AO COMMERZBANK (EURASIJA)

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

31 December 2017

TRANSLATOR'S EXPLANATORY NOTE: This version of our report is a translation from the original, which was prepared in Russian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation. This English translation does not contain the English translation of the explanatory information, which are part of the official Russian version of the accompanying annual accounting (financial) reports.

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Independent Auditor's Report

To the Shareholders and Supervisory Board of COMMERZBANK (EURASIJA) AO:

Report on the audit of the financial statements

Our opinion

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

What we have audited

The financial statements of the Bank comprise:

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

Basis for opinion

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

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

Independence

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

Report on other legal and regulatory requirements

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

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

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

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

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

We have identified the following based on our examination:

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

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

   We draw your attention to the fact that we have not performed any procedures related to the underlying accounting data of the Bank other than the procedures we considered necessary to express our opinion on whether or not the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with IFRS.

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

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

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

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

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

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

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

27 April 2018

Moscow, Russian Federation

O. Kucherova, certified auditor (licence no. 01-000397), AO PricewaterhouseCoopers Audit

Audited entity: COMMERZBANK (EURASIJA), Joint-Stock Company

State registration certificate № 3333, date of registration 10 December 1998

Certificate of inclusion in the Unified State Register of Legal Entities issued on 14 August under registration № 1027739070259

119017, Moscow, Kadashevskaya emb., 14/2

Independent auditor: AO PricewaterhouseCoopers Audit

State registration certificate № 008.890, issued by the Moscow Registration Chamber on 28 February 1992

Certificate of inclusion in the Unified State Register of Legal Entities issued on 22 August 2002 under registration № 1027700148431

Member of Self-regulated organization of auditors «Russian Union of auditors» (Association)

ORNZ 11603050547 in the register of auditors and audit organizations

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In thousands of Russian Roubles	Note	31 December 2017	31 December 2016
ASSETS			
Cash and cash equivalents	7	6 726 411	8 139 097
Mandatory cash balances with the CBRF		330 058	324 397
Derivative financial instruments	24	2 023 072	3 639 210
Due from other banks	0	9 137 634	7 355 573
Loans and advances to customers	9	13 558 874	11 427 850
Securities available for sale	10	6 629 855	3 577 427
Prepaid income tax		144 757	250 718
Tangible fixed asset	11	42 235	71 027
Other financial assets		23 674	18 916
Other assets		30 218	59 522
TOTAL ASSETS		**38 646 788**	**34 863 737**
LIABILITIES			
Due to other banks	12	3 607 656	3 298 477
Customer accounts	13	21 134 377	17 153 294
Derivative financial instruments	24	621 935	429 513
Provisions for liabilities and charges	14	25 198	22 485
Other financial liabilities		40 551	30 776
Deferred income tax liability	19	359 646	781 282
Other liabilities		226 770	189 892
TOTAL LIABILITIES		**26 016 133**	**21 905 719**
EQUITY			
Share capital	15	3 827 672	3 827 672
Revaluation reserve for securities available for sale		72 380	14 361
Retained earnings		8 006 254	8 391 636
Other reserves	15	724 349	724 349
TOTAL EQUITY		**12 630 655**	**12 958 018**
TOTAL LIABILITIES AND EQUITY		**38 646 788**	**34 863 737**

27 April 2018

C. Runde
Chairman of the Management Board

A. A. Gorokhovsky
Financial Director

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(in thousands of Russian Roubles)	Note	2017	2016
Interest income	16	1 667 283	1 556 530
Interest expense	16	(513 429)	(602 077)
Net interest income		**1 153 854**	**954 453**
Impairment provision for loans to customers and amounts due from other banks	8, 9	(262 736)	55 713
Net interest income after impairment provisions for loans to customers and amounts due from other banks		**891 118**	**1 010 166**
Fee and commission income	17	535 128	555 082
Fee and commission expense	17	(99 224)	(109 294)
(Losses less gains) / gains less losses from financial derivatives		(262 897)	872 014
Gains less losses from trading in foreign currencies		1 322 747	1 929 137
Foreign exchange translation gains less losses/(losses less gains)		184 388	(1 297 567)
Other operating income		85 946	88 062
Administrative and other operating expenses	18	(1 346 590)	(1 351 309)
Provision for credit related commitments	14	(2 713)	2 174
Profit before tax		**1 307 903**	**1 698 465**
Income tax expense	19	(293 285)	(497 375)
PROFIT FOR THE YEAR		**1 014 618**	**1 201 090**
Other comprehensive income/(loss) for the year			
Items that may be reclassified subsequently to profit or loss			
Securities available for sale:			
- Gains less losses from revaluation	10	72 524	58 464
Income tax recorded directly in other comprehensive income	19	(14 505)	(11 693)
Total other comprehensive income for the year		**58 019**	**46 771**
Total comprehensive income for the year		**1 072 637**	**1 247 861**

(in thousands of Russian Roubles)	Share capital	Revaluation reserve for securities available for sale	Retained earnings	Other reserves	Total equity
Balance at 1 January 2016	**3 827 672**	**(32 410)**	**8 190 546**	**724 349**	**12 710 157**
Profit	-	-	1 201 090	-	1 201 090
Other comprehensive income	-	46 771	-	-	46 771
Total comprehensive income for the year	**3 827 672**	**14 361**	**9 391 636**	**724 349**	**13 958 018**
Dividends declared (Note 20)	-	-	(1 000 000)	-	(1 000 000)
Balance at 31 December 2016	**3 827 672**	**14 361**	**8 391 636**	**724 349**	**12 958 018**
Profit	-	-	1 014 618	-	1 014 618
Other comprehensive income	-	58 019	-	-	58 019
Total comprehensive income for the year	-	58 019	1 014 618	-	1 072 637
Dividends declared (Note 20)	-	-	(1 400 000)	-	(1 400 000)
Balance at 31 December 2017	**3 827 672**	**72 380**	**8 006 254**	**724 349**	**12 630 655**

(in thousands of Russian Roubles)	Note	2017	2016
Cash flows from operating activities			
Interest received		1 627 887	1 540 362
Interest paid		(518 801)	(638 546)
Fees and commissions received		530 370	559 001
Fees and commissions paid		(97 807)	(107 942)
Income received from financial derivatives		1 545 663	2 484 028
Income received from trading in foreign currencies		1 331 105	1 955 227
Other operating income received		93 087	85 368
Staff costs paid		(607 143)	(599 931)
Administrative and other operating expenses paid (less staff costs paid)		(634 648)	(694 878)
Income tax paid		(623 266)	(801 548)
Cash flows from operating activities before changes in operating assets and liabilities		**2 646 447**	**3 781 141**
Net (increase)/decrease in:			
- mandatory cash balances with the CBRF		(5 661)	(62 500)
- due from other banks		(1 757 730)	(4 795 184)
- loans and advances to customers		(2 193 335)	7 620 661
- other assets		70 063	13 350
Net increase/(decrease) in:			
- due to other banks		434 754	(7 682 885)
- customer accounts		3 670 825	(5 259 646)
- debt securities in issue		-	(16 401)
- other liabilities		461	8 115
Net cash from/(used in) operating activities		**2 865 824**	**(6 393 349)**
Cash flows from investing activities			
Acquisition of securities available for sale		(5 281 232)	(1 399 863)
Disposal of securities available for sale		2 361 832	527 148
Acquisition of premises and equipment		(13 314)	(20 936)
Proceeds from disposal of premises and equipment		2 373	1 790
Net cash used in investing activities		**(2 930 341)**	**(891 861)**
Cash flows from financing activities			
Dividends paid	20	(1 400 000)	(1 000 000)
Net cash used in financing activities		**(1 400 000)**	**(1 000 000)**
Effect of exchange rate changes on cash and cash equivalents		51 831	(2 553 660)
Net increase in cash and cash equivalents		**(1 412 686)**	**(10 838 870)**
Cash and cash equivalents at the beginning of the year	7	8 139 097	18 977 967
Cash and cash equivalents at the end of the year	7	**6 726 411**	**8 139 097**

1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") for the year ended 31 December 2017 for Commerzbank (Eurasija) AO (the "Bank").

The Bank was incorporated and is domiciled in the Russian Federation. The Bank is a joint stock company limited by shares and was set up in accordance with Russian regulations. At 31 December 2017 and 31 December 2016, the Bank is wholly owned by Commerzbank AG (Germany). Commerzbank AG and its subsidiaries are referred to in these financial statements as "Commerzbank Group".

Principal activity. The Bank's principal business activity is commercial banking operations within the Russian Federation. The Bank has been operating in the Russian Federation since 1998. In 2010, the Bank received a full banking license issued by the Central Bank of the Russian Federation ("CBRF"). The Bank participates in the state deposit insurance program, which was introduced by Federal Law No.177-FZ "Deposits of individuals insurance in Russian Federation" dated 23 December 2003. The State Deposit Insurance Agency guarantees repayment of 100% of individual deposits up to RR 1 400 thousand per individual in the case of the withdrawal of a licence of a bank or a CBRF imposed moratorium on payments.

The Bank has one (2016: one) branch in the Russian Federation in the city of Saint Petersburg. The branch services the Bank's clients in this region and provides necessary services within the scope of the transactions conducted by the head office. The Bank had 139 employees at 31 December 2017 (2016: 145 employees).

Registered address and place of business. The Bank's registered address is: Russian Federation, 119017, Moscow, Kadashevskaya nab. 14/2.

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

Securing obligations. The Bank's liabilities are secured by a letter of comfort from Commerzbank AG (see the 2017 Annual Report of Commerzbank Group, page 259): https://www.commerzbank.de/media/en/aktionaere/service/archive/konzern/2018_2/Geschaeftsbericht_2017_Konzern_EN.pdf.

2 Operating Environment of the Bank

The Russian Federation. The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations (Note 23). The Russian economy was growing in 2017 after overcoming the economic recession of 2015 and 2016. The economy is negatively impacted by low oil prices, ongoing political tension in the region and international sanctions against certain Russian companies and individuals. The financial markets continue to be volatile. This operating environment has a significant impact on the Group's operations and financial position. Management is taking necessary measures to ensure sustainability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

2 Operating Environment of the Bank (Continued)

Management determined loan impairment provisions using the “incurred loss” model required by the applicable accounting standards. These standards require recognition of impairment losses that arose from past events and prohibit recognition of impairment losses that could arise from future events, including future changes in the economic environment, no matter how likely those future events are. Thus final impairment losses from financial assets could differ significantly from the current level of provisions. Refer to Note 4.

3 Summary of Significant Accounting Policies

Basis of presentation. These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of financial assets available for sale, and financial instruments categorised at fair value through profit or loss. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note ***Error! Reference source not found.***).

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

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

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market’s normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price. The price within the bid-ask spread that is most representative of fair value in the circumstances was used to measure fair value, which management considers is the average of actual trading prices on the reporting date.

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly voluntary transaction between market participants at the measurement date under current market conditions. This is applicable for assets carried at fair value on a recurring basis if the Bank: (a) manages the group of financial assets and financial liabilities on the basis of the entity’s net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity’s documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity’s key management personnel; and (c) the market risks, including duration of the entity’s exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same.

3 Summary of Significant Accounting Policies (Continued)

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 25.

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

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

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

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Initial recognition of financial instruments Trading securities, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best

3 Summary of Significant Accounting Policies (Continued)

evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

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

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

Derecognition of financial liabilities. The Bank derecognises financial liabilities, including borrowed funds, only when these liabilities are extinguished.

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

The payments or receipts presented in the statement of cash flows represent transfers of cash and cash equivalents by the Bank, including amounts charged or credited to current accounts of the Bank's counterparties held with the Bank, such as loan interest income or principal collected by charging the customer's current account or interest payments or disbursement of loans credited to the customer's current account, which represents cash or cash equivalent from the customer's perspective.

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

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

3 Summary of Significant Accounting Policies (Continued)

Loans and advances to customers. Loans and advances to customers are recorded when the Bank advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates, and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

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

The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

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

3 Summary of Significant Accounting Policies (Continued)

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment, are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods, and to remove the effects of past conditions that do not exist currently.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then derecognised and a new asset is recognised at its fair value only if the risks and rewards of the asset substantially changed. This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

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

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

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

Credit related commitments. The Bank enters into credit related commitments, including letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties, and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period.

3 Summary of Significant Accounting Policies (Continued)

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

Investment securities available for sale are carried at fair value. Interest income on debt securities available for sale is calculated using the effective interest method, and recognised in profit or loss for the year.

Dividends on available-for-sale equity instruments are recognised in profit or loss for the year when the Bank’s right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired, at which time the cumulative gain or loss is reclassified from other comprehensive income to profit or loss for the year. Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of investment securities available for sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income to profit or loss for the year. Impairment losses on equity instruments are not reversed and any subsequent gains are recognised in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss for the year.

Premises and equipment. Premises and equipment are stated at cost less accumulated depreciation and provision for impairment where required.

Premises and equipment are subject to revaluation with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Increases in the carrying amount arising on revaluation are credited to other comprehensive income and increase the revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation surplus in equity; all other decreases are charged to profit or loss for the year. The revaluation reserve for premises and equipment included in equity is transferred directly to retained earnings when the revaluation surplus is realised, i.e. on the retirement or disposal. If there is no market based evidence of fair value, fair value is estimated using an income approach.

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

3 Summary of Significant Accounting Policies (Continued)

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

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

Depreciation. Depreciation on premises and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

	Useful lives in years
Leasehold improvements	30
Telecommunication equipment	2-10
Office equipment	5-20
Furniture	5
Computers	2-10
Transport vehicles	5

The residual value of an asset is the estimated amount that the Bank would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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

Leases embedded in other agreements are separated if (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets and (b) the arrangement conveys a right to use the asset.

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

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Bank by counterparty banks. The non-derivative liability is carried at amortised cost. If the Bank purchases its own debt, the liability is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from retirement of debt.

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

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options are carried at their fair value.

3 Summary of Significant Accounting Policies (Continued)

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

Certain derivative instruments embedded in other financial instruments are treated as separate derivative instruments when their risks and characteristics are not closely related to those of the host contract.

Income taxes. Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

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

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

Deferred income tax assets for deductible temporary differences and tax loss carried forwards are recognised only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Uncertain tax positions. The Bank's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management’s best estimate of the expenditure required to settle the obligations at the end of the reporting period.

3 Summary of Significant Accounting Policies (Continued)

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

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

Share capital. Non-redeemable ordinary shares with discretionary dividends are classified as owner's equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity. Other reserves within equity represent contributions from the shareholders of the Bank, other than investments in the Bank's shares.

Dividends. Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the financial statements are authorised for issue, are disclosed in the events after the end of the reporting period note. The statutory accounting reports are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the current year net profit.

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, and which are earned on execution of the underlying transaction, are recorded on its completion. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis.

Foreign currency translation. The Bank's functional currency and the Group's presentation currency is the national currency of the Russian Federation, Russian roubles ("RR").

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

Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity instruments, are translated using the exchange rates at the date when the fair value was determined.

Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

At 31 December 2017, the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 57.6002 (2016: USD 1 = RR 60.6569). The principal average rate of exchange used for translating income and expenses was USD 1 = RR 68.8668 (2016: USD 1 = RR 63.8111).

Offsetting. Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy.

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

Presentation of statement of financial position in order of liquidity. The Bank does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the statement of financial position. Instead, assets and liabilities are presented in order of their liquidity. Refer to Note 21 for analysis of financial instruments by expected maturity.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

Impairment losses on loans and advances. The Bank regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. A 5% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in loan impairment losses of RR 16 156 thousand (2016: RR 3 019 thousand), respectively.

Fair value of financial instruments. The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. If fair value is determined by using valuation techniques (e.g.. models), they are approved and regularly reviewed by qualified employees independent from the department where the technique was developed. Each model is subject to mandatory certification before it is available for use, also the models are adjusted to ensure that the results reflect actual data and comparative market prices. To the extent practical, models use only publicly accessible data, however areas such as credit risk (own and counterparty), volatilities and correlations require management estimates. Changes in assumptions about these factors could affect the reported fair values. Refer to Note 25.

5 Adoption of New or Revised Standards and Interpretations

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

- Disclosure Initiative – Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). The new disclosures are included in Note 38.
- Recognition of Deferred Tax Assets for Unrealised Losses – Amendment to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017).
- Amendments to IFRS 12 included in Annual Improvements to IFRSs 2014-2016 Cycle (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017).

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2018, and which the Bank has not early adopted.

IFRS 9 "Financial Instruments" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

6 New Accounting Pronouncements (Continued)

Based on an analysis of the Bank's financial assets and financial liabilities as at 31 December 2017 and on the basis of the facts and circumstances that exist at that date, the management of the Bank is not expecting a significant impact on its financial statements from the adoption of the new standard on 1 January 2018. No significant changes are expected in financial liabilities.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Bank's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

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

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

IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018). The interpretation addresses how to determine the date of the transaction when IAS 21 is applied to account for foreign currency transactions. The interpretation is applied when an entity pays or receives consideration as prepayment under foreign currency contracts. The interpretation provides that the date of transactions is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. When several transactions are conducted to make or receive an advance consideration, the interpretation requires that an entity should determine the transaction date for each payment or receipt of the advance consideration. The Bank is currently assessing the impact of the interpretation on its financial statements.

6 New Accounting Pronouncements (Continued)

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

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

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).
- Amendments to IFRS 15 “Revenue from Contracts with Customers” (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 2 “Share-based Payment” (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 4 “Insurance Contracts” (issued on 12 September 2016 and effective for annual periods beginning on or after 1 January 2018).
- Transfers of Investment Property – Amendments to IAS 40 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Annual Improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 1 an IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Prepayment Features with Negative Compensation - Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).

6 New Accounting Pronouncements (Continued)

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

7 Cash and Cash Equivalents

(in thousands of Russian Roubles)	**2017**	**2016**
Neither past due nor impaired		
Cash on hand	33 917	21 516
Cash balances with the CBRF (other than mandatory reserve deposits)	4 136 058	697 104
Correspondent accounts and overnight placements with other banks		
- Internal financial rating 1.0 – 2.0	1 522 832	5 945 904
- Internal financial rating 2.1 – 4.0	555	8
- Internal financial rating 4.1 – 7.0	-	458
Balances on settlement accounts with trading systems	1 033 049	1 474 107
Total cash and cash equivalents	**6 726 411**	**8 139 097**

Detailed description of internal rating methodology is disclosed in Note 21. Cash and cash equivalents are not collateralised. Interest rate analysis of cash and cash equivalents is disclosed in Note 21. The information on related party transactions is disclosed in Note 27.

8 Due from Other Banks

In thousands of Russian Roubles	**2017**	**2016**
Term placements with Commerzbank AG	2 592 203	5 522 384
Term placements with CBRF	6 502 404	1 000 246
Term placements with other banks	263	703 411
Security deposits with trading systems	61 697	144 247
Impairment loss provision	(18 933)	(14 715)
Total due from other banks	**9 137 634**	**7 355 573**

Analysis by credit quality of amounts due from other banks is as follows: Detailed description of internal rating methodology is disclosed in Note 21.

(in thousands of Russian Roubles)	**2017**	**2016**
Neither past due nor impaired		
- Internal financial rating 1.0 – 2.0	2 592 203	5 522 384
- Internal financial rating 2.1 – 4.0	6 564 364	1 847 904
Impairment loss provision	(18 933)	(14 715)
Total due from other banks	**9 137 634**	**7 355 573**

Amounts due from other banks are not collateralised.

8 Due from Other Banks (Continued)

The primary factor that the Bank considers in determining whether amounts due from other banks are impaired is their internal credit rating.

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

In thousands of Russian Roubles	2017	2016
Provision for impairment at 1 January	**14 715**	**11 689**
Provision for impairment during the year	4 218	3 026
Provision for impairment at 31 December	**18 933**	**14 715**

Refer to Note 25 for the estimated fair value of each class of amounts due from other banks. Interest rate and maturity analyses of due from other banks are disclosed in Note 21. Information on related party balances is disclosed in Note 27.

9 Loans and Advances to Customers

In thousands of Russian Roubles	2017	2016
Neither past due nor impaired loans	13 312 106	10 919 295
Individually impaired loans	550 954	554 223
Provision for loan impairment	(304 186)	(45 668)
Total loans and advances to customers	**13 558 874**	**11 427 850**

Movements in the provision for loan impairment during 2017 are as follows:

(in thousands of Russian Roubles)	2017	2016
Provision for loan impairment at 1 January	**45 668**	**104 407**
(Recovery of provision) / provision for impairment during the year	258 518	(58 739)
Provision for loan impairment at 31 December	**304 186**	**45 668**

Economic sector risk concentration within the customer loan portfolio is as follows:

	2017		2016	
(in thousands of Russian Roubles)	**Amount**	**%**	**Amount**	**%**
Manufacturing	9 832 668	71	7 601 691	66
Lease	2 200 572	16	1 774 302	16
Mining	1 361 783	10	19 290	0
Trade	279 720	2	1 739 183	15
Metallurgy and metals trade	23 378	0	73 409	1
Other	164 939	1	265 643	2
Total loans and advances to customers (before impairment provision)	**13 863 060**	**100**	**11 473 518**	**100**

9 Loans and Advances to Customers (Continued)

At 31 December 2017 the Bank had 6 borrowers (2016: 6 borrowers) with aggregated loan amounts above RR 600 000 thousand. The total aggregate amount of these loans was RR 11 488 497 thousand (2016: RR 9 587 266 thousand) or 83% of the gross loan portfolio (2016: 84%).

The Bank applied the portfolio provisioning methodology prescribed by IAS 39 "Financial Instruments: Recognition and Measurement" and created portfolio provisions for impairment losses that were incurred, but have not been specifically identified with any individual loan, by the end of the reporting period. The Bank's policy is to classify each loan as 'neither past due nor impaired' until specific objective evidence of impairment of the loan is identified. The impairment provisions may exceed the total gross amount of individually impaired loans as a result of this policy and the portfolio impairment methodology.

The primary factors that the Bank considers in determining whether a loan is impaired are its overdue status and realisability of related collateral, if any.

Analysis of credit quality by financial ratings as at 31 December 2017 is presented in the table below. Detailed description of internal rating methodology is disclosed in Note 21.

(in thousands of Russian Roubles)	**Loans and advances to customers before provision for loan impairment**	**Provision for loan impairment**	**Total loans and advances to customers**
Neither past due nor impaired			
- Internal financial rating 1.0 – 2.0	1 197 704	(416)	1 197 288
- Internal financial rating 2.1 – 4.0	11 942 852	(10 133)	11 932 719
- Internal financial rating 4.1 – 7.0	171 550	(444)	171 106
Total neither past due nor impaired	**13 312 106**	**(10 993)**	**13 301 113**
Individually impaired			
- Internal financial rating 4.1 – 7.0	550 954	(293 193)	257 761
Total individually impaired	**550 954**	**(293 193)**	**257 761**
Total	**13 863 060**	**(304 186)**	**13 558 874**

9 Loans and Advances to Customers (Continued)

Analysis of credit quality by financial ratings as at 31 December 2016 is presented in the table below.

(in thousands of Russian Roubles)	**Loans and advances to customers before provision for loan impairment**	**Provision for loan impairment**	**Total loans and advances to customers**
Neither past due nor impaired			
- Internal financial rating 1.0 – 2.0	2 423 687	(2 559)	2 421 128
- Internal financial rating 2.1 – 4.0	6 181 398	(10 472)	6 170 926
- Internal financial rating 4.1 – 7.0	2 314 210	(23 010)	2 291 200
Total neither past due nor impaired	**10 919 295**	**(36 041)**	**10 883 254**
Individually impaired			
- Internal financial rating 4.1 – 7.0	554 223	(9 627)	544 596
Total individually impaired	**554 223**	**(9 627)**	**544 596**
Total	**11 473 518**	**(45 668)**	**11 427 850**

Information about collateral at 31 December 2017 and 31 December 2016 is as follows:

(in thousands of Russian Roubles)	**2017**	**2016**
Unsecured loans	2 104 853	845 375
Loans collateralised by guarantees (from other banks and organizations)	9 804 716	9 380 848
Loans collateralised by:		
- cash deposits	1 356 168	559 862
- other assets	293 137	641 765
Total loans and advances to customers	**13 558 874**	**11 427 850**

The disclosure above represents the lower of the carrying value of the loan or collateral taken; the remaining part is disclosed within the unsecured exposures. The carrying value of loans was allocated based on liquidity of the assets taken as collateral.

At 31 December 2017 the Bank has individually impaired loans collateralised by equipment in the amount of RR 257 761 thousand (2016: individually impaired loans were collateralised by equipment in the amount of RR 831 544 thousand).

9 Loans and Advances to Customers (Continued)

The financial effect of collateral is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets"). The effect of collateral at 31 December 2017 is as follows:

	Over-collateralised assets		**Under-collateralised assets**	
In thousands of Russian Roubles	**Carrying value of the assets**	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Loans and advances to customers	5 564 118	10 266 506	7 994 756	3 424 936

The effect of collateral at 31 December 2016 is as follows:

	Over-collateralised assets		**Under-collateralised assets**	
In thousands of Russian Roubles	**Carrying value of the assets**	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Loans and advances to customers	3 957 236	6 192 451	7 470 614	1 450 671

The tables above consider only collateral represented by the most reliably measured instruments such as cash (letters of credit coverage), Commerzbank AG's guarantees and evaluated property. The Bank generally accepts a broad range of assets and instruments as a collateral that may ensure different levels of security.

Refer to Note 25 for the fair value measurement of loans and advances to customers. Interest rate and maturity analyses of loans and advances to customers are disclosed in Note 21. The information on related party transactions is disclosed in Note 27.

10 Securities Available for Sale

(in thousands of Russian Roubles)	**2017**	**2016**
Neither past due nor impaired		
Russian government bonds		
- internal financial rating 2.1 – 4.0	6 629 855	3 577 427
Total securities available for sale	**6 629 855**	**3 577 427**

10 Securities Available for Sale (Continued)

Russian government bonds are denominated in Russian Roubles and are not collateralised. The movements in securities available for sale are as follows:

(in thousands of Russian Roubles)	2017	2016
Carrying amount at 1 January	**3 577 427**	**2 611 802**
Mark to market	72 524	58 464
Interest income accrued	466 687	261 388
Interest received	(406 183)	(226 942)
Purchases	5 281 232	1 399 863
Redemption	(2 361 832)	(527 148)
Carrying amount at 31 December	**6 629 855**	**3 577 427**

Interest rate analysis of investment securities available for sale is disclosed in Note 21.

11 Premises and Equipment

In thousands of Russian Roubles	Note	Leasehold improvements	Office and computer equipment and other	Total
Cost at 1 January 2016		50 930	248 565	299 495
Accumulated depreciation		(13 577)	(198 348)	(211 925)
Carrying amount at 1 January 2016		**37 353**	**50 217**	**87 570**
Additions		-	20 936	20 936
Disposals (at cost)		-	(75 681)	(75 681)
Disposals (accumulated depreciation)		-	75 681	75 681
Depreciation charge	18	(1 698)	(35 781)	(37 479)
Carrying amount at 31 December 2016		**35 655**	**35 372**	**71 027**
Cost at 31 December 2016		50 930	193 820	244 750
Accumulated depreciation		(15 275)	(158 448)	(173 723)
Carrying amount at 1 January 2017		**35 655**	**35 372**	**71 027**
Additions		-	13 314	13 314
Disposals (at cost)		(33 478)	(8 571)	(42 049)
Disposals (accumulated depreciation)		10 923	7 146	18 069
Depreciation charge	18	(852)	(17 274)	(18 126)
Carrying amount at 31 December 2017		**12 248**	**29 987**	**42 235**
Cost at 31 December 2017		17 452	198 563	216 015
Accumulated depreciation		(5 204)	(168 576)	(173 780)

12 Due to Other Banks

(in thousands of Russian Roubles)	2017	2016
Correspondent accounts and overnight placements		
- Commerzbank Group banks	212 471	180 377
Term deposits		
- Commerzbank Group banks	3 395 185	3 118 100
Total due to other banks	**3 607 656**	**3 298 477**

Refer to Note 25 for the disclosure of the fair value of due to other banks. The interest rate and maturity analyses of due from other banks are disclosed in Note 21. The information on related party transactions is disclosed in Note 27.

13 Customer Accounts

In thousands of Russian Roubles	2017	2016
Legal entities		
- Current/settlement accounts	14 882 255	10 340 670
- Term placements	6 252 104	6 812 329
Individuals		
- Current/demand accounts	18	295
Total customer accounts	**21 134 377**	**17 153 294**

Economic sector concentrations within customer accounts are as follows:

	2017		2016	
(in thousands of Russian Roubles)	Amount	%	Amount	%
Trade	9 054 458	43	8 875 161	52
Manufacturing	8 708 165	41	4 655 283	27
Financial services	910 724	4	847 373	5
Construction	347 962	2	1 530 997	9
Transport	321 498	2	170 035	1
Individuals	18	0	295	0
Other	1 791 552	8	1 074 150	6
Total customer accounts	**21 134 377**	**100**	**17 153 294**	**100**

At 31 December 2017 the Bank had 42 customers (2016: 36 customers) with balances over RR 100 000 thousand. The aggregate balance of these customers was RR 15 504 101 thousand (2016: RR 12 261 490 thousand) or 73% (2016: 71%) of total customer accounts.

Refer to Note 25 for the disclosure of the fair value of each class of customer accounts. The interest rate and maturity analyses of customer accounts are disclosed in Note 21. The information on related party transactions is disclosed in Note 27.

14 Provisions for Liabilities and Charges

(in thousands of Russian Roubles)	Provision for tax risks (Note 23)	Provision for credit related commitments (Note 23)	Total
Carrying amount at 1 January 2016	**32 321**	**20 311**	**52 632**
Changes charged to profit or loss within other reserves	-	2 174	2 174
Utilisation of provision	(32 321)	-	(32 321)
Carrying amount at 1 January 2017	**-**	**22 485**	**22 485**
Changes charged to profit or loss within other reserves	-	2 713	2 713
Carrying amount at 31 December 2017	**-**	**25 198**	**25 198**

15 Share Capital

In thousands of Russian Roubles except for number of shares	Number of outstanding shares	Share capital	Share premium	Total
At 1 January 2016, 31 December 2016 and 31 December 2017	**43 112**	**2 535 833**	**1 291 839**	**3 827 672**

The above amounts are adjusted for the hyperinflation during the period before 1 January 2003.

Share capital of the Bank is represented by ordinary shares. At 31 December 2017 and 2016, all of the Bank's outstanding ordinary shares were fully paid in. All ordinary shares have a nominal value of RR 50 thousand per share (2016: RR 50 thousand per share). Each share carries one vote.

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

All of the ordinary shares issued are owned by Commerzbank AG.

In accordance with Russian legislation, the Bank distributes profits as dividends or transfers them to reserves on the basis of statutory financial statements prepared in accordance with Russian Accounting Rules.

Other reserves within equity include RR 341 210 thousand of the financial support provided by the shareholder for no consideration (2016: RR 341 210 thousand) and RR 383 139 thousand of merger provision (2016: RR 383 139 thousand). The merger provision represents the excess of net assets over par value of the shares issued in the process of merger with ZAO Dresdner Bank in 2010.

16 Interest Income and Expense

(in thousands of Russian Roubles)	2017	2016
Interest income		
Loans and advances to customers	951 313	1 095 531
Securities available for sale	466 688	261 388
Due from other banks	249 282	199 611
Total interest income	**1 667 283**	**1 556 530**
Interest expense		
Term deposits of legal entities	432 302	530 552
Term deposits of banks	81 127	71 525
Total interest expense	**513 429**	**602 077**
Net interest income	**1 153 854**	**954 453**

17 Fee and Commission Income and Expense

(in thousands of Russian Roubles)	2017	2016
Fee and commission income		
Settlement transactions	151 058	175 992
Acting as currency control agent	115 177	124 870
Guarantees issued	131 893	121 548
Letters of credit	106 051	91 942
Cash transactions	1 286	1 194
Other	29 663	39 536
Total fee and commission income	**535 128**	**555 082**
Fee and commission expense		
Guarantees received	44 323	47 631
Settlement transactions	12 859	21 394
Transactions with securities and foreign currencies	29 216	18 702
Letters of credit	317	1 635
Other	12 509	19 932
Total fee and commission expense	**99 224**	**109 294**
Net fee and commission income	**435 904**	**445 788**

18 Administrative and Other Operating Expenses

(in thousands of Russian Roubles)	Note	2017	2016
Staff costs		643 559	597 214
Expenses on services provided by Commerzbank AG	27	286 573	196 569
Operating lease expense for premises and equipment		158 138	292 201
Other costs of premises and equipment		88 016	60 943
Telecommunications		46 327	57 421
Professional services		24 635	21 501
Depreciation of premises and equipment	11	18 126	37 479
Insurance expenses		16 446	16 321
Taxes other than on income		12 076	15 106
Business trip expenses		6 591	10 046
Entertainment expenses		3 518	5 949
Other		42 585	40 559
Total administrative and other operating expenses		**1 346 590**	**1 351 309**

Included in staff costs are statutory social insurance contributions of RR 111 604 thousand (2016: RR 80 735 thousand).

19 Income Taxes

Income tax expense recorded in profit or loss for the year comprises the following:

(in thousands of Russian Roubles)	2017	2016
Current tax	729 426	690 896
Deferred tax	(436 141)	(193 521)
Income tax expense for the year	**293 285**	**497 375**

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

(in thousands of Russian Roubles)	2017	2016
Profit before tax	**1 307 903**	**1 698 465**
Theoretical tax charge at statutory rate (2017 – 2016: 20%)	261 581	339 693
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-deductible administrative and other operating expenses	53 331	34 848
- Income tax assessment for previous periods based on the tax audit results		-
- Unrecognised deferred tax asset	-	134 482
- Income on government securities taxed at different rates	(21 627)	(11 648)
Income tax expense for the year	**293 285**	**497 375**

19 Income Taxes (Continued)

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

(in thousands of Russian Roubles)	**1 January 2017**	**Credited/ (charged) to profit or loss**	**Charged directly to other comprehensive income**	**31 December 2017**
Tax effect of deductible/(taxable) temporary differences				
Loans and advances to customers	134 659	3 011	-	137 670
Provision for impairment of loans to customers and amounts due from other banks	(142 513)	74 657	-	(67 856)
Accrued administrative and other operating expenses	29 250	(14 753)	-	14 497
Revaluation of derivative financial instruments at fair value	(641 939)	361 712	-	(280 227)
Securities available for sale	(15 397)	(5 258)	(14 505)	(35 160)
Premises and equipment	(13 297)	11 029	-	(2 268)
Accrued fee and commission income	(2 060)	5 200	-	3 140
Provisions for liabilities and charges	4 497	543	-	5 040
Net deferred tax liability	**(646 800)**	**436 141**	**(14 505)**	**(225 164)**
Unrecognised deferred tax asset	(134 482)	-	-	(134 482)
Recognised deferred income tax liability	**(781 282)**	**436 141**	**(14 505)**	**(359 646)**

19 Income Taxes (Continued)

(in thousands of Russian Roubles)	1 January 2016	Credited/ (charged) to profit or loss	Charged directly to other comprehensive income	31 December 2016
Tax effect of deductible/(taxable) temporary differences				
Provision for impairment of due from other banks	2 338	(2 338)	-	-
Loans and advances to customers	1 444	133 215	-	134 659
Provision for loan impairment	(10 125)	(132 388)	-	(142 513)
Accrued administrative and other operating expenses	24 768	4 482	-	29 250
Revaluation of derivative financial instruments at fair value	(964 343)	322 404	-	(641 939)
Securities available for sale	2 600	(6 304)	(11 693)	(15 397)
Premises and equipment	(15 464)	2 167	-	(13 297)
Accrued fee and commission income	(9 056)	6 996	-	(2 060)
Provisions for liabilities and charges	4 728	(231)	-	4 497
Net deferred tax liability	**(963 110)**	**328 003**	**(11 693)**	**(646 800)**
Unrecognised deferred tax asset	-	(134 482)	-	(134 482)
Recognised deferred income tax liability	**(963 110)**	**193 521**	**(11 693)**	**(781 282)**

20 Dividends

(in thousands of Russian Roubles)	2017	2016
Dividends payable at 1 January	-	-
Dividends declared during the year	1 400 000	1 000 000
Dividends paid during the year	(1 400 000)	(1 000 000)
Dividends payable at 31 December	**-**	**-**
Dividends per share declared during the year	**32**	**23**

All dividends have been declared and paid in Russian Roubles.

21 Financial Risk Management

Risk management objectives, policies and procedures.

The Bank of Russia developed and approved a risk management strategy, which is a framework document defining strategic risk management principles, and forms an integral part of the Bank's corporate governance system. The risk management strategy reflected the fact that the Bank is one of the members of Commerzbank Group, and consequently, the Bank's risk management structure has been developed in line with and as part of the Bank's business strategy, which itself is a part of the Group's business strategy, namely the business strategy of CC-CI segment. The Bank's risk management structure reflects the risk management approaches which are closely integrated with the Group's policies in this regard. The risk management/control system, all internal policies, recommendations and methods are established at the level of Commerzbank Group and are mandatory for all Commerzbank Group entities, including the Bank. Responsibility for implementing risk policy guidelines laid down by the Board of Managing Directors throughout Commerzbank Group lies with the Chief Risk Officer, who regularly reports to the Risk Management Committee of the Supervisory Board and to the Board of Managing Directors on the Commerzbank Group.

The principles listed in the Bank's risk management structure serve as a basis for establishing the risk management procedure and developing risk management rules in the Bank. The document covers all material risks. The Bank's risk management structure has been developed based on the results of annual or ad-hoc risk inventory when the Bank's risk profile changes. In addition, the Bank developed certain sub-strategies for managing certain types of risks classified as material.

The governing principle of the risk management strategy is to allocate the Bank's risk management resources and at the same time, to ensure the established level of risk-bearing capacity and liquidity. The analysis of risk taking is a key element in the overall management of banking operations and of internal capital adequacy assessment process (ICAAP) of the Bank.

The risk and capital management process is based on the "no conflict of interests" principle and the segregation of functions performed by the departments involved in the analysis, assessment and control of risks, and those departments engaged in transactions and operations associated with risk. The Bank is committed to fostering the "risk culture" when control over risk becomes an objective and responsibility of each and every employee of the Bank.

The Risk Management Division is viewed as a strategic partner who works in close connection with Bank's subdivision involved in core banking activities. The Risk Management Division contributes to the process ensuring effective, initiative and comprehensive management of risks.

The risk management process used by the Bank is based on the "three lines of defence" principle as follows:

- The First line of defence is maintained by Bank's subdivisions (segments/function units) and employees responsible for risk identification and management at their working stations in line with the Bank's unified risk management standards and policies;
- The Second line of defence is maintained by the Risk Management Division who is responsible for the control of credit, market and operational risks as well as liquidity risk together with Bank's subdivisions monitoring other risks beyond the competence scope of the Risk Management Division. Meanwhile head of the Risk Management Division receives regular reports from these subdivisions on the risk monitoring results within the scope of their competence. At this stage of risk management it is necessary to determine monitoring standards for each type of risk, implement these standards, develop relevant controls as well as organise risk analysis and assessment.
- The Third line of defence includes functions of internal control (internal audit). The aim is to have independent guarantees with regard to processes and actions maintained by the Bank in the risk management area and thus to have efficiency assessment of the first and second lines of defence.

21 Financial Risk Management (Continued)

The risk management cycle is as follows:

- Identification, quantification and determination of the acceptable level or risks inherent in the banking activities, detection of generic possibilities of losses being incurred by the Bank and/or deteriorating liquidity as a result of unfavourable events caused by internal and/or external factors influencing the Bank's operations.
- Risk monitoring and control. The banking risks are monitored, compliance with established limits and criteria are checked and risks are managed in accordance with the existing Bank's strategy on an ongoing basis.
- Allocation of economic capital. Assessment of profitability given material risks, change in the field of the Bank's operations and the established risk appetite of the Bank in line with the historical risk-profitability retrospective review.
- Reporting on all the specified issues to the Bank’s executive bodies and the Supervisory Board.

The Bank defines the risk as a threat of potential losses and missed profits due to internal or external factors. For the risk management purposes the Bank distinguishes measurable and non-measurable risks. Measurable risks are risks quantification of which is included in financial statements or regulatory capital requirements, while non-measurable risks include reputation and compliance risks.

Risk controls are intended to ensure maintenance of internal minimal benchmark for economic risk-bearing capacity with account for planned portfolio development and realistic fluctuations of risk parameters. Liquidity risk controls are based on the Liquidity Gap Profile that defines the expected future net liquidity position through receipts to Bank’s balance sheet accounts and off-balance sheet accounts. Compliance risk controls are based on the bank’s expectations that effective legislation, methodological guidelines and market standards - both international and domestic - will be complied with by the Bank, its clients and partners. The Bank understands and acknowledges business risks, in particular risks associated with economic crimes, primarily risks of money-laundering and terrorist financing. The Bank is also aware of the likelihood that its clients can use banking products and services for illegal purposes that is why the Bank regularly assesses risks and follows the Group’s policy in this area, including corporate-wide approaches and controls to mitigate the risks. The Bank shall not enter into deals or do business with parties, if it is aware of or have suspicions that they directly or indirectly support illegal activities. This principle covers individuals and legal entities who intentionally participate in illegal activities or behave unlawfully. The Bank shall not tolerate violation of law or failure to follow methodological guidelines and rules. The Bank, being a member of the Commerzbank AG Group, is committed to the spirit and letter of all standing laws, guidelines and market standards. The Bank shall not run business without having an adequate system for preventing and identifying illegal activities or restraining from them.

The annual risk inventory, a component of the ICAAO procedure, is performed to identify the Bank’s risk-bearing capacity and relevant types of risk. While performing the risk inventory procedure in 2017, the Bank used the bottom-up approach, i.e. the risk profile assessment was performed for all existing departments and business subdivisions of the Bank as well as for all lines of operating activities (trade and sale, commercial banking, clearing and settlements, issuing and serving bank cards), and Bank’s activities on the whole (including non-financial activities). This approach ensures completeness of the risk assessment, i.e. the coverage of all relevant risk factors; identification of risks and assessment of their materiality, identification of risk owners. A report on material risks identified is approved by the Bank’s Management Board and serves as the basis for determining the Bank’s risk strategy and risk appetite (i.e. acceptable level of exposure).

21 Financial Risk Management (Continued)

Detailed information about material risks to which the Bank is exposed, their sources, structure, organisation of work of risk management departments, and key provisions of risk and capital management strategy is disclosed in the Notes to the financial statements for each material risk.

The risk appetite is determined as the maximum risk that the Bank is ready and able to take (apart from inherent risks) in order to achieve its business targets without running existential risks. The maximum risk that the Bank is ready to accept is restricted by the following requirements:

- Compliance with the internal minimal standard for (economic) risk takingRisk-bearing capacity (the “Risk-bearing capacity Taking Level” is described in the intrabank regulation “Policy of Resilience to RiskRisk-bearing Capacity”),
- and ensuring the Bank’s solvency and structural liquidity at any tine.

Risk limits and related guidance on their set-up, as approved by the Bank’s Management Board, are key control parameters and components of the Bank’s risk strategy. To prevent unwanted deviations from the capital adequacy ratio the Bank sets up relevant limits at an early stage. When determining the limits the Bank is governed by approaches developed by the Group adjusted for local specifics. In particular, the Bank is obliged to comply with capital adequacy ratios established by the Bank of Russia. At the same time statutory ratios are reflected in the Bank’s ICAAP system of limits that covers (from economic perspective) all risks that are relevant for the Bank. The limits represent certain boundaries that should be complied with all the time. There is also an escalation process (i.e. a process of transferring the decision taking to a higher instance) that determines actions if the limits are violated. ICAAP limits are revised annually or as required to ensure their compliance with the Bank’s business model, risk taking level, directives of the Commerzbank AG Group and requirements of the regulator. Given the above, the Risk Management Division submits proposed limits to the Management Board for approval, later on these limits are to be confirmed by the Bank’s Supervisory Board.

The Bank on a monthly basis controls the Risk-bearing capacity. Control procedures compare the amount of capital available to the Bank at the reporting date and the amount of economic capital required. In the Commerzbank AG Group the economic risk taking is determined based on the principle of ensuring settlement of the Group’s liabilities to its creditors in emergency circumstances; therefore resilience to risk means coverage of very significant losses. The resilience to risk is determined centrally for the whole Group. Certain ICAAP indicators are established for most significant subdivisions, segments and subsidiaries of the Group. Given the fact that AO Commerzbank (Eurasija) is not a material subsidiary of the Group and taking into account the pro rata principle (i.e. the nature and scope of deals executed by the Bank, the level and combination of risks), the Bank uses the standard approach to ICAAP development and formation. The approach is based on the minimum capital requirement to cover material risks established by the regulator and an additional provision to cover risks that are not accounted for in full in the procedure for determining regulatory capital requirements, for instance interest risk and risk of concentration. Meanwhile the Bank follows the above principle of ensuring resilience to risk as established by the Group. For the ICAAP purposes the Bank calculates the amount of economic capital individually, as a separate legal entity within the Group. The ICAAP limit, being an overall resilience to risk, is established at the level of 15.61% by the Supervisory Board’s decision.

The risk and capital management processes require that management of the Bank permanently monitor compliance with the Bank’s risk profile and availability of the Bank’s resources to cover these risks. Risk management departments prepare internal risk management reports and provide them to the Bank's executive bodies and heads of structural divisions.

21 Financial Risk Management (Continued)

The Bank's reporting system includes:

- As to material risks: reports with information on:
  - the amount of each material risk and their aggregate amount;
  - changes in the amount of certain material risks and the impact of these changes on the capital adequacy ratio;
  - compliance of risk levels to the established limits;
  - notification on violated limits and relevant actions taken;
  - information on concentration (if any);
- results of stress testing (sensitivity of credit, interest and currency risks);
- information on the current amount of the Bank's equity and the capital adequacy ratio;
- information on the Bank's compliance with statutory ratios;
- report on certain indicators of ICCA P, in particular:
  - compliance with capital limits (minimum acceptable capital adequacy ratio), actual capital adequacy level;
  - reporting on compliance with the set capital structure; planned levels and structure of risks.

Reports are provided with the following frequency:

- Reports on the ICAAP execution results are provided to the Bank's Management Board on a monthly basis and to the Supervisory Board - on a quarterly basis;
- Reports on stress test results are provided to the Supervisory Board and Management Board in the least;
- Reports on material risks, on compliance with statutory ratios, capital amount and results of capital adequacy assessment are provided to the Supervisory Board on a quarterly basis and to the Management Board of the Bank - on a monthly basis;

Information on reaching the thresholds and non-compliance with the established limits is communicated to the Bank's Management Board as identified;

According to Basel requirements, which are binding for all European credit institutions, Commerzbank Group, of which the Bank is a subsidiary, has developed and implemented a relevant business strategy aimed at managing all major economic risks. Based on the scale, market positions and structure of the banking transactions, included in material risks were financial risks (quantifiable risks), which are the risks analysed using mathematical methods, and non-financial risks. Quantifiable risks are controlled by the structural divisions involved in asset-liability management.

Based on the inventory count procedure results the following risks of the Bank have been acknowledged as material in 2017:

- Credit risk
- Market risk (including interest risk of the bank portfolio)
- Operational risk
- Business risk
- Reputational risk
- Compliance risk
- Liquidity risk.

21 Financial Risk Management (Continued)

Credit risk

Credit risk is the risk of financial losses due to defaults of borrowers/counterparties or downgraded credit rating of a counterparty. Credit risk is a material measurable risk that includes credit sub-risks (the risk of borrower's default, risk of the counterparty, risk of the issuer, country risk etc.).

Credit risk is managed in the context of the Bank's credit risk strategy. In order to ensure compliance with credit risk strategy and to restrict concentration of risk, the parameters of strategically acceptable credit product structure (including country parameters) are established, as well as target risk limits for the sections of credit portfolio and concentration risks on Group level. For the components of loan portfolio that do not comply with the above parameters decision needs to be taken at a higher level.

The responsibility for credit risk management at Group level lies with GRM-CRC Department. Local credit offices of Commerzbank Group, including the Bank, are responsible for the management of the respective loan portfolios, paying close attention to the Group Credit Guidelines and operating within their lending authority. The General Lending authority is represented by the Group bodies starting from regional board level up to the Board of Directors depending on lending amounts and borrower's internal ratings.

The Bank applies the following methods of credit risk measurement and management: expert credit risk level assessment, internal rating system; the forecast of exposure at default (EAD) and loss given default (LGD); calculation of unexpected loss (UL) (application of economic capital with confidence level of 99.95% during the period of 1 year).

The internal rating system is one of the most important elements of credit risk policy. The rating procedure includes both quantitative and qualitative assessment of the counterparty. The final rating is assigned as a result of these procedures. The rating procedure is based on the assessment of the following indicators: the analysis of financial statements for current and prior periods (including the accounting policies), the analysis of industry and the competitive position of the counterparty in this industry, the assessment of the quality of management and business reputation, the review of credit history, the assessment of turnovers on the bank accounts, the analysis of risk indicators of a qualitative nature and mitigating risk factors, such as direct debit right, etc. Quasi-rating is attributed at each stage of the analysis. Quasi-rating is attributed at each stage of the analysis, and the final internal rating is drawn from aggregation of quasi-ratings, the calculation of default probability, loss given default and exposure at default.

Internal financial rating measures probability of default while credit rating is a measure of loss given default.

Rating procedure varies depending on the customer type: the rating procedure for corporate banking segment pays specific attention to probability of default indicator and detailed analysis of financial statements; the rating procedure for project and structured finance segment focuses on expected loss and scenario simulation. The responsibility for rating assignment lies with GRM-CR and the Credit Department of the Bank.

The correlation between internal financial ratings and comparable Standard&Poor's ratings, if any, is presented below:

Internal financial rating	1.0-1.2	1.4	1.6	1.8	2.0	2.2	2.4	2.6	2.8
S&P equivalent	AAA	AA+	AA,AA-	A+,A	A-	BBB+	BBB	BBB	BBB-

21 Financial Risk Management (Continued)

Internal financial rating	3.0	3.2-3.4	3.6	3.8-4.0	4.2-4.6	4.8-5.0	5.2-5.4	5.6-5.8	>6
S&P equivalent	BB+	BB	BB-	B+	B	B-	CCC+	CCC,CC -	C,D

Direct reconciliation between the ratings is not possible, in particular, due to the fact that external ratings typically try to predict the expected behaviour of companies over the full period of the economic cycle, while Commerzbank Group uses point-in-time rating model, where the rating reflects current creditworthiness in terms of default probability for the next year.

Based on the existing banking group procedures and in view of the Bank of Russia's requirements, Commerzbank (Eurasija) AO has an internal credit policy document which outlines the areas covered by its credit policy, principles and approaches to credit risk assessment and monitoring, specifics of credit authority allocation and credit documentation standards.

Overall at the Bank's level, risk management (credit risk specifically) is leveraged with the continuous monitoring and control of the Bank's operations by the parent Commerzbank AG (Germany). In most cases, to begin working with new products and implementing new applications, it is necessary to obtain authorisation not only from the Bank's management, but also from the parent bank, including approval of the product by all functional divisions.

Internal reporting on risk-related matters is provided to the Management and the Supervisory Board on a semi-annual basis. These reports include the information about the volume of accepted risks by risk type, information about capital requirements and projected capital requirements for the foreseeable period.

Detailed information on the degree of risk concentration from various banking transactions by geographical area, currency, borrower, borrower's activity, market is disclosed in Notes 8 and 9 to financial statements.

The Bank analyses credit risk concentration in accordance with the requirements of H6 and H7 ratios calculated in accordance with Instruction of the Bank of Russia No. 139-I (180-I).

Liquidity risk and market risk concentrations are analysed on a daily basis in the course of operational risk monitoring.

Market risk

Market risk represents a possibility of financial loss as a result of changes in current (fair) value of the Bank's financial instruments and in foreign exchange rates and/or official prices for precious metals. Financial losses from changes in the fair value may have a direct effect on the total financial result, for instance in the assessment of trading positions. Losses for the bank portfolio can be recorded through revaluation provisions or latent liabilities/provisions.

The Bank has developed a market risk management strategy that defines a framework basis aiming at maintaining resources sufficient to cover risks at the adequate level and effective use of equity by business segments for reaching the current and forward-looking balance between the Bank’s profitability and risks. Therefore, the market risk management strategy establishes:

- Conditions for raising risk awareness by defining the nature of market risk, risk-culture expansion, risk tolerance relevant to the risk level acceptable to the bank (risk appetite);

21 Financial Risk Management (Continued)

- Management structure that establishes clear and independent obligations of market risk management on the basis of the three line of defence concept;
- a market risk management process that combines quantitative and qualitative measures, guidelines, including methods, models and fundamental processes that determine internal procedures for risk management subdivisions that ensure efficient management of risks. Business strategies of segments that are allowed to take market risks include a market risk management strategy for a specific segment. The first line of defence is represented by the fact that business segments are owners of their positions and are responsible for risk identification and management in line with the existing policy and management structure.

Risk appetite for the market risk is reflected quantitatively as tolerance to this type of risk, in the form of a comprehensive system of limits; and qualitatively through an acceptable risk structure formed by the Bank's current positions. As per the Group's risk strategy, market risk management committees (GRMC and SMRC) are key units responsible for control, analysis and set-up of market risk limits, including the risk for counter parties and issuers, for both the whole Group and individual segments (including the segment of Corporate Clients and Treasury).

For the purposes of efficient market risk management and introduction of common terminology in the Bank, bank operations are grouped into two proposed portfolios as described below:

- *A bank portfolio* is an aggregate of financial operations, including commercial and interbank loans/deposits that were entered into with the aim of holding them on the Bank's balance sheet until mutual claims/obligations are completely settled.
- *A trading portfolio* is an aggregate of operations with instruments of currency, cash (except for interbank loans) and securities markets as well as derivatives aimed at receiving profit from changes in market prices. The trading portfolio may also include derivative transactions entered into to hedge/insure risks. Instruments included into trading book are taken into account when calculating equity within the market risk component.

Positions of the Bank's trading portfolio are mainly in the scope of the Treasury and the Department for Trading Operations on Financial Markets. The market risk profile is diversified for all classes of assets. As per the current structure of the Bank's portfolio, dominant classes of assets are exposed to the following risk factors: interest risk and credit spread risk followed by the currency risk.

In accordance with the current business strategy, the risk management strategy and the list of approved products (instruments) for the Bank, in 2016-2017 key instruments in the Bank's trading portfolios are:

- foreign exchange deals (FX spot, FX swap, FX forward);
- cross currency and interest rate swaps (CCS);
- interest rate swaps (IRS);
- currency options;
- sale/purchase of promissory notes (this type of activity is limited and is performed by Treasury only for the purposes of managing the Bank's liquidity portfolio).

When new products are introduced into operating activity of the Bank, they are subject to the approval procedure called "New Product Process" (NPP). This procedure identifies potential risks specific to this particular type of operations as well as availability of a methodology to assess market risks that are taken in connection with the new operations of the Bank, and to assess whether internal systems and business processes are ready to account for and process the new type of products.

21 Financial Risk Management (Continued)

When determining capital requirement to cover the market risk, the Bank uses the standardised approach to its assessment. For these purposes, the following components are identified and calculated:

- *Interest rate risk* is the risk of adverse effects of changes in market interest rates on the Bank's assets, liabilities and off-balance-sheet instruments, including into the Bank's trading book; the interest rate risk for the trading book includes risks at two levels – general and specific;
- *Equity risk* is the risk of loss as a result of unfavourable changes in market prices for securities (including those that provide rights for participation in management) on the trading book and derivative financial instruments due to the effect of factors related either to the issuer of securities and derivatives or general fluctuations of market prices for financial instruments;
- *Commodity risk* is the risk of loss as a result of unfavourable changes in commodity prices;
- *Currency risk* is the risk of loss as a result of unfavourable changes in the prevailing foreign exchange rates and/or prices for precious metals under the Bank's open positions in foreign currencies and/or precious metals.

Simultaneously with the use of the standardised approach the Bank, as a Group member, uses the standard value-at-risk model (VaR) for internal market risk management purposes. The VaR model measures potential loss from a financial instrument due to changes in the market conditions within a certain time horizon and the stated probability level. The VaR market risk model of the Group is based on the historic simulation with a one year interval of retrospective market data. The retrospective simulation distributes profit or loss from the current portfolio by revaluation of retrospective changes in the market rates, prices and volatility. This is based on the independent market information the quality of which is confirmed on a daily basis and that is loaded into the central information database in the standard specified moment of time. Market information is provided for all existing positions of Bank's asset classes, interest rates, credit spreads, foreign currencies and goods. This market information is provided in the form of price quotes, which are based directly on this market information or are derived from the market information, such as yield curves and credit spreads formed using internal methods. The concept of proxy amounts is used if market information is unavailable for certain positions. In such cases prices are based on prices of comparable instruments.

For management purposes when the VaR model is used for risk assessment, confidence level is 97.5% and the holding period is one day. The VaR concept allows to compare the scope of taken risks in various business areas as well as to unite positions in different types of assets taking into account the correlation between them. This provides a consolidated view on the level of market risk at any time. The complex system of limits installed in the Bank is an important element in the market risk management system. All positions bearing the market risk are distributed between the trading and bank portfolios, meanwhile all positions are managed together.

Internal models (VaR models) for risk assessment were formally approved by competent units of the parent bank (BaFin - Germany's Federal Financial Supervisory Authority) and in 2011 accepted to be used for market risk analysis, determination of risk limits, risk control and management within the Group. Individual components of the internal model are regularly reviewed in terms of their relevance for risk measurement. The review addresses underlying model assumptions, parameters and proxy amounts used. Validation (the process of model review) is performed using the priority principle and a risk-oriented approach in accordance with the plan adopted by the Group (Market Risk Model Validation Panel). The application efficiency and reliability of internal models is a mandatory subject of a review performed by the Group's internal audit function.

21 Financial Risk Management (Continued)

At times of changing market conditions and regulatory requirements, responsibility for risk management within the approved risk appetite and adopted strategy is born by the department of market risk management and business subdivisions. The whole risk management process, including risk-mitigating actions may be divided into two tentative stages: pre-trading and post-trading. Pre-trading risk mitigating actions provide a clear and transparent basis for the risk management: starting with the bank's strategy up to the time of entering an individual deal.

To maintain the set risk appetite and improve the risk attitude culture, the Bank uses all available post-trading risk management tools. In this respect, aims of the Risk Management Department are determined in the following two directions. On the one hand, risk management subdivisions set the aim of optimising the portfolio by analysing the adequacy and relevance of applied processes and methods as well as of ensuring deep analysis of a better risk/reward ratio for the whole portfolio of the Bank, classes of assets and products. On the other hand, the aim is implementation of warning indicators to identify risks and avoid their unwanted concentration at an early stage. The portfolio analysis and its further optimisation highlight the regulatory function of risk management subdivisions as well as its function of risk adviser to support and formulate perspective strategies that would improve efficiency of capital use. Risk mitigation actions are developed based on the time-to-market approach to achieve effectiveness and expected result, with adequate resources immediately considered and more complex issues escalated. The actions compliment monitoring and reporting processes.

Interest rate risk

Interest rate risk is one of the most significant financial risks, which bank operations can be exposed to. In particular, it includes the risk of changes in the value of instruments resulting from interest rate fluctuations during a period of time. Both the Bank's banking book and trading book are exposed to interest rate risk. The joint position for both books reflects the overall interest rate risk for the Bank. The interest rate represents the risk of the deterioration of the Bank's financial position due to the decrease in equity, revenue level, value of the assets and liabilities as a result of interest rate changes. The interest rate shows the sensitivity of the Bank's financial position to unfavourable market changes, namely those in interest rates.

The key sources of interest rate risk may include the following:

- mismatch of maturity periods of assets, liabilities and off-balance claims and commitments for instruments with a fixed interest rate;
- mismatch of maturity periods of assets, liabilities and off-balance claims and commitments for instruments with a floating interest rate (risk of interest rate revision);
- changes in the yield curve for long and short positions on financial instruments of the same issuer, which create the risk of losses resulting from the excess of potential expenses over income when the positions are closed (the yield curve risk);
- for financial instruments with a fixed interest rate provided that the maturity dates are the same – mismatch of the changes in interest rates on resources raised and placed by the Bank; for financial instruments with a floating interest rate provided that the periods of floating interest rates revision are the same – mismatch of the extent of interest rate changes (basis risk);
- the possibility of the Bank's customers exercising embedded options in the Bank's financial instruments sensitive to changes in interest rates (option risk);

21 Financial Risk Management (Continued)

The interest rate risk is assessed for the instruments in the banking book in the aggregate, i.e. as a general market risk. Instruments included in the banking book do not have negative effects on equity and they are managed through setting limits and/or provisioning. Instruments to be included into trading book are taken into account when calculating equity within the market risk component.

Interest rate risk is managed through optimisation of the asset and liability structure in terms of maturities and rates and on the basis of the gap analysis of assets and liabilities and analysis of instruments sensitivity to changes in interest rates. In line with the Group's approaches, the Bank jointly manages the interest rate risk for its trading and banking books. It is a strategic approach carried out through implementing single policies and the global limit systems in place across the Group. All the risks are consolidated and managed on a central basis. The centralised risk management is reinforced with the risk management unit for Treasury as part of the market risk management function. Interest rate risks for the banking book are managed in accordance with business strategy through refinancing instruments with matching maturities and currencies and through using derivative interest rate instruments. Interest rate swaps with sufficient market liquidity, for instance, are helpful in prompt responses to management changes.

The interest rate risk assessment is fully integrated in the daily control procedures for the Bank risk assessment and monitoring. Similar to assessing the trade portfolio risk, quantitative assessment of the banking portfolio risk is also calculated using the VaR method. Stress testing and the scenario analysis are calculated on a daily basis. This standardised procedure is intended for ensuring transparency of interest rate risk assessment of both trading and banking books.

Another measure of interest rate risk level for the banking book is the definition of sensitivity to changes in interest rate risks. This measure specifies how interest income changes in response to changes in the interest rate risk level, for example by one hundredth percent (basis point). Sensitivity to changes in the interest rate is also monitored daily and the calculated indicators are included in monthly reports. Sensitivity is monitored both at the level of individual portfolios and at the level of the Bank overall. For the purposes managing interest rate risk, in particular, for managing sensitivity to changes in interest rates, differentiation is made for time intervals depending on the period of interest rates. Special attention is paid to interest rate instruments with long maturity periods.

In addition to the above methods, the Bank measures its interest rate risk using the gap analysis with stress testing for changes in interest rate levels by 200 basis points according to Procedure for completing Reporting Form 0409127 "Disclosures of Interest Rate Risk Stated in Regulation of the Bank of Russia No. 4212-U of 24.11.2016 "On the List, Forms and Procedure to Complete and Submit Reporting Forms of Credit Institutions to the Central Bank of the Russian Federation."

Operational risk

Operational risk is the risk of losses through inadequate or defective management systems and processes, technical failures or external events. Significant sub-categories of operational risk are represented by the legal risk, tax risk, IT risk, business processes risks, risk of human resource management, risks of outsourcing and supplier risks. The bank uses basic indicative approach to assessing the operational risk within which the Bank reserves equity equal to the fixed interest rate (15%) of average annual gross revenue for the previous three years provided that it is positive. Gross income is defined as net interest income plus net non-interest income calculated under the approach established by Regulation of the Bank of Russia No. 346-P of 3 November 2009 "On the Procedure for Calculating Operational Risk".

21 Financial Risk Management (Continued)

The Bank forms a part of the Segment of the International Corporate Clients of Commerzbank AG (CC-CI), and in this capacity it operates within the risk appetite established for CC-CI Segment and is governed by applicable principles for risk assumption and resilience to risk. The Group has in place the Operational Risk Committee, which is the chief operating decision maker (CODM) and the body defining the operational risk management strategy at Group's level. The Committee reports to the Board of directors of Group. The Committee approves approaches to and methods of the operational risk assessment, and standards and principles for the Group's internal controls functioning. Several committees operate at the level of the CC-CI segment whose functions include but are not limited to operational risk management. The Bank has established the Operational Committee, which is supported by the Regional Operational Committee of the CC-CI segment.

The Group establishes a clear segregation of duties and defines the main approaches to effective management of operational risk and its control. The Bank keeps its place in the general organisational structure for the management of the Group's operational risk, and the place is determined by the Bank's position as a component of the CC-CI segment. The Group sets certain requirements for segments, which include direct responsibility for:

- identification of operational risk at segment level,
- ensuring effective and timely approach to operational risk management;
- providing reports on identified risks to the management of the segment and/or authorised committee;
- clear documentation of decisions concerning the risk taking.

Given the above, the Bank participates in the general process of the Group's operational risk management, which includes:

- providing information on operational risk instances through entering relevant information into the Group's database;
- timely informing the Operational Committee of the CC-CI segment on any instances of operational risks in accordance with established materiality levels;
- application of monitoring methodologies and tools to the risks taken by the Group;
- participation in the seminars and trainings held by Group.

In order to ensure that banking activities are maintained and to minimise losses arising from serious interruptions of its operations, the Bank has a business continuity plan and a contingency policy, which are approved by the Bank's management and agreed with the Operational Risk Committee of the Commerzbank Group.

Liquidity risk

The Bank has developed a strategy for managing the liquidity risk, which is considered an integral part of the Bank's Risk Management Strategy approved by the Bank's Supervisory Board. The fundamental principle underlying the liquidity risk management strategy is to ensure the Bank's solvency at any time, which should guarantee its performance of current obligations in applicable currencies and the Bank's continuous engagement in its principal activity, subject to compliance with legal acts and regulations. The secondary aim of the strategy is effective use of liquidity resources and prevention of the "conflict of interests" between liquidity and profitability when net interest income can negatively impact the safe existence of the Bank.

21 Financial Risk Management (Continued)

Commerzbank Group defines liquidity risk as the risk of being unable to meet payment obligations when they are due or in time (‘liquidity mismatch/term risk’). Furthermore, the risk exists that assets are sold in the market at a discount or in parts resulting from unfavorable economic effects (‘market liquidity risk’). Commerzbank Group aims to mitigate the risk of unexpected increases in funding costs (‘liquidity spread risk’).Commerzbank Group defines the liquidity risk as probability of the Bank’s default on its obligations to a third party in full or at a certain date (risk of structural liquidity), and also the probability that assets can be sold in the market with a discount or partially resulting from the influence of external economic factors (risk of market liquidity). The main goal for liquidity management is to decrease the risk of unforeseen growth in the cost of funding for the Bank (risk of funding).

In particular, the Bank identifies the following factors that have a direct impact on the risk of structural liquidity:

- Time Term risk means the risk of differences in cash flows maturity periods, that is in instances of early / overdue repayment and (or) payment of interest.
- The risk of renewalProlongation risk is attributable to unforeseen and inevitable need for renewal of assets driven by contractual, economic or reputational factors.
- The risk of cContingent liabilities risk represents sudden or unexpected liabilities arising in connection with an increased liquidity "pillow", or the so-called portfolio of reserve liquidity consisting of highly liquid assets that ensure the coverage of unexpected outflow of cash in stressful scenarios.

Based on the generally accepted definition of risk, the Group sets the following definition of liquidity risk for the purpose of the centralised risk management for the Group as a whole:

Intraday liquidity risk

Intraday liquidity risk management is exercised for ensuring the Bank’s ability to discharge intraday payment obligations in full and in all currencies. Intraday liquidity risk is primarily managed through the use of special liquidity portfolio ILRP (hereinafter, the “Intraday Liquidity Reserve Portfolio”) comprising highly liquid assets, namely, securities which can be used as collateral for receiving the Bank of Russia’s Lombard Loan. The liquidity portfolio is managed by the Treasury. The internal LAB Portfolio model does not include Intraday liquidity portfolio.

Short-term liquidity risk

Short-term liquidity risk is analysed for a time interval of up to three months. This period is defined by the Group as the minimum stressful period during which the Bank, using the Portfolio of Stress Reserve Liquidity (SLRP), is capable to cover the gap in liquidity, which arose from an unforeseen outflow of cash (that is, in a stressful scenario). Meanwhile, it is important to determine the extent of the possible liquidity gap caused by the unforeseen reduction of cash inflow or increase in cash outflow. The gap in short-term liquidity should be covered from an adequate liquidity reserve. Thus, in addition to the ILRP, the Bank forms a SLRP, which is designed for covering a liquidity gap during the established period of time defined as stressful period. The fundamental principle of the Group at the formation of SLRP is the ability of the Bank to provide necessary liquidity in a stressful scenario without changing its business model at least within three months.

21 Financial Risk Management (Continued)

Structural liquidity risk

The structural liquidity risk means the Bank's potential inability to provide for future payment obligations in full and in the required currency, i.e. the Bank's inability to raise cash for the implementation of mid- and long-term obligations. The goal of managing this type of risk, including funding risk, is to ensure consistency between cash inflows and cash outflows both by time structure and by separate currencies. The structural liquidity risk is managed through the internal LAB model application which assumes the modelling of five levels of cash flows consistent with the expected liquidity portfolio of the Bank in a normal business situation. The risk of funding is expressed in the probability of decreased profitability of the Bank driven by an increase in expenses related to the attraction of additional cash and placement of the Bank's free liquidity in assets with low profitability.

Market liquidity risk

The risk of market liquidity is the risk connected with inability to buy / sell assets in the market in desirable quantity or through repurchase agreements at the announced market prices or during desirable terms. In particular, this risk can be implemented in the over-the-counter market (OTC), or when it is necessary to dispose (sell) in the market the portfolio securities whose volume significantly exceeds traded volumes in the corresponding market. That is, large deals cannot be carried out at fair value or the market is not capable to take the desirable volume in the short-term perspective. The Group manages the market liquidity risk by controlling its assets and setting certain assumptions on discount and selling time of available assets. In this context, the realization of risk means the Bank's deteriorated ability to sell or finance assets with borrowed funds of professional market participants or private investors. The market liquidity risk is managed through establishing the market risk limits calculated on the basis of the VaR-model.

Model risk

The model risk represents risk arising from inappropriate understanding of complexity related to the current state of affairs within the applied model. Risk factors can include both the application of inadequate calculation parameters and the use of incorrect assumptions to assess client/ counterparty behaviour, and incorrect portfolio segmentation. The model risk cannot be measured directly, but its effect can be mitigated by the model validation and establishing clear procedures to measure the model parameters. In addition, the risk mitigation implies considering qualitative conservative adjustments related to concentration risk, regulatory requirements and business planning. For the purpose of model risk mitigation, any forecast assumptions are only considered with a discount.

The assessment of liquidity risk management is based on the daily liquidity gap analysis (LAB) based on multilevel assessment of cash flows (seven types of cash flows) covering an unlimited time range. Separate cash flows are generated for different future time periods to ensure effective liquidity management. The multilevel assessment implies the formation and the analysis of various cash flows: cash flows driven by existing contractual obligations (balance sheet and off-balance sheet), modelled cash flows from instruments with uncertain timing and cash flows modelled with account for customer behaviour and financial instrument type. LAB-model forms accumulated cash flows in Euro and separate cash flows in other currencies. The flows are modelled for the base-case scenario (normal market conditions) and for several stressful scenarios. The final outcome of the modelling is a predictable liquidity profile summarising cash flows from all levels, which is the key indicator for managing the liquidity gap risk.

21 Financial Risk Management (Continued)

As regards the liquidity risk, risk appetite is determined by the system of the quantitative indicators consisting of a combination of liquidity limits and assumptions used for the scenarios, and the minimum period of time during which the Bank, using the Portfolio of Reserve Liquidity, can cover the liquidity gap, which arose in case of unforeseen outflow of cash. Commerzbank Group applies conservative approach to determining risk appetite, assuming that key assets will be renewed, whereas keeping the sufficient buffer of liquidity to cover the potential outflow of deposits or any other financing resources.

The bank applies the following principles to determining risk appetite for liquidity risk:

- The Bank's risk appetite represents the minimum period of time during which Bank can guarantee an appropriate liquidity position in a stressful scenario;
- Possibility to carry out operations in the markets under partially stressful conditions, subject to restrictions on operations, in particular, with regard to money market, capital market, repo market and the foreign exchange market;
- The maximum threshold of liquidity gap has been set for stressful scenarios to be filled with specially created reserve to support a certain level of the principal (credit) activity;
- Subject to assessment is the negative impact on the liquidity profile and structure of cash flows when long-term credit rating is downgraded by two steps;
- Risk appetite covers the entire outflow of the volatile part of financing resources within one month;
- credit operations are grouped into key and non-key assets. For key activities, risk appetite is established taking into account the renewal of a part of assets that ensures continuous operations in stressful conditions. For non-key types of activity an asset can be exited under the contingency plan approved by the Bank management;
- partial draw down of open credit lines.
- To comply with statutory requirements, the Bank calculates liquidity ratios on a daily basis. These ratios are:
- Instant liquidity ratio (N2), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand.
- Current liquidity ratio (N3) is the proportion of liquid assets to liabilities maturing within 30 days.
- Long term liquidity ratio (N4) is the proportion of long-term assets (with maturity of over one year) to long-term liabilities and equity.

Starting from 1 January 2015, the Bank calculates short-term liquidity ratio and provides monthly reports "Calculation of Short-Term Liquidity Ratio (Basel III)" to the Bank of Russia (form 0409122).

Reputational risk

Reputational risks – risk of negative perception of the Bank by customers, counterparties, public, supervisory agencies and investors, which may have an adverse effect of the Bank's ability to maintain existing business relationships and build new ones as well as maintain access to financial resources on an ongoing basis. Covering contingent losses from the materialisation of reputation risks directly from economical capital is not implemented and is taken into account in determining the economical capital and assessing capital adequacy related to business and operational risks.

21 Financial Risk Management (Continued)

The reputational risk is a non-financial risk. It is assessed on the basis of a motivated judgement from the analysis of the risk factors. The assessment of reputational risk is performed on regular basis (at least annually) as part of risk inventory count procedure carried out by the Risk Management Division. Risk appetite to reputational risk is determined by the Group's tolerance to risk. Meanwhile, the Group has zero tolerance to primary reputational risks; with regard to secondary reputational risks, the Group understands that they can arise as a result of the materialisation of other types of bank risks.

Reputational risk should be managed to reduce potential losses, keep and maintain the business reputation of the Bank with its clients and contractors, the Group, participants of the financial market, public authorities, and self-regulated organisations where the Bank holds membership.

The aim of managing the Bank's reputational risk is achieved through the application of an integrated approach, which implies solving the following tasks:

- receiving prompt and objective data on the status and level of reputational risk;
- the identification and analysis of the reputational risk arising with the Bank in the course of its operation;
- performing qualitative and quantitative assessment (measurement) of reputational risk;
- identifying correlations between various risks to evaluate the impact of measures taken to mitigate one type of risk on the increase or decrease of other risks;
- the establishment of reputational risk control system at a stage when negative trends arise

Strategic and business risk

The business risk implies potential financial losses as a result of reduction in the expected income and increase in expected expenses, that is, due to the difference in expected and actual indicators. Business risk consists of operational income and expense components and therefore, depends on various factors directly or indirectly affecting their size, such as the general situation in the market, competitiveness of the Bank, volume of current operations, etc.

Coverage from capital is required only when the business risk exceeds the expected targets for the next 12 month (or when the Bank expects loss over the next 12 months) and the risk was treated as significant during the annual risk inventory count procedure.

Strategic risk means mid- or long-term risk of the adverse effect of various factors on the achievement of goals set by the Bank; this type of risk is reviewed for the time period exceeding one year. Thus, the business risk is a component of strategy risk estimated for a short-term time interval. The above risks can arise as a result of:

- inability to implement the Bank's business strategy;
- failure to take effective and timely measures to prevent significant negative trends, departure from original plans as a result of external factors (market conditions, business and political environment, etc.) or internal factors;
- taking wrong decisions in the course of managing the Bank;
- errors in the development and deployment of the Bank's business strategy.

21 Financial Risk Management (Continued)

The strategic risk is a non-financial risk. It is based on professional judgement generated from the analysis of risk factors. Such factors include:

- insufficiently clear or feasible goals and objectives set for Bank;
- taking wrong management decisions during the Bank's development strategy implementation, including those affecting the long-term outlook and causing deterioration of the Bank's financial performance;
- Incorrect/ insufficiently substantiated definition provided in determining the promising lines of business where the Bank can get competitive advantage;
- total or partial failure to take appropriate organisational measures/ management decisions, which can ensure the achievement of the strategic goals of the Bank's activity;
- deficiencies in managing the Bank risks, implementation of risky credit, investment and market policies, high level of operational risk, deficiencies in the organisation of internal controls, including those designed for counteracting the legalisation (laundering) of income generated from criminal activities, and terrorism financing;
- deficiencies in the human resource management policy in selecting and allocation of personnel; lack of necessary qualification of the Bank employees, including for taking management decisions and the accurate assessment of threats to the Bank development;
- total or partial absence of material, technical and human resources required for the implementation of strategic plans.

Regulatory risk (compliance risk)

Regulatory risk (compliance risk) – the likelihood of financial loss due to the Bank's non-compliance with the Russian legislation, the Bank's internal regulations, standards of self-regulatory organisations (if such standards and rules are obligatory for the Bank) and as a result of sanctions and/or other enforcement measures taken by the supervisory agencies. The recognition of compliance risk as significant is driven by increased attention to the Russian and international supervisory authorities. Meanwhile, the individual coverage of compliance risk is made from the coverage intended for operational risk rather than from capital.

Analysis of exposure to foreign currency risk

The table below summarises the Bank's exposure to currency risk in respect of financial assets, liabilities and off-balance sheet position calculated based on the values of open currency positions determined by the method specified in the Instruction of the CBRF instructions (report form 0409634) as at 31 December 2017:

(in thousands of Russian Roubles)	**2017**	**2016**
Euros	360 102	(86 441)
US Dollar	(58 039)	(62 322)
Other foreign currencies in aggregate	323 521	88 373

The Bank has extended loans and advances denominated in foreign currencies. Movements in foreign exchange rates affect the borrowers' repayment ability and may lead to loan losses.

21 Financial Risk Management (Continued)

Sensitivity of the Bank's net assets (before tax) to an increase in the foreign currency exchange rates to Russian Rouble by 30% (2016: 30%) is presented in the table below. The sensitivity is calculated based on the values of open currency positions determined by the method specified in the CBRF instructions (report form 0409634).

(in thousands of Russian Roubles)	2017	2016
Euros	108 031	(25 932)
US Dollar	(17 412)	(18 697)
Other currencies in aggregate	97 056	26 512

Analysis of interest rate risk

The table below summarises the Bank's exposure to interest rate risks as at 31 December 2017. Included in the table are the Bank's main interest-bearing financial assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. Derivatives (cross currency interest rate and interest rate swaps) are presented at nominal amounts, according to contract terms.

(in thousands of Russian Roubles)	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 1 year	Total
Financial assets					
Due from other banks	9 137 372	-	-	262	9 137 634
Loans and advances to customers	2 065 793	8 829 056	1 797 848	866 177	13 558 874
Securities available for sale	-	998 116	-	5 631 739	6 629 855
Total principal interest-bearing financial assets	**11 203 165**	**9 827 172**	**1 797 848**	**6 498 178**	**29 326 363**
Financial liabilities					
Due to other banks	3 245 638	14 323	-	347 695	3 607 656
Customer accounts	20 636 618	497 759	-	-	21 134 377
Total principal interest bearing financial liabilities	**23 882 256**	**512 082**	**-**	**347 695**	**24 742 033**
Interest rate and cross currency and interest rate swaps	**576 002**	**3 891 617**	**576 002**	**(3 467 247)**	**1 576 374**
Net interest sensitivity gap at 31 December 2017	**(12 103 089)**	**13 206 707**	**2 373 850**	**2 683 236**	**6 160 704**

21 Financial Risk Management (Continued)

The table below summarises the Bank's exposure to interest rate risks as at 31 December 2016.

(in thousands of Russian Roubles)	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 1 year	Total
Financial assets					
Due from other banks	4 430 434	2 925 139	-	-	7 355 573
Loans and advances to customers	5 477 322	4 637 104	50 705	1 262 719	11 427 850
Securities available for sale	-	607 555	850 183	2 119 689	3 577 427
Total principal interest-bearing financial assets	**9 907 756**	**8 169 798**	**900 888**	**3 382 408**	**22 360 850**
Financial liabilities					
Due to other banks	3 279 187	19 290	-	-	3 298 477
Customer accounts	15 888 119	1 075 707	189 468	-	17 153 294
Total principal interest bearing financial liabilities	**19 167 306**	**1 094 997**	**189 468**	**-**	**20 451 771**
Interest rate and cross currency and interest rate swaps	**(3 355 263)**	**5 675 529**	**-**	**526 716**	**2 846 982**
Net interest sensitivity gap at 31 December 2016	**(12 614 813)**	**12 750 330**	**711 420**	**3 909 124**	**4 756 061**

All of the Bank's interest-bearing financial assets and liabilities reprice within 5 years (2016: all reprice within 5 years).

The Bank is exposed to cash flow interest rate risk, principally through assets and liabilities for which interest rates are reset as market rates change. Such assets and liabilities are primarily presented in the above table as being repriced in the short-term. The Bank is exposed to fair value interest rate risk as a result of assets and liabilities at fixed interest rates. Such assets and liabilities are primarily presented in the above table as being repriced in the long-term. In practice, interest rates that are contractually fixed on both assets and liabilities are usually renegotiated to reflect current market conditions.

The Bank monitors on a daily basis the level of mismatch of interest rate repricing that may be undertaken. In the absence of any available hedging instruments the Bank normally seeks to match its interest rate positions.

21 Financial Risk Management (Continued)

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

In % p.a.	2017 Russian Rouble	2017 US Dollar	2017 Euro	2016 Russian Rouble	2016 US Dollar	2016 Euro
Financial assets						
Cash and cash equivalents	0.0	0.0	0.0	0.0	0.0	0.0
Mandatory cash balances with the CBRF	0.0	-	-	0.0	-	-
Due from other banks	6.7	1.4	-	8.9	3.0	-
Loans and advances to customers	8.4	3.0	1.4	9.0	3.0	1.9
Securities available for sale	7.5	-	-	7.7	-	-
Interest-bearing derivative financial assets	9.8	1.6	-	10.0	0.9	-
Other financial assets	0.0	0.0	0.0	0.0	0.0	0.0
Financial liabilities						
Due to banks within Commerzbank Group	6.5	1.9	0.0	0.0	1.7	0.0
Customer accounts						
- current and settlement accounts	0.0	0.0	0.0	0.0	0.0	0.0
- term placements	5.2	1.2	0.0	7.2	1.3	0.0
Interest-bearing derivative financial liabilities	8.8	1.6	-	9.4	1.0	-
Other financial liabilities	0.0	0.0	0.0	0.0	0.0	0.0

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

Sensitivity to interest rate increase by 600 basis points (6%) in Russian Roubles and Kazakhstan Tenge, by 100 basis points (1%) in Euros and US Dollars is presented in the table below. Sensitivity of the Bank’s net assets (before tax) to a decrease in interest rates will be approximately the same, but with opposite sign:

(in thousands of Russian Roubles)	RR	US Dollar	Euro	Kazakhstan Tenge	Total
Trading book	416 870	10 412	(8 399)	1 924	**420 807**
Banking book, except for debt securities	(134 871)	(863)	(22 543)	(9 758)	**(168 035)**
Banking book – debt securities (liquidity portfolio)	(603 746)	-	-	-	**(603 746)**
Total	**(321 747)**	**9 549**	**(30 942)**	**(7 834)**	**(350 974)**

Sensitivity analysis at 31 December 2016:

In thousands of Russian Roubles	RR	US Dollar	Euro	Total
Trading book	242 709	(9 410)	15 553	248 852
Banking book, except for debt securities	(122 624)	(3 853)	(8 302)	(134 779)
Banking book – debt securities (liquidity portfolio)	(181 029)	-	-	(181 029)
Total	**(60 944)**	**(13 263)**	**7 251**	**(66 956)**

21 Financial Risk Management (Continued)

Geographical risk concentrations

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

(in thousands of Russian Roubles)	Russia	OECD	Other countries	Total
Financial assets				
Cash and cash equivalents	5 203 073	1 522 833	505	6 726 411
Mandatory cash balances with the CBRF	330 058	-	-	330 058
Derivative financial assets	121 443	1 901 629	-	2 023 072
Due from other banks	6 545 431	2 592 203	-	9 137 634
Loans and advances to customers	13 445 368	12	113 494	13 558 874
Securities available for sale	6 629 855	-	-	6 629 855
Other financial assets	11 212	1 861	10 601	23 674
Total financial assets	**32 286 440**	**6 018 538**	**124 600**	**38 429 578**
Financial liabilities				
Due to other banks	-	3 607 656	-	3 607 656
Customer accounts	19 776 474	1 344 814	13 089	21 134 377
Derivative financial liabilities	36 645	585 290	-	621 935
Other financial liabilities	1 132	39 337	82	40 551
Total financial liabilities	**19 814 251**	**5 577 097**	**13 171**	**25 404 519**
Net position	**12 472 189**	**441 441**	**111 429**	**13 025 059**

Assets, liabilities and credit related commitments have been based on the country in which the counterparty is located. Cash on hand has been allocated based on the country in which it is physically held.

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

(in thousands of Russian Roubles)	Russia	OECD	Other countries	Total
Financial assets				
Cash and cash equivalents	2 193 195	5 945 902	-	8 139 097
Mandatory cash balances with the CBRF	324 397	-	-	324 397
Derivative financial assets	517 337	3 121 873	-	3 639 210
Due from other banks	1 832 945	5 522 628	-	7 355 573
Loans and advances to customers	11 427 850	-	-	11 427 850
Securities available for sale	3 577 427	-	-	3 577 427
Other financial assets	16 584	885	1 447	18 916
Total financial assets	**19 889 735**	**14 591 288**	**1 447**	**34 482 470**
Financial liabilities				
Due to other banks	-	3 298 477	-	3 298 477
Customer accounts	16 454 835	698 459	-	17 153 294
Derivative financial liabilities	149 373	280 140	-	429 513
Other financial liabilities	23 572	6 926	278	30 776
Total financial liabilities	**16 627 780**	**4 284 002**	**278**	**20 912 060**
Net position	**3 261 955**	**10 307 286**	**1 169**	**13 570 410**

21 Financial Risk Management (Continued)

Liquidity risk analysis

Set liquidity ratios were as follows:

- Instant liquidity ratio (N2) At 31 December 2017, this ratio totals 105.1% (at 31 December 2016: 83.1%), while the required ratio should not be less than 15%;
- Current liquidity ratio (N3) At 31 December 2017, this ratio totals 105.2% (at 31 December 2016: 100.3%), while the required ratio should not be less than 50%;
- Long-term liquidity ratio (N4) At 31 December 2017, this ratio totals 22.9% (at 31 December 2016: 24.0%), while the required ratio should not be more than 120%;

The table below shows financial liabilities by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, prices specified in deliverable forward agreements to purchase financial assets for cash, contractual amounts to be exchanged under gross settled currency swaps, and gross loan commitments. Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in the statement of financial position is based on discounted cash flows. Net settled derivatives are included at the net amounts expected to be paid. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the CBRF spot exchange rate at the end of the reporting period.

The maturity analysis of undiscounted financial liabilities at 31 December 2017 is as follows:

(in thousands of Russian Roubles)	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Total**
Financial liabilities					
Due to other banks	362 685	9 031	404 112	2 908 939	3 684 767
Customer accounts	20 873 877	360 760	130 164	-	21 364 801
Gross settled derivatives:					
- cash inflows	(5 910 901)	(9 363 553)	(624 720)	(8 987 202)	(24 886 376)
- cash outflows	6 018 825	8 665 418	621 133	8 179 864	23 485 240
Other financial liabilities	35 369	244	4 224	714	40 551
Gross loan commitments	10 015 347	-	-	-	10 015 347
Financial guarantees issued	13 915 200	-	-	-	13 915 200
Irrevocable import letters of credit	8 642 883	-	-	-	8 642 883
Total potential future payments for financial obligations	**53 953 285**	**(328 100)**	**534 913**	**2 102 315**	**56 262 413**

21 Financial Risk Management (Continued)

The maturity analysis of undiscounted financial liabilities at 31 December 2016 is as follows:

(in thousands of Russian Roubles)	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Total**
Financial liabilities					
Due to other banks	248 490	8 188	57 454	3 109 728	3 423 860
Customer accounts	15 899 007	607 516	668 509	-	17 175 032
Gross settled derivatives:					
- cash inflows	(4 874 760)	(5 705 941)	(5 313 354)	(10 940 786)	(26 834 841)
- cash outflows	4 609 566	5 611 962	4 193 292	9 210 324	23 625 144
Other financial liabilities	26 755	990	2 531	500	30 776
Gross loan commitments	10 907 609	-	-	-	10 907 609
Financial guarantees issued	16 557 007	-	-	-	16 557 007
Irrevocable import letters of credit	4 473 345	-	-	-	4 473 345
Total potential future payments for financial obligations	**47 847 019**	**522 715**	**(391 568)**	**1 379 766**	**49 357 932**

Customer accounts are classified in the above analysis based on contractual maturities.

The Bank does not use the above maturity analysis to manage liquidity. Instead, the Bank monitors expected maturities which are summarised in the following tables:

	31 December 2017				
(in thousands of Russian Roubles)	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**Over 12 months**	**Total**
Financial assets					
Cash and cash equivalents	6 726 411	-	-	-	6 726 411
Mandatory cash balances with the CBRF	322 284	7 774	-	-	330 058
Derivative financial assets	15 356	729 398	-	1 278 318	2 023 072
Due from other banks	9 137 372	-	-	262	9 137 634
Loans and advances to customers	606 100	1 750 175	6 274 700	4 927 899	13 558 874
Securities available for sale	-	998 116	-	5 631 739	6 629 855
Other financial assets	6 200	8 029	3 783	5 662	23 674
Total financial assets	**16 813 723**	**3 493 492**	**6 278 483**	**11 843 880**	**38 429 578**
Financial liabilities					
Due to other banks	362 524	14 322	-	3 230 810	3 607 656
Customer accounts	20 636 618	497 759	-	-	21 134 377
Derivative financial liabilities	123 280	24 163	3 513	470 979	621 935
Other financial liabilities	35 369	1 331	3 137	714	40 551
Total financial liabilities	**21 157 791**	**537 575**	**6 650**	**3 702 503**	**25 404 519**
Net liquidity gap at 31 December 2017	**(4 344 068)**	**2 955 917**	**6 271 833**	**8 141 377**	**13 025 059**
Cumulative liquidity gap at 31 December 2017	**(4 344 068)**	**(1 388 151)**	**4 883 682**	**13 025 059**	**-**

21 Financial Risk Management (Continued)

All of the Bank's financial assets and liabilities mature within 5 years (2016: within 6 years).

	31 December 2016				
(in thousands of Russian Roubles)	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**Over 12 months**	**Total**
Financial assets					
Cash and cash equivalents	8 139 097	-	-	-	8 139 097
Mandatory cash balances with the CBRF	300 471	20 343	3 583	-	324 397
Derivative financial assets	278 870	1 319 291	33 588	2 007 461	3 639 210
Due from other banks	4 430 434	2 925 139	-	-	7 355 573
Loans and advances to customers	3 006 055	3 979 606	734 327	3 707 862	11 427 850
Securities available for sale	-	607 555	850 183	2 119 689	3 577 427
Other financial assets	6 531	7 335	4 874	176	18 916
Total financial assets	**16 161 458**	**8 859 269**	**1 626 555**	**7 835 188**	**34 482 470**
Financial liabilities					
Due to other banks	3 279 187	19 290	-	-	3 298 477
Customer accounts	15 888 119	1 075 707	189 468	-	17 153 294
Derivative financial liabilities	13 676	138 799	39	276 999	429 513
Other financial liabilities	26 755	1 819	1 702	500	30 776
Financial liabilities					
Total financial liabilities	**19 207 737**	**1 235 615**	**191 209**	**277 499**	**20 912 060**
Net liquidity gap at 31 December 2016	**(3 046 279)**	**7 623 654**	**1 435 346**	**7 557 689**	**13 570 410**
Cumulative liquidity gap at 31 December 2016	**(3 046 279)**	**4 577 375**	**6 012 721**	**13 570 410**	**-**

Management believes that in spite of a substantial portion of customer accounts being on demand, diversification of these deposits by number and type of customers, and the past experience of the Bank would indicate that these customer accounts provide a long-term and stable source of funding for the Bank. Customer accounts are classified in the above analysis based on contractual maturities. The portfolio of securities is classified on the basis of their contractual maturities. However, these securities are quoted and freely tradable, and management believes they represent liquid assets of the Bank.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

22 Management of Capital

The Bank's objectives when managing capital are: (i) to comply with the capital requirements set by the Central Bank of the Russian Federation and (ii) to safeguard the Bank's ability to continue as a going concern. Internal procedures for assessing capital adequacy (ICAAP) constitute the process implemented by the Bank to assess adequacy of available capital, i.e. internal capital to cover assumed and potential risks. ICAAP also includes the procedures for capital planning on the basis of the Bank's established development strategy, business development goals and the results of comprehensive current assessment of the above risks.

Information on the policy and procedures of capital management within ICAAP is provided in the Note 21.

In 2016-2017, the Bank was engaged in improving its risk and capital management system (internal capital adequacy assessment process (ICAAP)) due to the need to comply with the requirements set out in the Bank of Russia's Instruction No. 3624-U of 15 April 2015 that come into force since 1 January 2017. As part of the project, the Bank developed and defined material risk management methods and procedures; capital management methods and procedures, including setting the target (planned) level of capital, current capital requirement estimation, capital adequacy assessment; material risk control system and the Bank's ICAAP reports. Therefore, in 2017, the Bank's risk and capital management system was changed, however the key elements and principles of the capital and risk management system described in these financial statements remained the same.

As at 31 December 2017, the Bank's regulatory capital on the basis of the Bank's statutory reports was RR 12 143 065 thousand (2016: RR 12 137 261 thousand).

The Bank complied with all externally imposed capital requirements throughout 2017 and 2016.

23 Contingencies and Commitments

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

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

The Russian transfer pricing legislation is to a large extent aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD) but has specific characteristics. This legislation provides for the possibility of additional tax assessment for controlled transactions (transactions between related parties and certain transactions between unrelated parties) if such transactions are not on an arm's-length basis. The Management has implemented internal controls to be in compliance with this transfer pricing legislation.

23 Contingencies and Commitments (Continued)

Tax liabilities arising from controlled transactions are determined based on their actual transaction prices. It is possible, with the evolution of the interpretation of transfer pricing rules, that such transfer prices could be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Bank.

As Russian tax legislation does not provide definitive guidance in certain areas, the Bank adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Bank. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that outflow of resources will be required should such tax positions and interpretations be challenged by the relevant authorities. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Bank.

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

In thousands of Russian Roubles	**2017**	**2016**
Due within 1 year	39 747	119 982
Between 1 and 5 years	30 918	57 673
Due after 5 years	-	345
Total operating lease commitments	**70 665**	**178 000**

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

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

23 Contingencies and Commitments (Continued)

Outstanding credit related commitments are as follows:

(in thousands of Russian Roubles)	Note	2017	2016
Financial guarantees issued		13 915 200	16 557 007
Undrawn credit lines		4 564 500	5 591 906
Unused limits on overdraft loans		5 450 847	5 315 703
Irrevocable import letters of credit		8 642 883	4 473 345
Export letters of credit		20 433	111 382
Provision for credit related commitments	14	(25 198)	(22 485)
Total credit related commitments, net of provision		**32 568 665**	**32 026 858**

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. The fair value of credit related commitments was RR 25 198 thousand at 31 December 2017 (2016: RR 22 485 thousand).

Credit related commitments are denominated in currencies as follows:

(in thousands of Russian Roubles)	2017	2016
RR	13 422 098	16 479 181
Euros	6 985 858	7 314 296
US Dollar	11 936 916	8 087 694
Other	223 793	145 687
Total	**32 568 665**	**32 026 858**

24 Derivative Financial Instruments

The fair values of derivative instruments at the end of the reporting period by currency are disclosed in the table below. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the end of the respective reporting period.

	2017		2016	
In thousands of Russian Roubles	**Contracts with positive fair value**	**Contracts with negative fair value**	**Contracts with positive fair value**	**Contracts with negative fair value**
Foreign exchange forwards and swaps: fair value at the end of the reporting period				
- USD receivable on settlement (+)	-	544 513	13 144	3 358 189
- USD payable on settlement (-)	(5 744 974)	-	(2 434 958)	(608 739)
- EUR receivable on settlement (+)	-	3 244 447	-	-
- EUR payable on settlement (-)	(2 300 156)	(2 209 960)	(5 947 164)	(556 465)
- RR receivable on settlement (+)	8 262 780	2 194 971	9 043 909	1 159 989
- RR payable on settlement (-)	-	(3 923 262)	(13 093)	(3 505 607)
- Other currencies receivable on settlement (+)	-	-	-	-
- Other currencies payable on settlement (-)	(34 559)	-	-	-
Total foreign exchange forwards and swaps	**183 091**	**(149 291)**	**661 838**	**(152 633)**

	2017		2016	
In thousands of Russian Roubles	**Contracts with positive fair value**	**Contracts with negative fair value**	**Contracts with positive fair value**	**Contracts with negative fair value**
Interest rate swaps: fair value at the end of the reporting period				
- USD receivable on settlement (+)	4 397 644	1 249 998	7 043 850	1 213 138
- USD payable on settlement (-)	(1 433 497)	-	(1 425 436)	-
- RR receivable on settlement (+)	3 380 963	1 609 395	3 324 990	1 677 632
- RR payable on settlement (-)	(4 506 794)	(3 330 372)	(5 966 032)	(3 167 650)
Total interest rate and cross currency interest rate swaps	**1 838 316**	**(470 979)**	**2 977 372**	**(276 880)**
Options	**1 665**	**(1 665)**	**-**	**-**
Net fair value of derivatives	**2 023 072**	**(621 935)**	**3 639 210**	**(429 513)**

24 Derivative Financial Instruments (Continued)

Foreign exchange and other derivative financial instruments entered into by the Bank are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions. Financial derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of derivative financial instruments can fluctuate significantly over time.

At 31 December 2017, the Bank had liabilities under spot transactions in foreign currency of RR 3 444 thousand (2016: RR 843 727 thousand). The net fair value of spot transactions is insignificant.

25 Fair Value Disclosures

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

(a) Recurring fair value measurements

Recurring fair value measurements are those that other IFRS standards require or permit in the statement of financial position at the end of each reporting period. The level in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

	31 December 2017				**31 December 2016**			
(in thousands of Russian Roubles)	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
ASSETS AT FAIR VALUE								
FINANCIAL ASSETS								
Investment securities available for sale								
- Russian government bonds	6 629 855	-	-	6 629 855	3 577 427	-	-	3 577 427
Derivative financial instruments	-	2 023 072	-	2 023 072	-	3 639 210	-	3 639 210
TOTAL ASSETS AT FAIR VALUE	**6 629 855**	**2 023 072**	**-**	**8 652 927**	**3 577 427**	**3 639 210**	**-**	**7 216 637**

25 Fair Value Disclosures (Continued)

(in thousands of Russian Roubles)	31 December 2017 Level 1	Level 2	Level 3	Total	31 December 2016 Level 1	Level 2	Level 3	Total
LIABILITIES AT FAIR VALUE								
FINANCIAL LIABILITIES								
Derivative financial instruments	-	621 935	-	621 935	-	429 513	-	429 513
TOTAL LIABILITIES AT FAIR VALUE	**-**	**621 935**	**-**	**621 935**	**-**	**429 513**	**-**	**429 513**

Derivative financial instruments whose fair value is established through valuation techniques with inputs observable in the market are interest rate and currency swaps, and forward foreign exchange contracts. Fair values of these instruments are calculated on the basis of models using present value calculation. These models combine different inputs, including credit quality, forward and spot exchange rates as well as interest rate curves.

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

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

(in thousands of Russian Roubles)	31 December 2017 Level 1	Level 2	Level 3	Carrying value	31 December 2016 Level 1	Level 2	Level 3	Carrying value
FINANCIAL ASSETS								
Cash and cash equivalents								
- Cash on hand	33 917	-	-	33 917	21 516	-	-	21 516
- Cash balances with the CBRF	-	4 136 058	-	4 136 058	-	697 104	-	697 104
- Correspondent accounts and overnight placements	-	1 523 387	-	1 523 387	-	5 946 370	-	5 946 370
- Balances on settlement accounts with trading systems	-	1 033 049	-	1 033 049	-	1 474 107	-	1 474 107
Mandatory cash balances with the CBRF	-	330 058	-	330 058	-	324 397	-	324 397
Due from other banks	-	9 138 091	-	9 137 634	-	7 362 540	-	7 355 573
Loans and advances to customers	-	-	13 620 772	13 558 874	-	-	11 508 668	11 427 850
Other financial assets	-	-	23 674	23 674	-	-	18 916	18 916
TOTAL FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE	**33 917**	**16 160 643**	**13 644 446**	**29 776 651**	**21 516**	**15 804 518**	**11 527 584**	**27 265 833**

TRANSLATOR'S EXPLANATORY NOTE: This version of our report is a translation from the original, which was prepared in Russian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation. This English translation does not contain the English translation of the explanatory information, which are part of the official Russian version of the accompanying annual accounting (financial) reports.

25 Fair Value Disclosures (Continued)

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

	31 December 2017				31 December 2016			
(in thousands of Russian Roubles)	**Level 1**	**Level 2**	**Level 3**	**Carrying value**	**Level 1**	**Level 2**	**Level 3**	**Carrying value**
FINANCIAL LIABILITIES								
Due to other banks								
- Correspondent accounts and overnight placements of other banks	-	212 471	-	212 471	-	180 377	-	180 377
- Term placements of other banks	-	3 558 692	-	3 395 185	-	3 154 258	-	3 118 100
Customer accounts								
- Current/settlement accounts of other legal entities	-	14 882 255	-	14 882 255	-	10 340 670	-	10 340 670
- Term deposits of other legal entities	-	6 478 299	-	6 252 104	-	6 799 181	-	6 812 329
- Current/demand accounts of individuals	-	18	-	18	-	295	-	295
- Term deposits of individuals	-	-	-	-	-	-	-	-
Debt securities in issue	-	-	-	-	-	-	-	-
Other financial liabilities	-	40 551	-	40 551	-	30 776	-	30 776
TOTAL FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE	-	**25 172 286**	-	**24 782 584**	-	**20 505 557**	-	**20 482 547**

(c) Valuation techniques and assumptions

Assets for which the fair value approximates their carrying value Fair value of liquid or short term (less than 3 months) financial assets and financial liabilities is assumed to approximate their fair value. This assumption is also used for demand deposits and saving accounts without set maturity.

Loans and receivables carried at amortised cost. The estimated fair value of a financial instrument is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

Discount rates used depend on the currency, maturity of the instrument and credit risk of the counterparty. The Bank applied discount rates calculated on the basis of risk free curves for each currency, appropriately amended to include:

- cost of funding for Commerzbank (based on credit default swap curve for Commerzbank AG);
- country risk differential (based on credit default swap curve for Russian Federation, currency and interest rate swap curves for each currency);
- individual credit risk (based on credit margin).

25 Fair Value Disclosures (Continued)

The following table gives information about applied discount rates (with adjustment for average credit margin):

In % pa	**2017**	**2016**
Exposures denominated in Russian Roubles		
up to 3 months	7.18% - 8.74%	10.7% - 11.4%
3 months to 1 year	8.62% - 8.77%	11.1% - 11.5%
over 1 year	8.19% - 8.64%	9.6% - 11.1%
Exposures denominated in US Dollars		
up to 3 months	1.79% - 2.04%	2.5% - 2.8%
3 months to 1 year	2.04% - 2.22%	2.8% - 3.0%
over 1 year	2.22% - 2.76%	3.0% - 4.0%
Exposures denominated in Euro		
up to 3 months	1.02% - 1.53%	0.6% - 2.5%
3 months to 1 year	0.94% - 1.02%	1.0% - 1.1%
over 1 year	0.93% - 2.0%	1.0% - 1.5%
Exposures denominated in Tenge		
up to 3 months	9.87% - 11.31%	-
3 months to 1 year	9.95% - 10.05%	-
over 1 year	10.04% - 10.4%	-

Liabilities carried at amortised cost. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. Discount rates used were consistent with the Bank's credit risk and also depend on currency and maturity of the instrument as described above.

26 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IAS 39 "Financial Instruments: Recognition and Measurement", the Bank classifies financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two sub-categories: (i) assets designated as such upon initial recognition, and (ii) financial assets held for trading ("Trading assets"). In addition, finance lease receivables form a separate category.

At 31 December 2017 and 31 December 2016, all financial assets of the Bank are classified as loans and receivables, except for securities available for sale classified as financial assets available sale.

At 31 December 2017 and 31 December 2016, all of the Bank's financial liabilities except for derivatives were carried at amortised cost.

Derivatives belong to the fair value through profit or loss measurement category.

27 Related Party Transactions

Parties are generally considered to be related if the parties are under common control, or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The outstanding balances with related parties were as follows:

(in thousands of Russian Roubles)	**2017 Commerzbank Group**	**2016 Commerzbank Group**
Correspondent accounts with banks – contractual interest rate: 0% (2016: 0%)	1 522 833	5 945 902
Due from other banks – contractual interest rate: 1.35% (2015: 1.1% - 4.5%)	2 592 203	5 522 384
Derivative financial instruments (assets)	1 901 629	3 121 874
Other financial assets	260	57
Other assets	3 678	16 983
Due to banks – contractual interest rate: 0%–6.5% (2016: 0% - 1.7%	3 607 656	3 298 477
Customer accounts – contractual interest rate: 0% – 3% (2016: 0% - 7.3%	124 110	220 928
Derivative financial instruments (liabilities)	585 291	280 139
Other financial liabilities	39 540	6 926
Other liabilities	48 571	38 586

The income and expense items with related parties were as follows:

(in thousands of Russian Roubles)	**2017 Commerzbank Group**	**2016 Commerzbank Group**
Interest income	101 734	49 465
Interest expense	(60 694)	(65 422)
Fee and commission income	31 318	48 841
Fee and commission expense	(55 740)	(77 317)
Other operating income	85 710	82 223
Administrative and other operating expenses	(418 930)	(425 425)

Other rights and obligations with related parties were as follows:

(in thousands of Russian Roubles)	**2017 Commerzbank Group**	**2016 Commerzbank Group**
Contingent receivables on the guarantees issued by related parties to the Bank (other than counter-guarantees)	16 977 427	11 882 879
Guarantees issued by the Bank to related parties	5 491 293	9 630 789
Receivables on gross settled term deals and derivatives	29 352 636	20 133 340
Liabilities under gross settled term deals and derivatives	27 932 670	17 308 978
Irrevocable credit lines	700 000	700 000

27 Related Party Transactions (Continued)

Key management compensation is presented below:

In thousands of Russian Roubles	2017 Interest income	2017 Loans and advances to customers	2016 Interest income	2016 Loans and advances to customers
Loans and advances to customers	-	-	53	-
Total	**-**	**-**	**53**	**-**

In thousands of Russian Roubles	2017 Expense	2017 Accrued liability	2016 Expense	2016 Accrued liability
Salaries, short-term bonuses, benefits in-kind	53 180	8 611	52 845	7 321
Long-term bonus scheme	5 741	14 931	4 880	9 190
Total	**58 921**	**23 542**	**57 725**	**16 511**

At 31 December 2017, operating lease commitments for premises leased by the Bank from Commerzbank Group's related party comprised RR 23 376 thousand (2016: RR 139 499 thousand).