Financial statements and Independent auditor's report
JSC «Denizbank Moscow»
31 December 2017

Contents

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Independent auditor's report

To the Shareholders and Board of Directors of
JSC «Denizbank Moscow»

Details of auditor

Name: Baker Tilly Rus JSC

State Registration number: 1027700115409

Address: Russia, 123007, Moscow, Khoroshevskoye Shosse 32A

Baker Tilly Rus JSC is a member of Self-regulated organization of auditors "Russian Union of auditors" (Association) ("SRO RUA"). Baker Tilly Rus JSC is included in the control copy of the register of auditors and audit organizations, main registration number 11603076265.

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Details of the audited entity

Joint-Stock Company «Denizbank Moscow»

13, bld.42, 2-nd Zvenigorodskaya st.
123022, Moscow, Russian Federation

Included in the United State Register of Legal Entities on 24 October 2002 by Moscow Division of the Ministry of taxes and duties of the Russian Federation. Registration No. 1027739453390. Certificate series 77 No. 005391806.

Registered by the Central Bank of the Russian Federation on 15 June 1998.

Registration No.3330.

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Independent auditor's report

To the Shareholders and Board of Directors of
JSC «Denizbank Moscow»

Report on the audit of the financial statements

Opinion

We have audited the accompanying financial statements of JSC «Denizbank Moscow», which comprise of the statement of financial position as at 31 December 2017 and the statement of profit or loss and comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of JSC «Denizbank Moscow» 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).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). 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 are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Provision for impairment of loans

In the ordinary course of business, the Bank forms provision for loan impairment on individual basis or collectively. The process of assessing the adequacy of provision is the key to the Bank's stability analysis. In this regard, we evaluated the methodologies used by the Bank calculating impairment allowance and its application, tested the adequacy of the provision for loan impairment.

Information on the impairment of loans and credit risk management is included in Notes 16 and 28 to the financial statements, respectively.

BAKER TILLY RUSSIA

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 IFRSs, 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.

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

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

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:

a) 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.

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

c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

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

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

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

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

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

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

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 controls and organization 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 ended 31 December 2017:

- compliance of the Bank as at 31 December 2017 with the statutory ratios set by the Bank of Russia;
- compliance of internal control and organization of risk management systems of the Bank with the Bank of Russia's requirements for such systems.

Our examination was limited to procedures selected based on our judgment such as inquires, 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 by the Bank of Russia:

   as at 31 December 2017, the Bank 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 of the Bank 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 ended in accordance with IFRS.

2) as related to compliance of internal control and organization 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 recommendation, as at 31 December 2017, subdivisions of the Bank for managing significant risk of the Bank were not subordinated or accountable to subdivisions assuming corresponding risks;

   b) internal documentations of the Bank effective as at 31 December 2017 which set out the methodologies to identify and manage significant credit, operational, market and liquidity risk of the Bank, 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 31 December 2017, the Bank had in place a reporting system for significant credit, operational, market and liquidity risks, and for equity (capital) of the Bank;

d) 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 and liquidity risks of the Bank complied with internal documents of the Bank; those reports included observations made by risk management subdivisions of the Bank and its internal audit functions as related to the assessment of the effectiveness of the respective methodologies of the Bank as well as recommendations on their improvement;

e) as at 31 December 2017, the authority of the Board of Directors 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 the risk management subdivisions of the Bank and its internal function and considered proposed measures to eliminate weaknesses.

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

The engagement partner on the audit resulting in this independent auditor's report is Maxim Deev.

Moscow, Russian Federation
18 January 2018

Statement of Profit or Loss and Other Comprehensive Income

	Notes	2017 USD'000	2016 USD'000
Interest income	6	16,555	14,512
Interest expense	6	(2,124)	(1,616)
Net interest income		**14,431**	**12,896**
Provision for loan impairment	11	(313)	(834)
Net interest income after provision for loans		**14,118**	**12,062**
Fee and commission income	7	3,452	2,769
Fee and commission expense	7	(451)	(472)
Net losses on financial instruments at fair value through profit or loss	8	(784)	(169)
Net gains on available-for-sale financial assets		38	16
Net gains on foreign exchange transactions		1,052	881
Net gains on foreign exchange translation		732	215
Other operating income	9	8	41
Operating income		**18,165**	**15,343**
General administrative expenses	10	(4,512)	(3,992)
Profit before tax		**13,653**	**11,351**
Income tax expense	12	(2,801)	(2,265)
Net profit for the year		**10,852**	**9,086**
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
- Net gains on securities available-for-sale disposed of during the year		(38)	(16)
- Unrealized losses on financial assets available for sale		896	295
- Deferred tax relating to components of other comprehensive income		(179)	(59)
- Effect of translation		3,722	10,585
Other comprehensive income / (loss) for the period, net of tax		**4,401**	**10,805**
Total comprehensive income for the year		**15,253**	**19,891**

The financial statements were approved by the Board of Management of the Bank on 18 January 2018.

Vice-president

Makar GAVRILOV

Chief Accountant

Natalia ELMANOVA

Statement of Financial Position

	Notes	31 December 2017 USD'000	31 December 2016 USD'000
ASSETS			
Cash		932	1,027
Due from the Central Bank of Russia	13	36,152	12,086
Placements with banks and other financial institutions	14	54,480	80,105
Derivative financial instruments	15	16	-
Loans to customers	16	162,012	132,621
Financial assets available-for-sale	17	42,189	18,258
Fixed assets	18	181	232
Intangible assets	19	775	716
Current tax assets		-	145
Other assets	20	192	142
Total Assets		**296,929**	**245,332**
LIABILITIES AND SHAREHOLDER'S EQUITY			
Derivative financial instruments	15	11	27
Deposits and balances from banks and other financial institutions	21	157,049	120,362
Current accounts and deposits from customers	22	43,361	46,718
Debt securities issued	23	326	-
Subordinated loans	24	9,379	8,697
Current tax liabilities		315	-
Deferred tax liabilities	26	2,973	1,552
Other liabilities	25	716	430
Total Liabilities		**214,130**	**177,786**
Shareholders' Equity			
Share capital	27	49,269	49,269
Share premium		683	683
Revaluation reserve for financial assets available-for-sale		781	102
Translation reserve		(43,543)	(47,265)
Retained earnings		75,609	64,757
Total Shareholder's Equity		**82,799**	**67,546**
Total Liabilities and Shareholders' Equity		**296,929**	**245,332**

The financial statements were approved by the Board of Management of the Bank on 18 January 2018.

Vice-president

Makar GAVRILOV

Chief Accountant

Natalia ELMANOVA

Statement of Cash Flows

	Note	2017 USD'000	2016 USD'000 *(Revised)*
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit		10,852	9,086
Adjustments for non-cash items			
Depreciation		145	137
Interest income		(636)	26
Interest expense		4	(180)
Recovery impairment for impairment losses		313	834
Income tax expense		2,801	2,265
Foreign exchange		(5,257)	(22,712)
Other income		197	167
(Increase) / decrease in operating assets			
Placements with banks and other financial institutions		88	(450)
Derivative financial instruments		-	145
Loans to customers		(22,621)	44,694
Other assets		(42)	4
Increase / (decrease) in operating liabilities			
Derivative financial instruments		(28)	26
Amount payables under repurchase agreements		-	-
Deposits and balances from banks and other financial institutions		30,273	(100,202)
Current accounts and deposits from customers		(5,813)	14,167
Debt securities issued		326	(4,270)
Other liabilities		64	(16)
Net cash used in operating activities before income taxes paid		**10,666**	**(56,279)**
Income taxes paid		(1,185)	(2,307)
Cash flow used in operating activities		**9,481**	**(58,586)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of financial assets available-for-sale, net		(21,518)	5,568
Purchases of property & equipment, net		(10)	16
Purchases of intangible assets, net		(95)	(56)
Cash flows from investing activities		**(21,623)**	**5,528**
CASH FLOWS FROM FINANCING ACTIVITIES			
Revaluation of financial assets available-for-sale		-	-
Subordinated loans		-	-
Cash flows used in financing activities		-	-
Effect of translation to presentation currency		3,950	31,086
Effect of changes in exchange rates in cash and cash equivalents		6,506	11,337
Net decrease in cash and cash equivalents		(1,686)	(10,635)
Cash and cash equivalents at beginning of year	35	90,826	101,461
Cash and cash equivalents at end of year	35	**89,140**	**90,826**

Statement of Changes in Shareholders' Equity

	Share capital	Share premium	Revaluation reserve for financial assets available-for-sale	Translation reserve	Retained earnings	**Total**
	USD'000	USD'000	USD'000	USD'000	USD'000	**USD'000**
Balance as of 1 January 2016	**49,269**	**683**	**(118)**	**(57,850)**	**55,671**	**47,655**
Profit for the year	-	-	-	-	9,086	**9,086**
Other comprehensive income / (loss)	-	-	220	10,585	-	**10,805**
Balance as of 31 December 2016	**49,269**	**683**	**102**	**(47,265)**	**64,757**	**67,546**
Profit for the year	-	-	-	-	10,852	**10,852**
Other comprehensive income / (loss)	-	-	679	3,722	-	**4,401**
Balance as of 31 December 2017	**49,269**	**683**	**781**	**(43,543)**	**75,609**	**82,799**

See accompanying notes to the financial statements.

1. Background

1.1 Principal activities

JSC Denizbank Moscow (the «Bank») was re-established on 19 May 2003 as CJSC Denizbank Moscow through the acquirement of CJSC Iktisat Bank (Moscow) and was re-registered on 19 September 2003. The Bank's predecessor, CJSC Iktisat Bank (Moscow), was initially established by Iktisat Bankasi T.A.Sh. as a joint stock company under the legislation of the Russian Federation and was granted its general banking license in 1998. By the decision of the General Meeting of Shareholders dated November 15, 2007, the Bank was renamed into CJSC Dexia Bank. By the decision of the General Meeting of Shareholders dated February 21, 2012, the Bank was renamed to CJSC Denizbank Moscow. In connection with the adoption of the Federal Law of 05.05.2014 No. 99-FZ, which amended Chapter 4 of Part 1 of the Civil Code of the Russian Federation, the name of the Bank was changed to JSC Denizbank Moscow.

The Bank is a part of DenizBank Financial Services Group, which before October 2006 was part of Zorlu Group - a significant financial and industrial group in Turkey, specialising in textile, electronics, energy production and financial services. In October 2006, Dexia Participation Belgique SA, 100% of which was directly and indirectly owned by Dexia SA/NV, became the main shareholder of the DenizBank Financial Services Group, after acquisition of the 75% of the total outstanding shares from Zorlu Holding A.Ş. In December 2006 Dexia acquired the remaining shares listed on Istanbul stock exchange, and the shareholding of Dexia Group came to 99,85%. In September 2012, Sberbank of Russia, more then 50% of which are owned by the Central Bank of the Russian Federation, became the main shareholder of the DenizBank Financial Services Group, after acquisition all 99,85% shares from Dexia Group.

As of 31 December 2017 and 31 December 2016 the Bank's parent companies were DenizBank A.S. (Turkey), the owner of 49% shares of the Bank, and DenizBank AG (Austria), the owner of 51% shares of the Bank.

As of today the principal activities of the Bank are deposit taking, corporate lending, documentary business, customer settlements and operations with securities and foreign exchange.

The activities of the Bank are regulated by the Central Bank of the Russian Federation («the CBR»).

The Bank is a member of the state deposit insurance scheme in the Russian Federation.

As of 31 December 2017 the Bank is located and carried out its activities in Moscow.

The average number of persons employed by the Bank during the year was approximately 73 (2016: 74).

1.2 Russian business environment

The Russian economy continued to recover in 2017 after the crisis. The Russian economy has adapted to the worsening of the situation on the oil and gas market and the international sectoral sanctions imposed on the Russian Federation. GDP dynamics returned to the positive zone, and GDP growth in 2017 was 1.5% related to 2016, while in 2016 the GDP fell by 0.2%.

Inflation in annual terms slowed to 2.5% in December 2017 against 5.4% in December 2016. The trend to reduce inflation allowed the Bank of Russia to gradually reduce the key interest rate. The key rate, which at the end of 2016 was 10% per annum, reached 7.75% per annum by the end of 2017.

Oil prices rose in 2017. The average price of Urals oil in 2017 was 53.1 USDs per barrel. For the previous year - 2016 it was 42.1 USDs per barrel. The average price in the fourth quarter of 2017 increased to 59.7 US dollars per barrel against 52.0 USDs per barrel in the first quarter of 2017.

1. Background (continued)

1.2 Russian business environment (continued)

The average exchange rate in the fourth quarter of 2017 remained unchanged (59.1 RUB to the USD) compared to the first quarter of 2017 (58.7 RUB to the USD). The stability of the exchange rate is mainly explained by relatively stable oil prices. At the end of 2017, the average exchange rate was 58.3 RUB per USD.

The current account surplus of the balance of payments of the Russian Federation in 2017 reached 40.2 billion USD (25.5 billion USD in 2016). The increase in the surplus can be explained by the growth in oil and gas exports due to higher oil prices in relation to 2016. The capital outflow was 31.3 billion USD compared with 19.8 billion USD in 2016. The outflow was formed mainly by repayment of liabilities of the banking sector. The external debt of the Russian Federation since early 2017 increased by $ 14.9 billion to $ 529.1 billion.

The Russian banking sector in 2017 showed a profit of 790 billion RUB against 930 billion RUB a year earlier. The profit of the Russian banking sector declined significantly in the second half of 2017 compared to the first half of 2017 due to a one-time recognition of the negative financial result of several large Russian banking groups that are undergoing financial recovery.

Assets of the banking system for the year 2017 increased by 9.0% after the correction for currency revaluation compared with 2016. The loan portfolio of the banking sector increased by 6.2% due to growth in loans to non-financial organizations and individuals by 3.7% and 13.2% respectively (taking into account the correction for currency revaluation). In 2017, the deposits to individuals grew by 10.7%, while deposits and funds on the organizations' accounts increased by 4.8% (taking into account the correction for currency revaluation). The share of overdue debts of the Russian banking sector for 2017 increased from 6.3% to 6.4% in corporate banking, and decreased from 7.9% to 7.0% on the retail loan portfolio. The amount of reserves created for possible losses in 2017 increased by 26.9%. Borrowing of the banking sector from the Bank of Russia declined by 25.7%, while the volume of deposits and other borrowed funds of the Federal Treasury grew 3 times.

The situation on the Russian stock markets has improved. The RTS index increased by 0.2% in 2017 compared to 2016, the MICEX index decreased by 5.5%. The ruble capitalization of the Bank for the year 2017 increased by 30.5%.

In 2017, international rating agencies improved the outlook for the sovereign credit ratings of the Russian Federation: to the "stable" agency Moody's, to the "positive" agency Standard & Poor's and to the "positive" agency Fitch Ratings. In January 2018, Moody's improved its outlook on the sovereign credit rating of the Russian Federation from "stable" to "positive", while retaining the rating at the level of "Ba1". With respect to the Bank in October 2017, Fitch Ratings assigned a long-term issuer default rating of "BB +". The rating outlook is "positive"; the previous outlook was "stable."

These events may have a significant impact on the future results of operations and the financial position of the Bank, the consequences of which are difficult to forecast. The future economic situation and the regulatory environment and its impact on the Bank's performance may differ from the current expectations of management.

In addition, factors such as rising unemployment in Russia, a reduction in liquidity and profitability of companies, and an increase in bankruptcies of legal entities and individuals can affect the ability of borrowers of the Bank to repay debts. Unfavourable changes in economic conditions may affect the ability of borrowers of the Bank to repay debts to the Bank, and may also lead to a decrease in the cost of collateral held on loans and other liabilities. Based on the information currently available, the Bank has revised its estimate of expected future cash flows during the impairment analysis of assets

2. Basis of preparation

2.1 Statement of compliance

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted and published by the International Financial Reporting Interpretations Committee of the IASB.

2.2 Going concern principle

Management has prepared these statements based on the going concern assumption.

2.3 Basis of measurement

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments at fair value through profit or loss and financial assets available-for-sale.

2.4 Functional and presentation currency

The national currency of the Russian Federation is the Russian rouble. Previous to 1 January 2006 the Bank used the USD as its functional currency. As of 1 January 2006, the Bank re-evaluated its functional currency and as a result changed it from the USD to the RUB. To effect the change in the functional currency, the USD balance sheet figures as of 31 December 2005 were translated to the RUB at the exchange rate ruling at that date and formed the basis for subsequent accounting.

The RUB/USD exchange rate as of 31 December 2017 and 31 December 2016 was 57,6002 RUB/USD and 60,6569 RUB/USD respectively.

The presentation currency used in the preparation of these financial statements is United States Dollar ("USD") since management believes that the USD is more useful for the users of the financial statements.

The financial statements have been translated from the RUB (the functional currency) to the USD (the presentation currency) as follows:

- Assets, liabilities that are included to the statement of financial position as of 31 December 2017 have been translated to USD at the RUB/USD exchange rate of 57,6002;
- All income and expense items incurred during the year ended 31 December 2017 and shareholder's equity have been translated to USD at the average RUB/USD exchange rate of 58,3529;
- All resulting exchange differences have been recognized as "translation reserve" which is a separate component of shareholders' equity.

All amounts in the financial statements have been rounded to the nearest thousands.

2.5 Critical accounting estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from these estimates.

2. Basis of preparation (continued)

2.5 Critical accounting estimates and judgments (continued)

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies are described in the following notes:

- Note 3 "Significant accounting policies" (3.9 "Impairment");
- Note 16 "Loans to customers" in respect of loan impairment allowance;
- Note 26 "Deferred tax assets and liabilities" in respect of deferred tax assets and liabilities and Note 32.3 "Taxation contingencies" in respect of tax contingencies.

3. Significant accounting policies

The following significant accounting policies have been consistently applied in the preparation of the financial statements.

3.1 Foreign currency transactions

Transactions in foreign currencies are translated to the appropriate functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to the functional currency at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency at the foreign exchange rate ruling at the dates the fair values were determined. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income.

3.2 Cash and cash equivalents

The Bank considers cash, balances with Central Bank, placements with banks and financial institutions as well as financial assets at fair value through profit or loss with original maturity periods of less than three months to be cash and cash equivalents.

Cash and cash equivalents are reflected at amortized cost in the statement of financial position.

3.3 Financial instruments

The Bank classified its financial instruments into the following categories: loans and receivables, financial instruments at fair value through profit or loss, available-for-sale financial instruments and held-to-maturity investments. Financial instruments are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. The designation of financial instruments is re-evaluated at every reporting date at which a choice of classification or accounting treatment is available.

Financial assets and liabilities are recognised in the statement of financial position when the Bank becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date. Financial instruments are initially measured at its fair value plus including transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability. An assessment for impairment is undertaken at least at each balance sheet date whether or not there is objective evidence that a financial asset or a group of financial assets is impaired.

3. Significant accounting policies (continued)

3.3 Financial instruments (continued)

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money, goods or services directly to a debtor with no intention of trading the receivables.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less provision for impairment. Any change in their value is recognised in profit or loss.

Financial instruments at fair value through profit or loss
This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception.

A financial asset or liability is classified in this category if acquired or incurred principally for the purpose of selling or repurchasing in the near term, or is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit making, or is a derivative (except for a derivative that is designated and effective hedging instrument), or upon initial recognition, designated by management as at fair value through profit or loss. All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as an asset. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as a liability.

Subsequent to initial recognition, the financial instruments included in this category are measured at fair value with changes in fair value recognized in profit or loss. Financial assets originally designated as financial assets at fair value through profit or loss may not subsequently be reclassified.

Available-for-sale financial instruments
Available-for-sale financial assets include non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets.

All financial assets within this category are subsequently measured at fair value, unless otherwise disclosed, with changes in value recognized in other comprehensive income, net of any effects arising from income taxes. Gains and losses arising from securities classified as available-for-sale are recognized in the total comprehensive income when they are sold or when the investment is impaired. Interest in relation to an available-for-sale financial asset is recognized as earned in the statement of comprehensive income calculated using the effective interest method.

Held-to-maturity investments
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and a fixed date of maturity. Investments are classified as held-to maturity if there is an intention and ability of the Bank's management to hold them until maturity.

Held-to-maturity investments are subsequently measured at amortized cost using the effective interest method. In addition, if there is objective evidence that the investment has been impaired, the financial asset is measured at the present value of estimated cash flows. Any changes to the carrying amount of the investment are recognized in profit or loss.

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date. The fair value of derivatives that are not exchange-traded is estimated at the amount that the Bank would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

3. Significant accounting policies (continued)

3.3 Financial instruments (continued)

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortized cost. Amortized cost is calculated using the effective interest method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

Derecognition of financial instruments occurs when the rights to receive cash flows from the investments expire or substantially all of the risks and rewards of ownership have been transferred. Any rights or obligations created or retained in the transfer are recognized separately as assets or liabilities. A financial liability is derecognized when it is extinguished.

3.4 Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase are retained within the trading or available-for-sale securities portfolios and accounted for accordingly. Liability accounts are used to record the obligation to repurchase. The difference between the sale and repurchase price represents interest expense and is recognised in the statement of comprehensive income over the term of the repurchase agreement.

Securities held under reverse repurchase agreements are recorded as receivables. The difference between the purchase and sale price represents interest income and is recognised in the statement of comprehensive income over the term of the reverse repurchase agreement. The receivables due under reverse repurchase agreements have been shown net of any necessary provisions for impairment.

3.5 Offsetting

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

3.6 Leases

Leases under which the Bank assumes substantially all the risks and rewards of ownership are classified as finance leases. The related asset acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at commencement of the lease, less accumulated depreciation and impairment losses. A corresponding amount is recognised as a finance lease liability.

Subsequent accounting for assets held under finance lease agreements correspond to those applied to comparable acquired assets. The corresponding finance lease liability is reduced by lease payments less finance charges, which are expensed to finance costs. Finance charges represent a constant periodic rate of interest on the outstanding balance of the finance lease liability.

Payments made under operating lease are recognised in the statement of comprehensive income on a straight-line basis over the term of the lease.

3.7 Property and equipment

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. The cost of the self-constructed assets includes the cost of materials, direct labour and an appropriate portion of production overhead. Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

3. Significant accounting policies (continued)

3.7 Property and equipment (continued)

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other expenditure is recognized in the statement of comprehensive income as an expense incurred.

Depreciation is charged to the statement of comprehensive income on a straight line basis over the estimated useful lives of the individual assets. Land is not depreciated. Depreciation commences the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. The estimated useful lives are as follows:

Leasehold improvements	10 – 50 years
Vehicles	4 years
Fixtures, fittings and other equipment	5 – 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

3.8 Intangible assets

Intangible assets, which are acquired by the Bank, are stated at cost, less accumulated amortization and impairment losses.

Amortization is charged to the comprehensive income statement on a straight-line basis over the estimated useful lives of intangible assets. At the beginning of reporting period the estimated useful life of intangible assets was 3-30 years.

3.9 Impairment

The carrying amounts of Bank's financial assets carried at amortized cost/cost and non financial assets, non including deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

Financial assets carried at amortized cost
The Bank reviews its loans and receivables, to assess impairment on a regular basis. A loan or receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or receivable and that event (or events) has an impact on the estimated future cash flows of the loan that can be reliably estimated.

At first the Bank determines the existence of objective evidence of impairment of loans and receivables on an individual basis for significant balances, and then on an individual or cumulative basis for unimportant balances. After determining the objective evidence of impairment on an individual basis and subject to the absence of such characteristics, loans are included in a group of financial assets with similar characteristics of credit risk for determining impairment indicators on an aggregate basis. Loans and receivables, individually assessed and for which an allowance for impairment is created or was created, cannot be included in the above-mentioned groups for aggregate assessment.

In the case that there is evidence of impairment in respect of loans and receivables, the amount of the loss is determined as the difference between the book value of the asset and the present value of the estimated future cash flows, including the amounts recoverable under guarantees and collateral calculated at the original effective interest rate for that financial asset. The valuation of future cash flows are estimated on the basis of cash flows under the relevant contract and loss statistics for similar instruments, taking into account current economic situation.

3. Significant accounting policies (continued)

3.9 Impairment (continued)

In some cases the observable data required to estimate the amount of impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Bank uses its experience and judgement to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognized in the statement of comprehensive income and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

Financial assets carried at cost
Financial assets carried at cost include unquoted equity instruments included in available-for-sale assets that are not carried at fair value because their fair value can not be reliably measured. If there is objective evidence that such investments are impaired the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses respect of these investments are recognized in the statement of comprehensive income and can not be reversed.

Non financial assets
Non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognized in the statement of comprehensive income and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss revered is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognised.

3.10 Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

3. Significant accounting policies (continued)

3.11 Borrowed funds (including subordinated debt)

Borrowings are recognized initially at cost, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Subsequently, borrowings are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the statement of income over period of the borrowings using the effective interest rate method.

Borrowings originated at interest rate different from market rates are measured at origination to their fair value, being future interest payments and principal repayments discounted at market rates for similar borrowings.

The difference between the fair value and the nominal value at origination is credited or charged to the statement of income as gains on origination of liabilities at rates below market or losses on origination of liabilities at rates above market. Subsequently, the carrying amount of such borrowings is adjusted for amortization of the gains/losses on origination and the related expense is recorded as interest expense within the statement of income using the effective interest rate method.

3.12 Debt securities issued

Debt securities are recorded initially at cost, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Subsequently, debt securities in issue are stated at amortized cost and any difference between net proceeds and the redemption value is recoded in the statement of income over the period of the security issue using the effective interest rate method.

3.13 Equity

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction in equity from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recognised as a share premium.

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

3.14 Credit related commitments

In the normal course of business, the Bank enters into credit related commitments, including letters of credit and guarantees. Financial guarantee contracts are recognised initially at fair value and re-measured at the higher of the amount determined in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and the amount initially recognised less, when appropriate, cumulative amortization recognised in accordance with IAS 18 "Revenue". Specific provisions are recorded against other credit related commitments when losses are considered more likely than not.

3.15 Employee benefits

In the normal course of business the Bank contributes to the Russian Federation Pension Fund, the Social Insurance Fund and the Federal Compulsory Medical Insurance Fund on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred and included in staff costs in the statement of comprehensive income.

3. Significant accounting policies (continued)

3.16 Taxation

Income tax on the profit for the year comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised of the liability settled, based on the tax rates that have been enacted or substantively enacted at the balance sheet date.

3.17 Interest income and interest expense

Interest income and expense is recognized in the statement of comprehensive income as it accrues, taking into account the effective yield of the asset or an applicable floating rate. Interest income and expense includes the amortization of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Interest income on financial assets held for trading and on other financial instruments at fair value through profit or loss comprises coupon interest only.

3.18 Fee and commission income

Fee and commission income arises on financial services provided by the Bank including cash management services and asset management services.

3.19 Net result on financial instruments at fair value through profit or loss

Net result on financial instruments at fair value through profit or loss and other comprehensive income for the period includes gains and losses arising from the sale or change in the fair value of financial assets and liabilities that are measured at fair value through profit or loss, fair value, the changes of which are reflected in the profit and loss account and other comprehensive income for the period.

3.20 Net result on available-for-sale financial assets

Net result on available-for-sale financial assets includes gains and losses arising from disposals of financial assets available-for-sale.

4. Application of new and revised International Financial Reporting Standards

4.1 New and revised standards that are effective for annual periods beginning on or after 1 January 2017

In the current year, the Bank has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2017.

Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017). The amendment has clarified the requirements on recognition of deferred tax assets for unrealized losses on debt instruments.

Annual Improvements to IFRSs 2014-2016 cycle Amendments to IFRS 12 "Disclosure of involvement with other entities".
The amendments clarify the scope of the disclosure requirements in IFRS 12 by specifying that the disclosure requirements in IFRS 12, other than those relating to summarised financial information for subsidiaries, joint ventures and associates, apply to an entity's interests in other entities that are classified as held for sale or discontinued operations.

Amendments to IAS 7 Statement of Cash Flows (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017).

The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities.

The application of these amendments did not have a significant impact on the financial statements of the Bank.

4.2 Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Bank

IFRS 9 Financial instruments (revised on July 2014 and effective for annual periods beginning on or after 1 January 2018).

Another revised version of IFRS 9 was issued in July 2014 mainly to include: a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a ‘fair value through other comprehensive income’ (FVTOCI) measurement category for certain simple debt instruments.

4. Application of new and revised International Financial Reporting Standards (continued)

4.2 New and revised standards that are effective for annual periods beginning on or after 1 January 2017 (continued)

Key requirements of IFRS 9:

- all recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

- changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss;

- in relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized;

- the new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

IFRS 15 Revenue from Contracts with Customers (issued in May 2014 and effective for annual periods beginning on or after 1 January 2018) establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers.

Any single consignments of goods or services should be recognized separately, and all discounts and retrospective discounts from the contract price are usually allocated to individual items. If the fee is changed for any reason, the minimum amounts should be recognized if they are not subject to a significant risk of return.

The costs incurred in securing contracts with customers must be capitalized and amortized over the period of consumption of benefits from the contract.

4. Application of new and revised International Financial Reporting Standards (continued)

IFRS 16 Lease (issued In January 2016 and effective for the annual periods beginning on or after 1 January 2019). IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 Leases. Lessees will recognize a 'right of use' asset and a corresponding financial liability on the balance sheet. The asset will be amortized over the length of the lease and the financial liability is measured at amortized cost. Lessor accounting remains substantially the same as in IAS 17.

Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (subject to amendments in December 2015, issued in September 2014, date of commencement of application not determined). The amendments clarify that the investor recognizes the full income or loss from the sale or transfer of assets that constitute a business in the determination of IFRS 3 between him and his associate or joint venture. The gain or loss on revaluation at fair value of an investment in a former subsidiary is recognized only to the extent that it relates to the share of the independent investor in the former subsidiary.

Annual Improvements to IFRSs 2014-2016 cycle (issued in December 2016 and effective with respect to the application of amendments to IFRS 1 and IAS 28 for annual periods beginning on or after 1 January 2018). IFRS 1 has been amended and some of the short-term exemptions from IFRSs relating to disclosures about financial instruments, employee benefits and investment companies have been removed after they have been applied for the intended purpose. Amendments to IAS 28 clarify that an investor organization has the option, in relation to each investment object, to apply an assessment of an investee at fair value in accordance with IAS 28 if the investor is an entity specializing in venture capital investments or a unit investment fund, trust fund or similar organization, including insurance funds related to investments.

Amendments to IAS 40 Transfers of Investment Property (issued in December 2016 and effective for annual periods beginning on or after 1 January 2018).The amendments clarify the requirements on transfers to/ from, investment property in respect of properties under construction. Prior to the amendments, there was no specific guidance on transfers into, or out of, investment properties under construction in IAS 40. The amendment clarifies that there was no intention to prohibit transfers of a property under construction or development, previously classified as inventory, to investment property when there is an evident change in use. IAS 40 was amended to reinforce the principle of transfers into, or out of, investment property in IAS 40 to specify that a transfer into, or out of investment property should only be made when there has been a change in use of the property; and such a change in use would involve an assessment of whether the property qualifies as an investment property. Such a change in use should be supported by evidence.

IFRIC 22 - Foreign Currency Transactions and Advance Consideration (issued in December 2016 and effective for annual periods beginning on or after 1 January 2018). The interpretation addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) on the derecognition of a non-monetary asset or non-monetary liability arising from an advance consideration in a foreign currency. IFRIC 22 only applies in circumstances in which an entity recognizes a non-monetary asset or non-monetary liability arising from an advance consideration. An entity may need to apply judgment in determining whether an item is monetary or non-monetary.

IFRS (IAS) 17 Insurance Contracts (issued on may 2017 and effective for annual periods beginning on or after 1 January 2021). IFRS (IFRS) replaces IAS 17 (IFRS) 4 "Insurance Contracts", which allowed companies to apply existing accounting practices for insurance contracts. IFRS 17 is a single standard, based on the principles of accounting for all types of insurance contracts available to the insurer. 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.

4. Application of new and revised International Financial Reporting Standards (continued)

4.2 Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Bank (continued)

Amendments to IFRS 4 Insurance Contracts (issued on 12 September 2016 and effective for annual periods beginning on or after 1 January 2018). The amendments introduce two approaches to reduce the impact of differences in the dates of entry of IFRS 9 and IFRS 4: an overlay approach and a deferral approach. A new standard for insurance contracts is currently being developed and planned to be applied no earlier than 2020.

Amendments to IFRS 2 Share based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).

The amendments mean that nonmarket performance vesting conditions will impact measurement of cash-settled share based payment transactions in the same manner as equity-settled awards.

The amendments also clarify classification of a transaction with a net settlement feature in which the entity withholds a specified portion of the equity instruments, that would otherwise be issued to the counterparty upon exercise (or vesting), in return for settling the counterparty's tax obligation that is associated with the share based payment. The amendments also clarify accounting for cash-settled share based payments that are modified to become equity-settled.

The Bank management does not expect that the application of these amendments will have a significant impact on the financial statements of the Bank.

5. Reclassification

Reclassification of articles on the decision of the Bank's Guide has been made in view of the fact that a new procedure for data presentation provides a more accurate and clear reflection of the economic substance of transactions compared to the previously used reporting procedures and more consistent with best practices, also some inaccuracies were identified.

The following table presents the impact of the revision of the comparative data on the cash flow statement for the year 2016:

	According to previous reports	Correction	After reclassification
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest income	10	16	26
Foreign exchange	(21,939)	(773)	(22,712)
(Increase) / decrease in operating assets			
Placements with banks and other financial institutions	-	(450)	(450)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of financial assets available-for-sale, net	5,584	(16)	5,568
Effect of translation to presentation currency	**30,636**	**450**	**31,086**
Net decrease in cash and cash equivalents	**(9,862)**	**(773)**	**(10,635)**
Cash and cash equivalents at beginning of year	**103,057**	**(1,596)**	**101,461**
Cash and cash equivalents at end of year	**93,195**	**(2,369)**	**90,826**

6. Interest income and interest expense

	2017 USD'000	2016 USD'000
Interest income		
Loans to customers	10,604	9,435
Debt securities	3,606	1,541
Placements with banks and other financial institutions	2,345	3,536
Total interest income	**16,555**	**14,512**
Interest expense		
Deposits and balances from banks and other financial institutions	(997)	(715)
Current accounts and deposits from customers	(896)	(712)
Subordinated debt	(200)	(181)
Promissory notes	(31)	(8)
Total interest expense	**(2,124)**	**(1,616)**

7. Fee and commission income and expense

	2017 USD'000	2016 USD'000
Fee and commission income		
Guarantees issued and trade finance	2,131	1,864
Settlement transactions	838	531
Currency control	438	342
Cash management	45	32
Agency fee	-	-
Total fee and commission income	**3,452**	**2,769**
Fee and commission expense		
Settlement transactions	(212)	(133)
Guarantees issued and trade finance	(201)	(293)
Other	(33)	(41)
Cash management	(5)	(5)
Total fee and commission expense	**(451)**	**(472)**

8. Net losses on financial instruments at fair value through profit or loss

	2017 USD'000	2016 USD'000
Net losses on foreign exchange derivatives	(784)	(169)
Net losses on foreign exchange derivatives	**(784)**	**(169)**

9. Net other operating income

	2017 USD'000	2016 USD'000
Fines and penalties	-	1
Other income	8	40
Total other operating income	**8**	**41**

10. General administrative expenses

	2017 USD'000	2016 USD'000
Employee compensation	3,035	2,764
Occupancy	390	365
Taxes other than on income	158	152
IT support expenses	154	106
Depreciation and amortization (Note 18,19)	146	135
Communication and information services	130	87
Repairs and maintenance	115	78
Professional services	61	53
Representation expenses	31	8
Security	30	26
Insurance	29	7
Other	233	210
Total general administrative expenses	**4,512**	**3,991**

11. Provision for loan impairment

Analysis of movements in the provision for loans to customers

	2017 USD'000	2016 USD'000
Balance at beginning of year (Note 16)	1,668	621
Effect of translation to presentation currency	93	213
Provision charge for impairment during the period	313	834
Balance at the end of the year (Note 16)	**2,074**	**1,668**

12. Income tax expense

	2017 USD'000	2016 USD'000
Current tax expense		
Current period	1,646	2,252
Deferred tax expense		
Origination of temporary differences (Note 26)	1,155	13
Total income tax expense	**2,801**	**2,265**

The Bank's applicable tax rate for 2017 was 20% (2016 – 20%). Income tax rate on interest income from government and municipal financial instruments is 15% (2016 – 15%).

12. Income tax expense (continued)

Reconciliation of theoretical income tax expenses with actual income tax expenses

	2017 USD'000	2016 USD'000
Income before tax	13,653	11,351
Theoretical income tax benefit at the applicable statutory rate	2,730	2,270
Tax effect of non-deductible costs and non-taxable income	71	(5)
Total income tax expense	**2,801**	**2,265**

13. Due from the CBR

	31 December 2017 USD'000	31 December 2016 USD'000
Nostro accounts	11,159	9,717
Deposits	22,586	-
Minimum reserve deposit	2,407	2,369
Total due from the CBR	**36,152**	**12,086**

The minimum reserve deposit is a mandatory non-interest bearing deposit calculated in accordance with regulations issued by the CBR and whose withdrawal is restricted. The nostro balances represent balances with the CBR related to settlement activity and were available for withdrawal at year end. As of the end of the period, there were no restrictions on its use.

14. Placements with banks and other financial institutions

	31 December 2017 USD'000	31 December 2016 USD'000
Nostro accounts and deposits on demand	52,495	53,292
Deposits	1,985	26,813
Total placements with banks and other financial institutions	**54,480**	**80,105**

As of 31 December 2017 and 31 December 2016 the Bank did not have any overdue balances on placements with banks and other financial institutions.

Significant exposures

As of 31 December 2017 the Bank had one related group of banks (2016: one related groups of banks) whose balance exceeded 10% of the placements with banks and other financial institutions. The gross value of this exposure as of 31 December 2017 was 48,566 USD'000 (2016: 63,925 USD'000) (Note 34 "Related Party Transactions").

15. Derivative financial instruments

The fair values of derivative financial instruments as of 31 December 2017 are set out in the following table:

	Notional or agreed amount	Fair values		Weighted average exchange rate
		Assets	Liabilities	
	USD'000	USD'000	USD'000	
Derivative foreign exchange contracts to buy EUR and sell RUB	23,912	15	-	68,82
Derivative foreign exchange contracts to buy EUR and sell USD	1,196	1	-	1,19
Derivative foreign exchange contracts to buy USD and sell EUR	19,119	-	11	0,84
Total derivatives financial instruments	**44,227**	**16**	**11**	

The fair values of derivative financial instruments as of 31 December 2016 are set out in the following table:

	Notional or agreed amount	Fair values		Weighted average exchange rate
		Assets	Liabilities	
	USD'000	USD'000	USD'000	
Derivative foreign exchange contracts to buy RUB and sell EUR	4,723	-	11	63,67
Derivative foreign exchange contracts to buy USD and sell RUB	5,500	-	16	60,84
Total derivatives financial instruments	**10,223**	**-**	**27**	

16. Loans to customers

	31 December 2017 USD'000	31 December 2016 USD'000
Loans to commercial customers	164,023	134,178
Loans to individuals	63	111
Total loans before impairment	**164,086**	**134,289**
Provision for loan impairment (Note 11)	(2,074)	(1.668)
Total loans to customers	**162,012**	**132,621**

16. Loans to customers (continued)

Analysis of loans to customers and provision for impairment as of 31 December 2017 are presented below:

In thousands of USD	Gross loans	Impairment	Net loans	Impairment to gross loans (%)
Commercial loans				
standard loans not past due	164,023	(2,074)	161,949	1,26%
Total commercial loans	**164,023**	**(2,074)**	**161,949**	**1,26%**
Retail loans				
standard loans not past due	63	-	63	0,00%
Total retail loans	**63**	-	**63**	0,00%
Total loans to customers	**164,086**	**(2,074)**	**162,012**	**1,26%**

Analysis of loans to customers and provision for impairment as of 31 December 2016 are presented below:

In thousands of USD	Gross loans	Impairment	Net loans	Impairment to gross loans (%)
Commercial loans				
standard loans not past due	134,178	(1,668)	132,510	1,24%
Total commercial loans	**134,178**	**(1,668)**	**132,510**	**1,24%**
Retail loans				
standard loans not past due	111	-	111	0,00%
Total retail loans	**111**	-	**111**	0,00%
Total loans to customers	**134,289**	**(1,668)**	**132,621**	**1,24%**

The following table provides an analysis of the loan portfolio by types of collateral as of 31 December 2017:

In thousands of USD	Commercial loans	Retail loans	Total loans	Share in loan portfolio (%)
Guarantees issued by banks	89,183		89,183	55,04%
Other collaterals	66,537	3	66,537	41,07%
Unsecured	6,229	59	6,292	3,88%
Total loans to customers	**161,949**	**63**	**162,012**	

16. Loans to customers (continued)

The following table provides an analysis of the loan portfolio by types of collateral as of 31 December 2016:

In thousands of USD	Commercial loans	Retail loans	Total loans	Share in loan portfolio (%)
Guarantees issued by banks	65,640	-	65,640	49,49%
Other collaterals	64,779	5	64,784	48,84%
Unsecured	2,091	106	2,197	1,67%
Total loans to customers	**132,510**	**111**	**132,621**	

Loans and advances to customers are issued primarily to customers located within the Russian Federation who operate in the following economic sectors:

	31 December 2017 USD'000	31 December 2016 USD'000
Manufacturing	57,545	33,730
Construction, glass and mining	27,196	51,286
Forestry	17,489	6,312
Farming and Cattle	15,158	16,208
Trade	14,973	5,390
Publishing and printing	9,809	4,369
Food services	9,505	6,863
Rent services	8,733	8,733
Finance	3,472	-
Real state	143	1,287
Retail customers	63	111
Total loans before impairment	**164,086**	**134,289**
Provision for impairment	(2,074)	(1,668)
Total loans to customers	**162,012**	**132,621**

Significant exposures

As of 31 December 2017 the Bank had four exposures to related group of companies (2016: the Bank had four exposures), which individually comprised more than 10% of loans to customers. The gross value of these exposures as of 31 December 2017 was 93,211 USD'000 (2016: 82,394 USD'000) and additional amount related guarantees issued by Bank 0 USD'000 (2016: 363 USD'000).

Critical accounting estimates and judgements

The Bank has estimated the provision for impairment on loans to customers in accordance with accounting policy described in Note 3.9 "Impairment". Management estimates the likelihood of repayment of loans and advances to customers based on analysis of individual accounts for individually significant loans, and collectively for loans with similar terms and risk characteristics. Factors taken into consideration when assessing individual loans include collection history with the customer, timeliness of payments and collateral, if any.

17. Financial assets available-for-sale

	31 December 2017 USD'000	31 December 2016 USD'000
Debt instruments		
Corporate bonds	32,416	13,403
Bank's bonds	9,773	4,855
Total unpledged financial assets available-for-sale	**42,189**	**18,258**

As of December 31, 2017 and December 31, 2016, financial assets available for sale are not past due or impaired.

The following table provides details of Bank's debt securities of the Bank as of 31 December 2017:

	Maturity		Interest range	
	minimum	**maximum**	**minimum**	**maximum**
Corporate bonds	04.12.2018	22.12.2049	9,15%	10,75%
Bank's bonds	20.11.2018	20.12.2026	9,20%	9,80%

The following table provides details of Bank's debt securities of the Bank as of 31 December 2016:

	Maturity		Interest range	
	minimum	**maximum**	**minimum**	**maximum**
Corporate bonds	20.10.2017	09.05.2019	9,40%	11,40%
Bank's bonds	20.11.2018	20.11.2018	9,20%	9,20%

18. Property and equipment

The movements in the property and equipment were as follows:

In thousands of USD	Leasehold improvements	Fixtures and fittings	Vehicles	Total
Cost				
At 1 January 2017	187	445	48	680
Additions	-	-	10	10
Disposals	-	(5)	(8)	(13)
Effect of translation to presentation currency	8	19	7	34
At 31 December 2017	**195**	**459**	**57**	**711**
Depreciation				
At 1 January 2017	(130)	(305)	(13)	(448)
Depreciation charge (Note 9)	(16)	(41)	(16)	(73)
Disposals	-	5	8	13
Effect of translation to presentation currency	11	(17)	(16)	(22)
At 31 December 2017	**(135)**	**(358)**	**(37)**	**(530)**
Carrying value				
At 31 December 2016	57	140	35	232
At 31 December 2017	**60**	**101**	**20**	**181**

18. Property and equipment (continued)

In thousands of USD	Leasehold improvements	Fixtures and fittings	Vehicles	Total
Cost				
At 1 January 2016	154	355	70	579
Additions	-	43	-	43
Disposals	-	(24)	(36)	(60)
Effect of translation to presentation currency	33	71	14	118
At 31 December 2016	**187**	**445**	**48**	**680**
Depreciation				
At 1 January 2016	(99)	(237)	(30)	(366)
Depreciation charge (Note 9)	(10)	(40)	(12)	(62)
Disposals	-	24	36	60
Effect of translation to presentation currency	(21)	(52)	(7)	(80)
At 31 December 2016	**(130)**	**(305)**	**(13)**	**(448)**
Carrying value				
At 31 December 2015	55	118	40	213
At 31 December 2016	**57**	**140**	**35**	**232**

As of December 31, 2017 and December 31, 2016, the Bank had no restrictions on ownership of fixed assets, fixed assets pledged as collateral for obligations were not transferred.

As of December 31, 2017 and December 31, 2016, temporarily unused fixed assets and contractual obligations to acquire fixed assets were absent.

19. Intangible assets

The movements in the intangible assets were as follows:

In thousands of USD	Licenses
Cost	
At 1 January 2017	**1,340**
Additions	94
Disposal	-
Effect of translation to presentation currency	71
At 31 December 2017	**1,505**
Accumulated depreciation	
At 1 January 2017	**(624)**
Depreciation charge (Note 9)	(73)
Disposal	-
Effect of translation to presentation currency	(33)
At 31 December 2017	**(730)**
Carrying value	
At 31 December 2016	716
At 31 December 2017	**775**

19. Intangible assets (continued)

In thousands of USD

	Licenses
Cost	
At 1 January 2016	1,068
Additions	102
Disposal	(50)
Effect of translation to presentation currency	220
At 31 December 2016	**1,340**
Accumulated depreciation	
At 1 January 2016	(492)
Depreciation charge (Note 9)	(75)
Disposal	50
Effect of translation to presentation currency	(107)
At 31 December 2016	**(624)**
Carrying value	
At 31 December 2015	576
At 31 December 2016	**716**

20. Other assets

	31 December 2017 USD'000	31 December 2016 USD'000
Deposits and advances paid	161	134
Tax prepayment other than income tax	31	8
Total other assets	**192**	**142**

21. Deposits and balances from banks and other financial institutions

	31 December 2017 USD'000	31 December 2016 USD'000
Term deposits	152,742	112,328
Vostro accounts	4,307	8,034
Total deposits and balances from banks and other financial institutions	**157,049**	**120,362**

21. Deposits and balances from banks and other financial institutions (continued)

Significant exposures

As of 31 December 2017 there was one related group of banks, which individually comprised more than 10% of deposits and balances from banks and other financial institutions (2016: one related group). The gross value of these deposits as of 31 December 2017 was 152,961 USD’000 (2016: 112,903 USD’000). (Note 34 "Related Party Transactions").

22. Current accounts and deposits from customers

	31 December 2017 USD’000	31 December 2016 USD’000
Current accounts and demand deposits:		
- commercial customers	24,208	33,629
- retail customers	796	525
Term deposits:		
- commercial customers	16,873	8,142
- retail customers	1,484	4,422
Total current accounts and deposits from customers	**43,361**	**46,718**

Significant exposures

As of 31 December 2017 there was one group of companies, which individually comprised more than 10% of current accounts and deposits from customers (2016: two group of companies). Total value of this balance as of 31 December 2017 was 13.074 USD’000 (2016: 9,871 USD’000).

The table below displays customer accounts and deposits from customers by economic branches:

	31 December 2017 USD’000	31 December 2016 USD’000
Metallurgy industry	13,075	3,497
Construction	8,876	12,827
Transport and communication	8,395	5,873
Whole trade	4,751	7,848
Electric-power production	2,434	163
Retail customers	2,280	4,947
Mineral manufacturing	1,042	1,506
Equipment manufacturing	799	2,870
Real estate	442	304
Manufacturing activity	420	131
Paper-and-pulp industry and publishing activities	108	383
Financial services	102	4,321
Catering	21	1,801
Entrepreneur	3	4
Mining	-	33
Other	613	210
Total current accounts and deposits from customers	**43,361**	**46,718**

23. Debt securities issued

	31 December 2017 USD'000	31 December 2016 USD'000
Promissory notes	326	**-**

Pledged promissory notes

As at 31 December 2017 promissory notes with notional amount of 326 USD'000 were pledged as collateral for guarantees issued by the Bank. Amortized cost of these securities as of 31 December 2017 was 326 USD'000.

24. Subordinated debt

As at 31 December 2017 Bank shareholders granted to the Bank the following subordinated loans:

- USDs denominated loan in amount of 700 USD'000 (2016: 700 USD'000) maturing in December 2025 and annual interest rate of LIBOR + 3,1%;
- USDs denominated loan in the amount of 1,000 USD'000 (2016: 1,000 USD'000) maturing in December 2025 and annual interest rate of LIBOR + 2%;
- USDs denominated loan in the amount of 2,000 USD'000 (2016: 2,000 USD'000) maturing in December 2025 and annual interest rate of LIBOR + 2%;
- EUR denominated loan in the amount equivalent to 5,679 USD'000 (2016: 4,997 USD'000) maturing in December 2025 and annual interest rate of EURIBOR + 1%.

25. Other liabilities

	31 December 2017 USD'000	31 December 2016 USD'000
Payable to employees	575	358
Trade payables	99	53
Taxes payable other than income tax	42	19
Total other liabilities	**716**	**430**

26. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

	Assets		**Liabilities**		**Net**	
In thousands of USD	**31 December 2017**	31 December 2016	**31 December 2017**	31 December 2016	**31 December 2017**	31 December 2016
Derivative financial instruments	**2**	5	**(3)**	-	**(1)**	5
Loans to customers	**-**	-	**(2,740)**	(1,526)	**(2,740)**	(1,526)
Financial assets available-for-sale	**-**	-	**(271)**	(34)	**(271)**	(34)
Property and equipment	**19**	-	**-**	(26)	**19**	(26)
Intangible assets	**13**	23	**-**	-	**13**	23
Other liabilities	**7**	6	**-**	-	**7**	6
Tax assets / (liabilities)	**41**	34	**(3,014)**	(1,586)	**(2,973)**	(1,552)

26. Deferred tax assets and liabilities (continued)

Movement in temporary differences during the year ended 31 December 2017:

In thousands of USD	Balance at 1 January 2017	Recognized in profit and loss statement (Note 12)	Recognized in other comprehensive income	Effect of translation to presentation currency	Balance at 31 December 2017
Derivative financial instruments	**5**	(7)	-	1	**(1)**
Loans to customers	**(1,526)**	(1,132)	-	(82)	**(2,740)**
Financial assets available-for-sale	**(34)**	(52)	(179)	(6)	**(271)**
Property and equipment	**(26)**	47	-	(2)	**19**
Intangible assets	**23**	(11)	-	1	**13**
Other liabilities	**6**	-	-	1	**7**
Tax assets / (liabilities)	**(1,552)**	(1,155)	(179)	(87)	**(2,973)**

Movement in temporary differences during the year ended 31 December 2016:

In thousands of USD	Balance at 1 January 2016	Recognized in profit and loss statement (Note 12)	Recognized in other comprehensive income	Effect of translation to presentation currency	Balance at 31 December 2016
Derivative financial instruments	**(24)**	34	-	(5)	**5**
Loans to customers	**(1,255)**	(14)	-	(257)	**(1,526)**
Financial assets available-for-sale	**20**	1	(59)	4	**(34)**
Property and equipment	**(29)**	8	-	(5)	**(26)**
Intangible assets	**25**	(7)	-	5	**23**
Other liabilities	**34**	(35)	-	7	**6**
Tax assets / (liabilities)	**(1,229)**	(13)	(59)	(251)	**(1,552)**

27. Shareholders' Equity

At 31 December 2017 the authorised, issued and fully paid outstanding share capital comprises 192,300 ordinary shares with a par value RUB 5,869 per share.

	2017	**2016**
Issued and fully paid ordinary shares	192,300	192,300
Issued and fully paid ordinary shares	**192,300**	**192,300**

The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at annual and general meetings of the Bank. Dividends payables are restricted to the maximum retained earnings of the Bank, which are determined according to legislation of the Russian Federation. In accordance with the legislation of the Russian Federation, as of 31 December 2017, retained earnings available for distribution amounted to 47,054 USD'000 (2016: 39,117 USD'000).

28. Risk management

Management of risk is fundamental to the business of banking and is an essential element of the Bank's operations. The Bank's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effect on the Bank's financial performance.

The major risks faced by the Bank are those related to price, credit exposures, liquidity and movements in interest rates and foreign exchange rates.

The Executive Management Board has overall responsibility for the oversight of risk management, management of key risks and approving its risk management policies and procedures. The Assets and Liabilities Management Committee ("ALCO") as well as operational departments are accountable for all risks assumed and responsible for their continuous and active management. An independent control process is implemented to provide an objective check on risk-taking activities when required by the nature of the risks, in particular to balance short term profit incentives and the long term interests of the Bank.

The Risk Management Service of the Bank is responsible for the monitoring and implementation of risk management measures and oversight that the Bank operates within the established risk parameters.

Market (price, interest rate, currency risks), credit and liquidity risks are managed and controlled through a system of Committees (weekly ALCO meeting, and monthly Risk Committee meeting (including Market, Credit and Liquidity Risk Committees)), established by the Executive Management Board.

28.1 Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Bank on all credit related products granted to a Client.

Credit risk arises primarily from credit transactions with all counterparties (commercial legal entities, financial institutions and individuals) as well as from other types of credit risk related transactions including issuance of guarantees, L/C confirmations, purchase of debt securities, factoring operations, forward settlement transactions.

Credit Risk management

Credit risk management includes approval of credit limits and their continuous monitoring and update, analyses of customers applications and creditworthiness of applicants, approval of interest rates, approval of segregation of duties and authorities, continuous credit monitoring, credit portfolio management, including non-performing loans.

The Risk Management Service of the Bank forms credit risk policy. The Executive Management Board approves credit risk policy and approves key credit risk related transactions. Where necessary Executive Management Board approves Credit Committee decisions and establishes limits of authority.

Credit Committee of the Bank is responsible for the approval of credit risk related transactions in Roubles and foreign currencies with commercial legal entities and individuals. Credit Committee is also authorized to approve any changes to the existing credit risk transactions.

Before any application is made by the Credit Committee, all recommendations on credit processes (borrower's limits approved, or amendments made to loan agreements, etc.) are reviewed and approved by the Risk Management Service, Credit Allocation and Financial Analysis Department and Financial Institutions Department.

The Bank structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or Banks of borrowers, and to industry (and geographical) segments. Limits on the level of credit risk by a borrower and a product are approved quarterly by the Executive Management Board. The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committee. Actual exposures against limits are monitored daily.

28. Risk management (continued)

28.1 Credit risk (continued)

Credit risk limits, which comply with DenizBank Financial Services Group Credit Risk Policy, are approved by Risk Management Department of DenizBank A.S. on consolidated basis for DenizBank AG, DenizBank A.S. and the Bank. For the Bank, the total credit limit is set per country (Russia) in absolute amount, with a breakdown into counterparty types (corporate, bank, etc.). When the specific transaction exceeds the limits, a file is submitted to the Risk Management Service of Bank and ALCO.

During normal course of business the Bank also uses methodologies prescribed by the CBR for determining the ratios of maximum credit risk exposures, as well as other best practices.

Every credit application is analyzed by the Bank taking into account the following aspects:

- Analyses of the creditworthiness of the customer, sources of repayment, its reputation and market position within the operating industry;
- Analyses of the quality of the collateral, including the creditworthiness of the guarantors;
- Analyses of the possible effect of the non-payment of the principal or interest amount on the Banks overall position;
- Analyses of the creditworthiness of the customer are made from the standard list of documents required for the submission by the Bank. Additional documents may be requested subject to the Bank's decision. Documents such as financial statements and/or budgets are requested for submission at every reporting date during the whole period of the credit instrument.

Periodic monitoring of the credit risk on the portfolio is made collectively when new credit instruments are granted.

Collateral and other credit enhancements

Where appropriate, and in the case of most loans, the Bank obtains collateral and corporate and personal guarantees. Commitments to extend credit represent unused portions of credit in the form of loans, guarantees or letters of credit.

Exposure to credit risk is also managed by obtaining sufficient and qualitative collateral. Bank foresees collateral as an instrument to mitigate the credit risk and considers collateral only as a secondary source of repayment.

The Bank normally considers as collateral any tangible assets, personal and corporate guarantees, property rights, cash equivalents, and cash flows which may be utilized to cover losses as a result of the default on the credit instrument (including principal and interest amounts outstanding at the moment of the default, as well as any other direct costs incurred by the Bank and associated with the possible default of the credit instrument).

Quality of the collateral is determined by its fair (market) value and liquidity. Fair (market) value of collateral is determined at each credit risk assessment date for every credit facility.

28. Risk management (continued)

28.1 Credit risk (continued)

Settlement risk

The Bank's activities may give rise to settlement risk at the time of settlement of transactions. Settlement risk is the risk of loss due to the failure of counterparty to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions the Bank mitigates this risk by conducting settlements through settlement/clearing agents to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Acceptance of settlement risk on free settlement transactions requires transactions specific and/or counterparty specific settlement limits which form part of the counterparty limit approval/monitoring process described earlier.

28.2 Market risk

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and equity prices will affect the Bank's income or the value of its portfolios.

Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements.

The objective of market risk management is to manage and control market risk exposures within the acceptable parameters, whilst optimizing the return on risk.

Market risk is managed primarily through daily mark-to-market procedures and control of position limits in various types of financial instruments, as well as stop-loss limits and pre-settlements limits.

Price risk
Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices.

The risk is mitigated by establishing appropriate counterparty limits in accordance with the Bank's risk management policies and methodologies.

Sensitivity analyses below shows possible effect of the price change of the value of financial instruments as of 31 December 2017 and 31 December 2016 which would have been on the statement of comprehensive income and shareholders' equity given a 10% change in price.

	2017 USD'000	**2016** USD'000
Price risk on fixed income debt securities	4,034	1,787

28. Risk management (continued)

28.2 Market risk (continued)

Foreign exchange rate risk

The Bank has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency.

Foreign exchange rate risk is managed with respect to open foreign currency positions within the established by the CBR limits and other normative documents.

The Bank's foreign currency policy is reviewed and approved by the Executive Management Board.

The following table details the Bank's sensitivity analysis and possible effect on the statement of comprehensive income and shareholders' equity as of 31 December 2017 assuming a 10% change in the functional currency against the relevant foreign currency.

USD'000	2017		2016	
	Comprehensive income	**Capital**	**Comprehensive income**	**Capital**
10% increase USD/RUB rate	(185)	(185)	(101)	(101)
10% decrease USD/RUB rate	185	185	101	101
10% increase EUR/RUB rate	8	8	3	3
10% decrease EUR/RUB rate	(8)	(8)	(3)	(3)

See Note 38 "Currency analysis".

Interest rate risk

Interest rate risk is measured by the extent to which changes in market interest rates impact on margins and net interest income. To the extent the term structure of interest bearing assets differs from that of liabilities, net interest income will increase or decrease as a result of movements in interest rates.

Interest rate risk is managed by increasing or decreasing positions within limits specified by the Bank's management. These limits restrict the potential effect of movements in interest rates on current earnings and on the value of interest sensitive assets and liabilities.

Vast majority of the interest rate assets and liabilities of the Bank have a fixed rate interest. Settlement Treasury Department of the Bank is responsible for monitoring the interest rate margin gap and considers that the Bank is not significantly exposed to a fluctuation in the interest rates with respect to its cash flows.

An analyses of sensitivity of the Bank's projected net interest rate margin for the year to changes in the market interest rate based on a simplified scenario of a 100 basis point (bp) parallel shifts in all yield curves (assuming a constant balance sheet position), which could have had an effect on the Bank's statement of comprehensive income and shareholders' equity is presented as follows:

USD'000	**2017**	**2016**
100 bp parallel increase	(1,034)	(1,366)
100 bp parallel decrease	1,034	1,366

Note 36 "Average effective interest rates" shows analyses of Bank's interest bearing assets and liabilities to their corresponding average effective interest rates for all major currencies.

Note 37 "Interest rate repricing analysis" shows analyses of Bank's assets and liabilities by contractual interest rate repricing date.

28. Risk management (continued)

28.3 Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities as a result of mismatch in maturities between cash inflows and outflows in respective currencies.

Treasury Department is responsible for daily management of the current, short-term and long-term liquidity position of the Bank.

Liquidity Management Committee, Credit/Finance Committee are responsible for monitoring the liquidity positions of the Bank. Internal Control Committee insures that appropriate procedures are in place over the management and control of the liquidity positions.

The Bank also calculates mandatory liquidity ratios on a daily basis in accordance with the requirement of the CBR. These ratios include:

- Instant liquidity ratio (N2), which regulates (limits) the risk of the Bank losing liquidity within one business day and determines the minimum ratio of the amount of highly liquid assets of the Bank to the amount of the Bank's liabilities on demand deposits;
- Current liquidity ratio (N3), which regulates (limits) the risk of liquidity loss by the Bank during the nearest 30 days to the settlement date and determines the minimum ratio of the amount of the Bank's liquid assets to the amount of the Bank's liabilities on demand accounts and for up to 30 calendar days;
- Long-term liquidity ratio (N4), which regulates (limits) the risk of the Bank losing liquidity as a result of placing funds in long-term assets and determines the maximum permissible ratio of the Bank's credit claims for the remaining period up to the maturity date of over 365 or 366 calendar days to own funds (capital) The Bank, as well as the Bank's obligations and liabilities (liabilities) with the remaining period up to the maturity date exceeding 365 or 366 calendar days.

See also Note 38 “Maturity analysis”.

28.4 Capital management

The Bank’s policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of its business.

Capital requirements are determined for different operations and activities as to maximize the return on the distributed capital taking into account respective risk factors. When determining capital requirements other factors such as availability of human and other resources, redistribution of capital between the different operations, alignment with long-term strategy of the Bank are also taken into consideration. Capital requirements and distribution policies are analyzed and approved on a regular basis by the Board of Directors during annual budgeting process for the Bank and different business processes.

The CBR sets and monitors capital adequacy requirements of the Bank. Under the current capital requirements set by the CBR banks have to maintain a ratio of capital to risk weighted assets (“Capital Adequacy Ratio”) above the prescribed minimum level. As of 31 December 2017 and 31 December 2016 this minimum level was 8,00%.

28. Risk management (continued)

28.4 Capital management (continued)

As of December 31, 2017 and December 31, 2016, the capital adequacy ratio calculated in accordance with the requirements of the Bank of Russia was as follows:

	31 December 2017 USD'000	31 December 2016 USD'000
Tier 1 Capital	63,171	50,593
Tier 2 Capital	15,949	17,916
Total Capital	**79,120**	**68,509**
Risk weighted assets	**110,128**	**83,697**
Capital adequacy ratio (H 1.0)	**26,41%**	**24,06%**

The Bank monitors compliance with these regulatory requirements on a daily basis and sends monthly reports to the Bank of Russia. The Bank was in compliance with the above ratios during the years ended 31 December 2017 and 31 December 2016.

29. Offsetting of financial instruments

Disclosures presented in the following tables include information on financial assets and financial liabilities which are:

- offset in a financial statement of the Bank or
- are subject to a legally enforceable agreement of offsetting or similar agreements that apply to similar financial instruments, regardless of whether they are offset in a consolidated financial statement.

Operations with derivative financial instruments of the bank, which are not carried on a stock exchange, conducted in accordance with general agreements with counterparties of the Bank. Basically, in accordance with these agreements, the amounts payable by each counterparty on a particular day in respect of pending operations in the same currency form a single net amount payable by one party to the other. Under certain circumstances such as credit event or default; all outstanding transactions under contracts are terminated. The net value of transactions at the time of termination is estimated and paid as a single amount.

29. Offsetting of financial instruments (continued)

In the table below there are financial assets and financial liabilities, being a subject of legally enforceable netting agreements and similar agreements as of 31 December 2017.

USD'000 Type of financial assets/financial liabilities	Total sum of financial assets/financial liabilities	Total sum of financial assets/financial liabilities, which were offset in a consolidated financial statement	Net sum of financial assets/financial liabilities, which were not offset in a consolidated financial statement	Sums which were not offset in a consolidated financial statement		
				Financial instruments	Obtained cash security	Net sum
Derivatives - assets	16		16	16		
Total financial assets	**16**		**16**	**16**		
Derivatives - liabilities	11		11	(11)		
Total financial liabilities	**11**		**11**	**(11)**		

In the table below there are financial assets and financial liabilities, being a subject of legally enforceable netting agreements and similar agreements as of 31 December 2016.

USD'000 Type of financial assets/financial liabilities	Total sum of financial assets/financial liabilities	Total sum of financial assets/financial liabilities, which were offset in a consolidated financial statement	Net sum of financial assets/financial liabilities, which were not offset in a consolidated financial statement	Sums which were not offset in a consolidated financial statement		
				Financial instruments	Obtained cash security	Net sum
Derivatives - liabilities	27		27	(27)		
Total financial liabilities	**27**		**27**	**(27)**		

30. Commitments

At any time the Bank has outstanding commitments to extend credit. These commitments take the form of approved loans and credit card limits and overdraft facilities.

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to 1 year.

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognized at the balance sheet date if counterparties failed completely to perform as contracted.

	31 December 2017 USD'000	31 December 2016 USD'000
Contracted amount		
Guarantees and letters of credit	77,595	104,164
Undrawn loan commitments	21,763	8,076
Total commitments	**99,358**	**112,240**

Some of the above commitments may expire or terminate without being advanced in whole or in part. Therefore, the amounts do not represent expected future cash outflows.

Significant exposures

As of 31 December 2017 the Bank had two exposures to counterparties (2016: two exposures to counterparties), which individually comprised more than 10% of guarantees issued. The gross value of these exposures as of 31 December 2017 was 69,150 USD'000 (2016: 99,686 USD'000).

31. Operating leases

The Bank leases a number of premises and vehicles under operating lease. Non-cancellable operating lease rentals are payable as follows:

	31 December 2017 USD'000	31 December 2016 USD'000
Less than one year	412	293
Between one and five years	709	27
Total operating leases	**1,121**	**320**

32. Contingencies

32.1 Insurance

The Bank insures its fixed assets amounting to 670 USD’000, civil liability amounting to 260 USD’000, cash on hand amounting to 3,472 USD’000 and business interruption amounting 9,856 USD’000.

32.2 Litigation

From time to time and in the normal course of business, claims against the Bank are received. On the basis of own estimates and internal and external professional advice the Management is of the opinion that no material losses will be incurred and accordingly no provision has been made in these financial statements.

32.3 Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised by numerous taxes and frequently changing legislation, which may be applied retroactively and is often unclear, contradictory, and subject to interpretation. Often, differing interpretations exist among numerous taxation authorities and jurisdictions. Taxes are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges.

These facts may create tax risks in the Russian Federation substantially more significant than in other countries. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation. However, the relevant authorities may have differing interpretations and the effects could be significant.

Fiscal period remain open and subject to review by the tax authorities is a period of three calendar years immediately preceding the year in which the decision to conduct a tax review is taken. Under certain circumstances tax reviews may cover longer periods.

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

33. Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability (i.e. an exit price) in an orderly transaction between market participants in the principal (or most advantageous) market at the measurement date under current market condition, regardless of whether that price is directly observable or estimated using another valuation technique.

Fair value measurements are analyzed by level in the fair value hierarchy as follows:

- level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities,
- level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices), and
- level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs).

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. 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. Discount rates used depend on the currency, the maturity of the instrument and the credit risk of the counterparty.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy as of 31 December 2017:

	Level 1 USD'000	Level 2 USD'000	Level 3 USD'000	Total USD'000
Financial assets				
Financial assets available-for-sale	42,189	-	-	**42,189**
Derivative financial instruments	16	-	-	**16**
Financial liabilities				
Derivative financial instruments	11	-	-	**11**

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy as of 31 December 2016:

	Level 1 USD'000	Level 2 USD'000	Level 3 USD'000	Total USD'000
Financial assets				
Financial assets available-for-sale	18,258	-	-	**18,258**
Financial liabilities				
Derivative financial instruments	27	-	-	**27**

33. Fair value of financial instruments (continued)

Management believes as of December 31, 2017, the fair value of assets and liabilities not measured at fair value is not significantly different from their book value.

The following table shows an analysis of financial instruments not recorded at fair value by level of the fair value hierarchy as of 31 December 2017:

	Level 1 USD'000	Level 2 USD'000	Level 3 USD'000	Total USD'000
Assets				
Cash	932	-	-	**932**
Due from the Central Bank of Russia	33,745	-	2,407	**36,152**
Placements with banks and other financial institutions	52,494	1,986	-	**54,480**
Loans to customers	-	-	162,012	**162,012**
Liabilities				
Deposits and balances from banks and other financial institutions	4,307	152,742	-	**157,049**
Current accounts and deposits from customers	25,004	18,357	-	**43,361**
Debt securities issued		326		**326**
Subordinated loans	-	9,379	-	**9,379**

The following table shows an analysis of financial instruments not recorded at fair value by level of the fair value hierarchy as of 31 December 2016:

	Level 1 USD'000	Level 2 USD'000	Level 3 USD'000	Total USD'000
Financial assets				
Cash	1,027	-	-	**1,027**
Due from the Central Bank of Russia	9,717	-	2,369	**12,086**
Placements with banks and other financial institutions	53,292	26,813	-	**80,105**
Loans to customers	-	-	132,621	**132,621**
Financial liabilities				
Deposits and balances from banks and other financial institutions	8,034	112,328	-	**120,362**
Current accounts and deposits from customers	34,154	12,564	-	**46,718**
Subordinated loans	-	8,697	-	**8,697**

34. Related party transactions

The Bank's shareholding structure as of December 31, 2017 is as follows: DenizBank A.S. 49% and DenizBank AG 51%.

Both DenizBank A.S. and DenizBank AG are part of DenizBank Financial Services Group, which before October 2007 was part of a larger Zorlu Group – a significant financial and industrial group in Turkey. In October 2007, Dexia Participation Belgique SA, 100% of which is directly and indirectly owned by Dexia SA/NV, became the main shareholder of the DenizBank Financial Services Group, after acquisition of the 75% of the total outstanding shares from Zorlu Holding A.Ş. In December 2007 Dexia acquired the remaining shares listed on Istanbul stock exchange and the shareholding of Dexia Group came to 99,85%. In September 2012, Sberbank of Russia, more than 50% of which are owned by the CBR, became the main shareholder of the DenizBank Financial Services Group, after acquisition all 99,85% shares from Dexia Group.

34.1 Transactions with Directors and Management

Within 2017 total Directors and Management remuneration was 950 USD'000 (2016: 1,052 USD'000).

All transactions with Directors and Management were concluded on an arm's length basis.

The outstanding balances and average interest rates as at 31 December 2017 and 31 December 2016 with Directors and Management are as follows:

	31 December 2017 USD'000	Average Interest Rate	31 December 2016 USD'000	Average Interest Rate
Assets				
Loans to customers	8	11%	1	11%
Liabilities				
Current accounts and deposits from customers	164	4.65%	201	1.7%
Other liabilities	426	-	363	-

Information on the volume of transactions with members of the Board of Directors and the Bank's Management for the year 2017 is as follows:

	31 December 2017 USD'000	Payment	Repayment	Effect of translation to presentation currency	31 December 2016 USD'000
Assets					
Loans to customers	8	14	8	1	1

	31 December 2017 USD'000	Withdrawal	Placement	Effect of translation to presentation currency	31 December 2016 USD'000
Liabilities					
Current accounts and deposits from customers	164	467	420	10	201
Other liabilities	426	8	51	20	363

34. Related party transactions (continued)

34.1 Transactions with Directors and Management (continued)

Information on the volume of transactions with members of the Board of Directors and the Bank's Management for the year 2016 is as follows:

	31 December 2016 USD'000	Payment	Repayment	Effect of translation to presentation currency	31 December 2015 USD'000
Assets					
Loans to customers	1	1	3	0	3

	31 December 2016 USD'000	Withdrawal	Placement	Effect of translation to presentation currency	31 December 2015 USD'000
Liabilities					
Current accounts and deposits from customers	202	5,257	3,526	173	1,760
Other liabilities	363	52	89	58	268

Amounts included in the statement of comprehensive income in relation to transactions with members of the Board of Directors and the Bank's Management are as follows:

	2017 USD'000	2016 USD'000
Interest income	1	0
Interest expense	(2)	(2)

34.2 Transactions with Shareholders

	31 December 2017 USD'000	Average Interest Rate	31 December 2016 USD'000	Average Interest Rate
Assets				
Placements with banks and other financial institutions	48,566	-	63,925	0,3%
Derivative financial instruments	-	-	-	-
Liabilities				
Deposits and balances from banks and other financial institutions	152,962	1,48%	112,903	0,6%
Subordinated debt	9,379	2,14%	8,697	2%

34. Related party transactions (continued)

34.2 Transactions with Shareholders (continued)

Information on the volume of transactions with Shareholders for the year 2017 is as follows:

	31 December 2017 USD'000	Payment	Repayment	Effect of translation to presentation currency	31 December 2016 USD'000
Assets					
Placements with banks and other financial institutions	48,566	2,795,087	2,813,597	3,151	63,925

	31 December 2017 USD'000	Withdrawal	Placement	Effect of translation to presentation currency	31 December 2016 USD'000
Liabilities					
Deposits and balances from banks and other financial institutions	152,962	9,150,005	9,183,632	6,432	112,903
Subordinated debt	9,379	6,084	6,302	464	8,697

Information on the volume of transactions with Shareholders for the year 2016 is as follows:

	31 December 2016 USD'000	Payment	Repayment	Effect of translation to presentation currency	31 December 2015 USD'000
Assets					
Placements with banks and other financial institutions	63,925	2,562,655	2,563,730	10,810	54,190

	31 December 2016 USD'000	Withdrawal	Placement	Effect of translation to presentation currency	31 December 2015 USD'000
Liabilities					
Deposits and balances from banks and other financial institutions	112,903	20,189,354	20,092,583	26,703	182,971
Subordinated debt	8,697	11,549	9,748	1,604	8,894

Commitments and Contingent liabilities

As at 31 December 2017 the Bank has also obtained from shareholders sixteen letters of guarantee (2016: seven) as securities for granted loans to customers with total value of 89,656 USD'000 (2016: 81,366 USD'000) and eight letters of guarantee (2016: five letters of guarantee) as security for guarantees issued with total value of 21,524 USD'000 (2016: 21,859 USD'000).

34. Related party transactions (continued)

Amounts included in the statement of comprehensive income in relation to transactions with Shareholders are as follows:

	2017 USD'000	2016 USD'000
Interest income	828	1,617
Interest expense	(1,183)	(895)
Fee and commission income	1,402	1,251
Fee and commission expense	(298)	(293)
Net loss on financial instruments at fair value trough profit or loss	-	-
Net gain (loss) from foreign exchange transactions	(30)	403

35. Cash and cash equivalents

Cash and cash equivalents at the end of the financial year as shown in the statement of cash flow is composed of the following items:

	31 December 2017 USD'000	31 December 2016 USD'000
Cash	932	1,027
Due from the Central Bank of Russia	33,728	9,717
Placements with banks and other financial institutions	54,480	80,082
Total cash and cash equivalents	**89,140**	**90,826**

As of 31 December 2017 placements with banks and other financial institutions includes accounts and deposits with banks and other financial institutions net of accrued interest at amount 0.05 USD'000 (2016: 23 USD'000), accounts and deposits with the Bank of Russia - net of accrued interest for the amount of 17 USD'000 (as of December 31, 2016: none) and statutory reserves in the Bank of Russia.

36. Average effective interest rates

The table below represents the Bank's interest bearing assets and liabilities interest rates range for all major currencies as at 31 December 2016 and 31 December 2015:

	31 December 2017 Interest Rate Range	31 December 2016 Interest Rate Range
Interest Bearing Assets		
Due from the Central Bank of Russia	0 - 7,75%	0%
Placements with banks and other financial institutions		
- Roubles	0%	0 - 11%
- USD	0 - 1%	0%
- EUR	0%	0%
- Other	0%	0%
Loans to customers		
- Roubles	9 - 17%	11 - 17%
- USD	2 - 8%	2 - 8%
- EUR	3,75 - 8%	4 - 8%
Financial assets available-for-sale		
- Roubles	9 - 11%	9 - 11%
Interest Bearing Liabilities		
Deposits and balances from banks and other financial institutions		
- Roubles	5 – 8%	0%
- USD	0 - 1,5%	0 - 1%
- EUR	0 – 2%	0 - 1%
Current accounts and deposits from customers		
- Roubles	0 - 9%	0 - 10%
- USD	0 - 2%	0 - 3%
- EUR	0 - 1%	0 - 2%
- Other	0%	0%
Debt securities issued		
- Roubles	0%	0%
- USD	0%	0%
Subordinated debt		
- USD	4 - 5%	3 - 4%
- EUR	1%	1%

37. Interest rate repricing analysis

The following table represents assets and liabilities by contractual interest rate repricing date as of 31 December 2017.

	Less than 1 month USD'000	1 to 3 Months USD'000	3 months to 1 year USD'000	More than 1 year USD'000	Maturity Undefined USD'000	Total USD'000
Assets						
Cash	932	-	-	-	-	**932**
Due from the Central Bank of Russia	36,152	-	-	-	-	**36,152**
Placements with banks and other financial institutions	54,480	-	-	-	-	**54,480**
Derivative financial instruments	16	-	-	-	-	**16**
Loans to customers	31,141	15,848	74,966	40,057	-	**162,012**
Financial assets available-for-sale	-	16,089	26,100	-	-	**42,189**
Other assets	-	-	-	-	192	**192**
Property and equipment	-	-	-	-	181	**181**
Intangible assets	-	-	-	-	775	**775**
Total Assets	**122,721**	**31,937**	**101,066**	**40,057**	**1,148**	**296,929**
Liabilities						
Derivative financial instruments	11	-	-	-	-	**11**
Deposits and balances from banks and other financial institutions	109,203	-	47,846	-	-	**157,049**
Current accounts and deposits from customers	42,328	34	999	-	-	**43,361**
Subordinated debt	-	-	9,379	-	-	**9,379**
Debt securities issued	-	-	326	-	-	**326**
Current tax liabilities	-	-	-	-	315	**315**
Deferred tax liabilities	-	-	-	-	2,973	**2,973**
Other liabilities	84	-	34	-	598	**716**
Total Liabilities	**151,626**	**34**	**58,584**	**-**	**3,886**	**214,130**
Net position as at 31 December 2017	**(28,905)**	**31,903**	**42,482**	**40,057**	**(2,738)**	**82,799**
Net position as at 31 December 2016	(2,836)	(18,921)	54,862	35,148	(707)	64,646

37. Interest rate repricing analysis (continued)

The following table represents assets and liabilities by contractual interest rate repricing date as of 31 December 2016.

	Less than 1 month USD'000	1 to 3 Months USD'000	3 months to 1 year USD'000	More than 1 year USD'000	Maturity Undefined USD'000	Total USD'000
Assets						
Cash	1,027	-	-	-	-	**1,027**
Due from the Central Bank of Russia	12,086	-	-	-	-	**12,086**
Placements with banks and other financial institutions	80,105	-	-	-	-	**80,105**
Loans to customers	32,450	16,560	48,357	35,254	-	**132,722**
Financial assets available-for-sale	-	-	18,258	-	-	**18,258**
Other assets	-	-	-	-	142	**142**
Property and equipment	-	-	-	-	232	**232**
Intangible assets	-	-	-	-	716	**716**
Current tax assets	-	-	-	-	145	**145**
Total Assets	**125,668**	**16,560**	**66,615**	**35,254**	**1,235**	**245,432**
Liabilities						
Derivative financial instruments	27	-	-	-	-	**27**
Deposits and balances from banks and other financial institutions	85,117	35,245	-	-	-	**120,362**
Current accounts and deposits from customers	43,320	236	3,056	106	-	**46,718**
Subordinated debt	-	-	8,697	-	-	**8,697**
Other liabilities	40	-	-	-	390	**430**
Deferred tax liabilities	-	-	-	-	1,552	**1,552**
Total Liabilities	**128,504**	**35,481**	**11,753**	**106**	**1,942**	**177,786**
Net position as at 31 December 2016	**(2,836)**	**(18,921)**	**54,862**	**35,148**	**(707)**	**64,646**
Net position as at 31 December 2015	5,991	(29,586)	50,628	20,833	(211)	47,655

38. Maturity analysis

The following table shows the undiscounted cash flows as of 31 December 2017 of the Bank's financial liabilities and unrecognized loan commitments 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 commitment. In case where maturity is not fixed, it is determined on the conditions ruling at the reporting date. The Bank's expected cash flows on these financial liabilities and unrecognized loan commitments vary significantly from this analysis.

	Less than 1 month USD'000	1 to 3 months USD'000	3 months to 1 year USD'000	More than 1 year USD'000	Maturity Undefined USD'000	Notional value of cash flow USD'000	Carrying value USD'000
Non-derivative liabilities							
Deposits and balances from banks and other financial institutions	109,244	-	48,093	-	-	**157,337**	**157,049**
Current accounts and deposits from customers	42,337	34	1,005	-	-	**43,376**	**43,361**
Subordinated debt	-	50	51	10,909	-	**11,010**	**9,379**
Debt securities issued	-	-	326	-	-	**326**	**326**
Other liabilities	84	-	34	-	598	**716**	**716**
Derivative financial instruments							
Inflow	(44,226)	-	-	-	-	**(44,226)**	**(5)**
Outflow	44,221	-	-	-	-	**44,221**	**-**
Total liabilities	**151,660**	**84**	**49,509**	**10,909**	**598**	**212,760**	**210,826**
Credit related commitments	23,892	12,764	36,468	26,235	-	99,359	-

38. Maturity analysis (continued)

The following table shows the undiscounted cash flows as of 31 December 2016 of the Bank's financial liabilities and unrecognized loan commitments 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 commitment. In case where maturity is not fixed, it is determined on the conditions ruling at the reporting date. The Bank's expected cash flows on these financial liabilities and unrecognized loan commitments vary significantly from this analysis.

	Less than 1 month USD'000	1 to 3 months USD'000	3 months to 1 year USD'000	More than 1 year USD'000	Maturity Undefined USD'000	Notional value of cash flow USD'000	Carrying value USD'000
Non-derivative liabilities							
Deposits and balances from banks and other financial institutions	88,518	41,981	-	-	-	**130,499**	**120,362**
Current accounts and deposits from customers	43,320	236	3,055	106	-	**46,717**	**46,718**
Subordinated debt	-	-	540	9,778	-	**10,318**	**8,697**
Other liabilities	40	-	-	-	390	**430**	**430**
Derivative financial instruments							
Inflow	(10,223)	-	-	-	-	**(10,223)**	**-**
Outflow	10,250	-	-	-	-	**10,250**	**27**
Total liabilities	**131,905**	**42,217**	**3,595**	**9,884**	**390**	**187,991**	**176,234**
Credit related commitments	**2 091**	**988**	**70,733**	**38,428**	**-**	**112,240**	

38. Maturity analysis (continued)

The following table shows assets and liabilities by remaining contractual maturity dates as of 31 December 2017.

Management believes that in spite of substantial portion of accounts and deposits from customers being on demand (customer current/settlement accounts) being reflected as having maturity of less than one months, diversification of these deposits by number and type of depositors, and the past experience of the Bank, would indicate that these accounts provide a long-term and stable source of funding to the Bank.

	Less than 1 month USD'000	1 to 3 months USD'000	3 months to 1 year USD'000	More than 1 year USD'000	Maturity Undefined USD'000	Total USD'000
Assets						
Cash	932	-	-	-	-	**932**
Due from the Central Bank of Russia	36,152	-	-	-	-	**36,152**
Placements with banks and other financial institutions	54,480	-	-	-	-	**54,480**
Derivative financial instruments	16	-	-	-	-	**16**
Loans to customers	2,392	17,552	86,582	55,486	-	**162,012**
Financial assets available-for-sale	-	-	4,508	37,681	-	**42,189**
Other assets	-	-	-	-	192	**192**
Property and equipment	-	-	-	-	181	**181**
Intangible assets	-	-	-	-	775	**775**
Total Assets	**93,972**	**17,552**	**91,090**	**93,167**	**1,148**	**296,929**
Liabilities						
Derivative financial instruments	11	-	-	-	-	**11**
Deposits and balances from banks and other financial institutions	109,203	-	47,846	-	-	**157,049**
Current accounts and deposits from customers	42,328	34	999	-	-	**43,361**
Subordinated debt	-	-	-	9,379	-	**9,379**
Debt securities issued	-	-	326	-	-	**326**
Current tax liabilities	-	-	-	-	315	**315**
Deferred tax liabilities	-	-	-	-	2,973	**2,973**
Other liabilities	84	-	34	-	598	**716**
Total Liabilities	**151,626**	**34**	**49,205**	**9,379**	**3,886**	**214,130**
Net position as at 31 December 2017	**(57,654)**	**17,518**	**41,885**	**83,788**	**(2,738)**	**82,799**
Net position as at 31 December 2016	(32,057)	(22,731)	69,761	53,280	(707)	**67,546**

38. Maturity analysis (continued)

The following table shows assets and liabilities by remaining contractual maturity dates as of 31 December 2016.

Management believes that in spite of substantial portion of accounts and deposits from customers being on demand (customer current/settlement accounts) being reflected as having maturity of less than one months, diversification of these deposits by number and type of depositors, and the past experience of the Bank, would indicate that these accounts provide a long-term and stable source of funding to the Bank.

	Less than 1 month USD'000	1 to 3 months USD'000	3 months to 1 year USD'000	More than 1 year USD'000	Maturity Undefined USD'000	Total USD'000
Assets						
Cash	1,027	-	-	-	-	**1,027**
Due from the Central Bank of Russia	12,086	-	-	-	-	**12,086**
Placements with banks and other financial institutions	80,105	-	-	-	-	**80,105**
Loans to customers	3,229	12,751	71,499	45,142	-	**132,621**
Financial assets available-for-sale	-	-	1,317	16,941	-	**18,258**
Other assets	-	-	-	-	142	**142**
Property and equipment	-	-	-	-	232	**232**
Intangible assets	-	-	-	-	716	**716**
Current tax assets	-	-	-	-	145	**145**
Total Assets	**96,447**	**12,751**	**72,816**	**62,083**	**1,235**	**245,332**
Liabilities						
Derivative financial instruments	27	-	-	-	-	**27**
Deposits and balances from banks and other financial institutions	85,116	35,246	-	-	-	**120,362**
Current accounts and deposits from customers	43,321	236	3,055	106	-	**46,718**
Subordinated debt	-	-	-	8,697	-	**8,697**
Other liabilities	40	-	-	-	390	**430**
Deferred tax liabilities	-	-	-	-	1,552	**1,552**
Total Liabilities	**128,504**	**35,482**	**3,055**	**8,803**	**1,942**	**177,786**
Net position as at 31 December 2016	**(32,057)**	**(22,731)**	**69,761**	**53,280**	**(707)**	**67,546**
Net position as at 31 December 2015	(9,533)	(58,012)	69,134	45,277	789	47,655

39. Currency analysis

The following table shows the currency structure of assets and liabilities at 31 December 2017:

	Roubles USD'000	USD USD'000	EUR USD'000	Other USD'000	Total USD'000
Assets					
Cash	128	216	588	-	**932**
Due from the Central Bank of Russia	36,152	-	-	-	**36,152**
Placements with banks and other financial institutions	984	2,479	51,014	3	**54,480**
Derivative financial instruments	-	-	16	-	**16**
Loans to customers	73,483	31,458	57,071	-	**162,012**
Financial instruments available-for-sale	42,189	-	-	-	**42,189**
Other assets	192	-	-	-	**192**
Property and equipment	181	-	-	-	**181**
Intangibles assets	775	-	-	-	**775**
Total Assets	**154,084**	**34,153**	**108,689**	**3**	**296,929**
Liabilities					
Derivative financial instruments	-	-	11	-	**11**
Deposits and balances from banks and other financial institutions	18,827	30,587	107,635	-	**157,049**
Current accounts and deposits from customers	22,452	19,638	1,271	-	**43,361**
Subordinated debt	-	3,700	5,679	-	**9,379**
Debt securities issued	326	-	-	-	**326**
Current tax liabilities	315	-	-	-	**315**
Deferred tax liabilities	2,973	-	-	-	**2,973**
Other liabilities	716	-	-	-	**716**
Total Liabilities	**45,609**	**53,925**	**114,596**	**-**	**214,130**
Net on balance sheet position as of 31 December 2017	**108,475**	**(19,772)**	**(5,907)**	**3**	**82,799**
Net off balance sheet position as of 31 December 2017	(23,912)	17,923	5,989	-	-
Net (short) / long position as of 31 December 2017	**84,563**	**(1,849)**	**82**	**3**	**82,799**
Net (short) / long position as of 31 December 2016	68,517	(1,006)	32	3	67,546

39. Currency analysis (continued)

The following table shows the currency structure of assets and liabilities at 31 December 2016:

	Roubles USD'000	USD USD'000	EUR USD'000	Other USD'000	Total USD'000
Assets					
Cash	145	482	400	-	**1,027**
Due from the Central Bank of Russia	12,086	-	-	-	**12,086**
Placements with banks and other financial institutions	26,964	554	52,583	4	**80,105**
Loans to customers	47,705	41,210	43,706	-	**132,621**
Financial instruments available-for-sale	18,258	-	-	-	**18,258**
Other assets	142	-	-	-	**142**
Property and equipment	232	-	-	-	**232**
Intangibles assets	716	-	-	-	**716**
Current tax assets	145	-	-	-	**145**
Total Assets	**106,393**	**42,246**	**96,689**	**4**	**245,332**
Liabilities					
Derivative financial instruments	17	-	10	-	**27**
Deposits and balances from banks and other financial institutions	7,769	35,263	77,330	-	**120,362**
Current accounts and deposits from customers	27,331	9,789	9,597	1	**46,718**
Subordinated debt	-	3,700	4,997	-	**8,697**
Other liabilities	430	-	-	-	**430**
Deferred tax liabilities	1,552	-	-	-	**1,552**
Total Liabilities	**37,099**	**48,752**	**91,934**	**1**	**177,786**
Net on balance sheet position as of 31 December 2016	**69,294**	**(6,506)**	**4,755**	**3**	**67,546**
Net off balance sheet position as of 31 December 2016	**(777)**	**5,500**	**(4,723)**	**-**	**-**
Net (short) / long position as of 31 December 2016	**68,517**	**(1,006)**	**32**	**3**	**67,546**
Net (short) / long position as of 31 December 2015	47,403	210	37	5	47,655

40. Geographical analysis

The following table shows the geographical concentration of assets and liabilities at 31 December 2017:

	Russia USD'000	OECD USD'000	Other USD'000	Total USD'000
Assets				
Cash	932	-	-	932
Due from the Central Bank of Russia	36,152	-	-	36,152
Placements with banks and other financial institutions	3,814	50,666	-	54,480
Derivative financial instruments	16	-	-	16
Loans to customers	158,536	3,472	4	162,012
Financial instruments available-for-sale	42,189	-	-	42,189
Other assets	192	-	-	192
Property and equipment	181	-	-	181
Intangibles assets	775	-	-	775
Total Assets	**242,787**	**54,138**	**4**	**296,929**
Liabilities				
Deposits and balances from banks and other financial institutions	11	-	-	11
Derivative financial instruments	3,474	153,575	-	157,049
Current accounts and deposits from customers	42,252	1,091	18	43,361
Subordinated debt	-	9,379	-	9,379
Debt securities issued	326	-	-	326
Current tax liabilities	315	-	-	315
Deferred tax liabilities	2,973	-	-	2,973
Other liabilities	716	-	-	716
Total Liabilities	**50,067**	**164,045**	**18**	**214,130**
Net on balance sheet position as of 31 December 2017	**192,720**	**(109,907)**	**(14)**	**82,799**

40. Geographical analysis (continued)

The following table shows the geographical concentration of assets and liabilities at 31 December 2016:

	Russia USD'000	OECD USD'000	Other USD'000	Total USD'000
Assets				
Cash	1,027	-	-	**1,027**
Due from the Central Bank of Russia	12,086	-	-	**12,086**
Placements with banks and other financial institutions	15,933	64,172	-	**80,105**
Loans to customers	132,621	-	-	**132,621**
Financial instruments available-for-sale	18,258	-	-	**18,258**
Other assets	135	7	-	**142**
Property and equipment	232	-	-	**232**
Intangibles assets	716	-	-	**716**
Current tax assets	145	-	-	**145**
Total Assets	**181,153**	**64,179**	**-**	**245,332**
Liabilities				
Deposits and balances from banks and other financial institutions	7,000	113,362	-	**120,362**
Derivative financial instruments	27	-	-	**27**
Current accounts and deposits from customers	46,026	674	18	**46,718**
Subordinated debt	-	8,697	-	**8,697**
Other liabilities	424	6	-	**430**
Deferred tax liabilities	1,552	-	-	**1,552**
Total Liabilities	**55,029**	**122,739**	**18**	**177,786**
Net on balance sheet position as of 31 December 2016	**126,124**	**(58,560)**	**(18)**	**67,546**

41. Events after the reporting date

There have been no non – adjusting events after the balance sheet date that require disclosure.