3 317 393**	**18**	**22 067 421**
Liabilities						
Derivative financial instruments	(1 859 285)	(760 762)	122 031	(3 317 394)	-	(5 815 410)
Due to other banks	(1 055 999)	-	-	-	-	(1 055 999)
Customer accounts	(1 875 044)	-	-	-	-	(1 875 044)
Provision for commitments	-	(36 479)	(36 479)	(35 365)	-	(108 323)
Total financial liabilities	**(4 790 328)**	**(797 241)**	**85 552**	**(3 352 759)**	**-**	**(8 854 776)**
Net liquidity gap	**13 198 389**	**84 779**	**(35 186)**	**(35 366)**	**18**	**13 212 634**
Cumulative liquidity gap as at 31 December 2016	**13 198 389**	**13 283 168**	**13 247 982**	**13 212 616**	**13 212 634**	**-**

The table above shows assets and liabilities as at 31 December 2017 and 2016 by their remaining contractual maturity, unless there is evidence that any of the assets are impaired and will be settled after their contractual maturity dates, in which case the expected date of settlement of the assets is used. Some of the assets and liabilities, however, may be of a longer-term nature; for example, loans are frequently renewed and accordingly short-term loans can have a longer-term duration.

25 Financial Risk Management (Continued)

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

In thousands of Russian Roubles	Russia	OECD	Total
Assets			
Cash and cash equivalents	1 597 939	16 084 561	17 682 500
Mandatory cash balances with the Central Bank of the Russian Federation	42 599	-	42 599
Investment securities available for sale	18	-	18
Derivative financial instruments	3 183 842	205 199	3 389 041
Other financial assets	10 533	181 458	191 991
Total financial assets	**4 834 931**	**16 471 218**	**21 306 149**
Liabilities			
Derivative financial instruments	205 211	3 179 006	3 384 217
Due to other banks	-	1 693 849	1 693 849
Customer accounts	1 431 430	245 044	1 676 474
Provision for commitments	44 490	-	44 490
Total financial liabilities	**1 681 131**	**5 117 899**	**6 799 030**
Net balance sheet position as at 31 December 2017	**3 153 800**	**11 353 319**	**14 507 119**

Assets and liabilities have been based on the country in which the counterparty is located. Balances with Russian counterparties actually outstanding to/from offshore companies of these Russian counterparties are allocated to the caption "Russia".

The geographical concentration of the Bank's assets and liabilities at 31 December 2016 is set out below:

In thousands of Russian Roubles	Russia	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	1 151 288	14 950 534	35 309	16 137 131
Mandatory cash balances with the Central Bank of the Russian Federation	32 301	-	-	32 301
Trading securities	10 092	-	-	10 092
Investment securities available for sale	18	-	-	18
Derivative financial instruments	5 662 099	90 371	-	5 752 470
Other financial assets	15 872	119 526	-	135 398
Total financial assets	**6 871 670**	**15 160 431**	**35 309**	**22 067 410**
Liabilities				
Derivative financial instruments	(109 606)	(5 705 804)		(5 815 410)
Due to other banks	-	(1 055 983)	-	(1 055 983)
Customer accounts	(1 633 667)	(241 377)	-	(1 875 044)
Provision for commitments	(108 323)	-	-	(108 323)
Total financial liabilities	**(1 851 596)**	**(7 003 164)**	**-**	**(8 854 760)**
Net balance sheet position as at 31 December 2016	**5 020 074**	**8 157 267**	**35 309**	**13 212 650**

26 Management of Capital

The CBRF sets and monitors capital requirements for the Bank.

Under the current capital requirements set by the CBRF banks have to maintain a ratio of capital to risk weighted assets ("statutory capital adequacy ratio") above the prescribed minimum level. As at 31 December 2017 this minimum level was 8% (2016: 8%). The Bank was in compliance with the statutory capital ratio during the years ended 31 December 2017 and 2016.

The Bank's objectives when managing capital are (i) to comply with the capital requirements set by the CBRF and (ii) to safeguard the Bank's ability to continue as a going concern. The amount of statutory capital that the Bank managed as at 31 December was RR 13 701 110 thousand (2016: RR 13 024 428 thousand). Compliance with capital adequacy ratios set by the CBRF is monitored monthly with reports outlining their calculation reviewed and signed by the Bank's Chief Accountant. In addition to regulatory requirements, capital adequacy is monitored by the Bank through Internal Capital Adequacy Assessment Program. As a result of 2017 internal capital adequacy assessment the Bank was judged to be sufficiently capitalized with total Pillar 1 Capital ratio at 31%.

The following table shows the composition of the Bank's capital position calculated in accordance with the requirements of CBRF as at 31 December 2017 and 2016:

In thousands of Russian Roubles	**2017**	**2016**
Capital		
Charter capital	2 715 315	2 715 315
Retained earnings	10 985 816	10 300 746
Equity investments	(21)	(13)
Total statutory capital	**13 701 110**	**13 016 048**

27 Contingencies and Commitments

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

The Russian transfer pricing legislation is generally aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD) but has specific characteristics. This legislation provides for the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties) where it is determined that prices in these transactions were not arm's length. Management has implemented internal controls to be in compliance with the transfer pricing legislation. As Russian tax legislation does not provide definitive guidance in many areas, the Bank may adopt, from time to time, interpretations of such uncertain areas that may or may not reduce the overall tax burden of the Bank. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a risk that outflow of resources will be required should such tax positions and interpretations be successfully challenged by the Russian tax authorities. The impact of any such potential challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Bank.

Capital expenditure commitments. As at 31 December 2017 and 2016 the Bank had no capital expenditure commitments.

Provision on onerous lease contract. The Bank discontinued the use of the part of its office space held under a non-cancellable operating lease. The space was subleased until the end of the original lease term to a third party at a rate lower than the rates in the original lease agreement. The contract was considered to be an onerous one and a provision was recognised. The provision includes all lease expenses net of any sublease income over the lease term discounted at applicable rates.

27 Contingencies and commitments (Continued)

As at 31 December 2017 the expected cash flows relating to the provision were as follows:

In thousands of Russian Roubles	Cash inflows	Cash outflows	Net cash outflows
Not later than 1 year	36 879	(81 369)	(44 490)
Later than 1 year and not later than 5 years	-	-	-
Total undiscounted cash flows	36 879	(81 369)	(44 490)
Total discounted cash flows	**36 879**	**(81 369)**	**(44 490)**

As at 31 December 2016 the expected cash flows relating to the provision were as follows:

In thousands of Russian Roubles	Cash inflows	Cash outflows	Net cash outflows
Not later than 1 year	75 433	(149 889)	(74 456)
Later than 1 year and not later than 5 years	37 716	(79 945)	(42 229)
Total undiscounted cash flows	113 149	(229 834)	(116 685)
Total discounted cash flows	**106 050**	**(214 373)**	**(108 323)**

The movements in the carrying amount of the reserve are as follows:

In thousands of Russian Roubles	Note	2017	2016
Carrying amount at 1 January		**108 323**	**227 884**
Interest expense	21	3 835	18 879
Used during the year		(41 613)	(66 189)
Foreign currency revaluation		18 759	(81 316)
Effect of changes in model		(44 814)	9 065
Carrying amount at 31 December		**44 490**	**108 323**

Effect of changes in model relates to revision of the original discounted cash flows to incorporate up-to-date inflation rates applicable for annual lease payment determination.

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

In thousands of Russian Roubles	2017	2016
Not later than 1 year	246 383	335 535
Later than 1 year and not later than 5 years	381 183	643 672
Total operating lease commitments	**627 566**	**979 207**

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

27 Contingencies and commitments (Continued)

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments, if the unused amounts were to be drawn down. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit related commitments, because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. Outstanding credit related commitments are as follows:

As at 31 December 2017 the total outstanding contractual amount of issued guarantees and letters of credit amounted to RR 2 897 330 thousand (2016: RR 2 887 595 thousand) and corresponding provision for losses was nil (2016: nil). The currencies of guarantees were as follows: Russian Roubles (RR 1 453 075 thousand) and US Dollars (RR 1 444 255 thousand) as at 31 December 2017 and Russian Roubles (RR 1 306 311 thousand) and US Dollars (RR 1 581 284 thousand) as at 31 December 2016.

Assets under custody. The Bank provides custody services to its customers, who are mostly non-related to the Bank, whereby it holds securities on behalf of customers and receives fee income for providing these services. These securities are not assets of the Bank and are not recognised in the statement of financial position. Nominal values disclosed below are normally different from the fair values of respective securities. The assets under custody fall into the following categories:

In thousands of Russian Roubles	**2017 Nominal value**	**2016 Nominal value**
Ordinary shares	29 958 678	24 888 949
State bonds	1 188 185	36 461
Privileged shares	734 442	766 804

Assets pledged and restricted. As at 31 December 2017 mandatory cash balances with the CBRF in the amount of RR 42 599 thousand (2016: RR 32 301 thousand) represent mandatory reserve deposits which are not available to finance the Bank's day-to-day operations.

28 Fair Value of Financial Instruments

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

28 Fair Value of Financial Instruments (Continued)

For financial instruments carried at fair value, the level in the fair value hierarchy into which the fair values are categorised are as follows:

In thousands of Russian Roubles	**2017** Quoted price in an active market (Level 1)	**2017** Valuation technique with inputs observable in markets (Level 2)	**2017** Valuation technique with signifi-cant non-observa-ble inputs (Level 3)	**2016** Quoted price in an active market (Level 1)	**2016** Valuation technique with inputs observa-ble in markets (Level 2)	**2016** Valuation technique with significant non-observa-ble inputs (Level 3)
ASSETS AT FAIR VALUE						
FINANCIAL ASSETS						
Trading instruments						
- Trading securities	-	-	-	10 092	-	-
Investment securities available for sale						
- Corporate shares	18	-	-	18	-	-
Derivative financial instruments						
- Currency spot contracts	115	-	-	-	-	-
- Currency forward contracts	-	66 303	-	-	722 786	-
- KIKO forwards	-	672 154	-	-	1 425 057	-
- Currency options	-	3 843	-	-	84 278	-
- Knock-out currency options	-	-	-	-	23 108	-
- Cross-currency interest rate swaps	-	2 457 430	-	-	3 408 216	-
- Single-currency interest rate swaps	-	189 196	-	-	89 025	-
FINANCIAL LIABILITIES						
Derivative financial instruments						
- Currency spot contracts	388	-	-	6 721	-	-
- Currency forward contracts	-	61 206	-	-	779 005	-
- KIKO forwards	-	672 154	-	-	1 425 057	-
- Currency options	-	3 843	-	-	84 278	-
- Cross-currency interest rate swaps	-	2 457 430	-	-	3 408 216	-
- Cross currency swaps	-	189 196	-	-	89 025	-

Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. Significance of a valuation input is assessed against the fair value measurement in its entirety.

There are no differences between the fair values shown in the table above and the carrying amount of the items in the statement of financial position.

28 Fair Value of Financial Instruments (Continued)

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 31 December 2017:

In thousands of Russian Roubles	**Fair value**	**Valuation technique**	**Inputs used**
FINANCIAL ASSETS			
- Currency spot contracts	115	Spot pricing	Quoted prices
- Currency forward contracts	66 303	Forward pricing	Quoted prices, FX rate and interest rate curves
- KIKO forwards	672 154	Stochastic PDE Tree	Quoted prices, volatility
- Currency options	3 843	Stochastic PDE Tree	Quoted prices, volatility
- Cross-currency interest rate swaps	2 457 430	Discounted cash flow	FX rate and interest rate curves
- Single-currency interest rate swaps	189 196	Discounted cash flow	FX rate and interest rate curves
FINANCIAL LIABILITIES			
Derivative financial instruments			
- Currency spot contracts	388	Spot pricing	Quoted prices
- Currency forward contracts	61 206	Forward pricing	Quoted prices, FX rate and interest rate curves
- KIKO forwards	672 154	Stochastic PDE Tree	Quoted prices, volatility
- Currency options	3 843	Stochastic PDE Tree	Quoted prices, volatility
- Cross currency swaps	2 457 430	Discounted cash flow	FX rate and interest rate curves
- Single-currency interest rate swaps	189 196	Discounted cash flow	FX rate and interest rate curves

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 31 December 2016:

In thousands of Russian Roubles	**Fair value**	**Valuation technique**	**Inputs used**
FINANCIAL ASSETS			
- Trading securities	10 092	Spot pricing	Quoted prices
- Currency spot contracts	-	Spot pricing	Quoted prices
- Currency forward contracts	722 786	Forward pricing	Quoted prices, FX rate and interest rate curves
- KIKO forwards	1 425 057	Stochastic PDE Tree	Quoted prices, volatility
- Currency options	84 278	Stochastic PDE Tree	Quoted prices, volatility
- Knock-out currency options	23 108	Stochastic PDE Tree	Quoted prices, volatility
- Cross-currency interest rate swaps	3 408 216	Discounted cash flow	FX rate and interest rate curves
- Single-currency interest rate swaps	89 025	Discounted cash flow	FX rate and interest rate curves
FINANCIAL LIABILITIES			
Derivative financial instruments			
- Currency spot contracts	6 721	Spot pricing	Quoted prices
- Currency forward contracts	779 005	Forward pricing	Quoted prices, FX rate and interest rate curves
- KIKO forwards	1 425 057	Stochastic PDE Tree	Quoted prices, volatility
- Currency options	84 278	Stochastic PDE Tree	Quoted prices, volatility
- Knock-out currency options	23 108	Stochastic PDE Tree	Quoted prices, volatility
- Cross currency swaps	3 408 216	Discounted cash flow	FX rate and interest rate curves
- Single-currency interest rate swaps	89 025	Discounted cash flow	FX rate and interest rate curves

28 Fair Value of Financial Instruments (Continued)

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

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

	31 December 2017				31 December 2016			
In thousands of Russian Roubles	Level 1	Level 2	Level 3	Carrying value	Level 1	Level 2	Level 3	Carrying value
ASSETS								
Mandatory cash balances with the Central Bank of the Russian Federation	-	42 599	-	42 599	-	32 301	-	32 301
Other financial assets	-	-	191 991	191 991	-	-	135 398	-
LIABILITIES								
Due to other banks	-	1 693 849	-	1 693 849	-	1 055 999	-	1 055 999
Customer accounts	-	1 676 474	-	1 676 474	-	1 875 044	-	1 875 044
Provision for commitments	-	-	44 490	44 490	-	-	108 323	108 323

29 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IAS 39, *Financial Instruments: Recognition and Measurement*, classifies financial assets into the following categories: (a) loans and receivables; (b) available for sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. The following table provides a reconciliation of classes of financial assets with these measurement categories as at 31 December 2017:

In thousands of Russian Roubles	Available for sale	Loans and receivables	Held for trading	Total
Assets				
Cash and cash equivalents	-	17 682 500	-	17 682 500
Mandatory cash balances with the Central Bank of Russian Federation	-	42 599	-	42 599
Investment securities available for sale	18	-	-	18
Derivative financial instruments	-	-	3 389 041	3 389 041
Other financial assets	-	191 991	-	191 991
Total financial assets	**18**	**17 917 090**	**3 389 041**	**21 306 149**

The following table provides a reconciliation of classes of financial assets with these measurement categories as at 31 December 2016:

In thousands of Russian Roubles	Available for sale	Loans and receivables	Held for trading	Total
Assets				
Cash and cash equivalents	-	16 137 142	-	16 137 142
Mandatory cash balances with the Central Bank of Russian Federation	-	32 301	-	32 301
Trading securities	-	-	10 092	10 092
Investment securities available for sale	18	-	-	18
Derivative financial instruments	-	-	5 752 470	5 752 470
Other financial assets	-	135 398	-	135 398
Total financial assets	**18**	**16 304 841**	**5 762 562**	**22 067 421**

29 Presentation of Financial Instruments by Measurement Category (Continued)

As at 31 December 2017 and 2016 all of the Bank's financial liabilities except for derivative financial instruments were carried at amortised cost. Derivative financial instruments belonged to the fair value through profit or loss measurement category.

30 Related Party Transactions

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial 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 Bank is a member of the JPMorgan Chase Group and during 2017 and 2016 performed a number of transactions with entities under common control.

As at 31 December 2017 and 2016 the outstanding balances with related parties of the Bank were as follows:

In thousands of Russian Roubles	**2017**	**2016**
Cash and cash equivalents (contractual rate: 1.48%; 2016: 0.55-0.60%)	16 093 438	14 985 717
Derivative financial instruments assets (currency spot and forward contracts)	15 482	-
Derivative financial instruments assets (single currency interest rate swaps)	189 196	89 025
Derivative financial instruments assets (currency options)	520	-
Other non-financial assets	1 601	-
Accrued income	181 456	119 526
Due to other banks (contractual interest rate: -%; 2016: -%)	(1 693 849)	(1 055 999)
Derivative financial instruments liabilities (cross currency interest rate swaps)	(2 457 430)	(2 617 111)
Derivative financial instruments liabilities(currency spot and forward contracts)	(46 098)	(763 800)
Derivative financial instruments liabilities (KIKO currency forwards)	-	(1 425 057)
Derivative financial instruments liabilities (currency options)	(3 323)	(84 278)
Derivative financial instruments liabilities (knock-out currency options)	(672 154)	(23 108)
Accrued benefit costs for top management	(159 849)	(172 804)
Other liabilities	(1 066)	(10 321)
Guarantees received	49 687	30 330 377

The income and expense items with related parties for the year 2017 and 2016 were as follows:

In thousands of Russian Roubles	**2017**	**2016**
Interest income	137 749	195 668
Interest expense	(7 794)	(6 021)
Losses less gains from trading in foreign currencies	(258 290)	3 870 272
Foreign exchange translation gains less losses	259 228	(2 299)
Fee and commission income	1 656 156	1 807 035
Fee and commission expense	(9 879)	(10 055)

In 2017 the remuneration of members of the top management comprised salaries, discretionary bonuses and other short-term benefits totalling to 314 623 RR thousand (2016: RR 376 682 thousand), this includes the amount of accrued incentive compensation costs of the top management totalling to RR 159 849 thousand (2016: RR 172 804 thousand). In 2017 the share based payments to members of the top management amounted to RR 26 008 thousand (2016: RR 67 712 thousand). Refer to Note 20.

31 Events After the End of the Reporting Period

The majority owner of the Bank, J.P. Morgan International Finance Limited (USA), increased the capital investment in the Bank by RR 13 200 000 thousand, which was registered by the Central Bank of Russia and the tax authorities on 22 March 2018.