Home Credit and Finance Bank

Consolidated Financial Statements
for the year ended 31 December 2017

Contents

KPMG

Independent Auditors' Report

To the Participants and the Council of OOO "Home Credit and Finance Bank"

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of OOO "Home Credit and Finance Bank" (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statements of profit or loss, other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the independence requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation and with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the requirements in the Russian Federation and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Impairment of loans to customers

Please refer to the Notes 3 (j), 13 and 24 (d) in the financial statements.

The key audit matter	How the matter was addressed in our audit
The impairment of loans to individuals is estimated by management through the application of mathematical methods using historical information on payments applying judgment and highly subjective assumptions. According to the Group's policy, impairment allowance for loans to individuals is calculated using mathematical models. Most of loans to individuals have no collateral, thus recovery rates are calculated based on statistics of loan repayments and do not consider cash flows from disposal of collateral. Due to the significance of loans to individuals (representing 70% of total assets) and the related estimation uncertainty, this is considered a key audit matter.	We assessed and tested the design and operating effectiveness of controls over completeness and accuracy of data inputs into impairment calculation models and timely reflection of delinquency events and loan repayments in the underlying systems. We evaluated the appropriateness and reasonableness of Group's assumptions in the impairment models. We assessed whether the assumptions used by the Group considered all relevant risks and whether they were reasonable in respect of historical experience, economic and legal environment. We also assessed whether the financial statement disclosures appropriately reflect the Group's exposure to credit risk.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 consolidated 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 consolidated 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 Group's internal control.

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

— Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated 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 auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

— Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report of findings from procedures performed in accordance with the requirements of Federal Law No 395-1, dated 2 December 1990, *On Banks and Banking Activity*

Management is responsible for the Group's compliance with mandatory ratios and for maintaining internal controls and organizing risk management systems in accordance with the requirements established by the Bank of Russia.

In accordance with Article 42 of Federal Law No 395-1, dated 2 December 1990 *On Banks and Banking Activity* (the "Federal Law"), we have performed procedures to examine:

- the Group's compliance with mandatory ratios as at 1 January 2018 established by the Bank of Russia; and
- whether the elements of the Group's internal control and organization of its risk management systems comply with the requirements established by the Bank of Russia.

These procedures were selected based on our judgment, and were limited to the analysis, inspection of documents, comparison of the Bank's internal policies, procedures and methodologies with the applicable requirements established by the Bank of Russia, and recalculations, comparisons and reconciliations of numerical data and other information.

Our findings from the procedures performed are reported below.

- Based on our procedures with respect to the Group's compliance with the mandatory ratios established by the Bank of Russia, we found that the Group's mandatory ratios, as at 1 January 2018, were within the limits established by the Bank of Russia.

  We have not performed any procedures on the accounting records maintained by the Group, other than those which we considered necessary to enable us to express an opinion as to whether the Group's consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year 2017 in accordance with the International Financial Reporting Standards.

- Based on our procedures with respect to whether the elements of the Group's internal control and organization of its risk management systems comply with the requirements established by the Bank of Russia, we found that:
  - as at 31 December 2017, the Bank's internal audit function was subordinated to, and reported to, the Council, and the risk management function was not

subordinated to, and did not report to, divisions taking relevant risks in accordance with the regulations and recommendations issued by the Bank of Russia;

- the Bank's internal documentation, effective on 31 December 2017, establishing the procedures and methodologies for identifying and managing the Group's significant credit, operational, market, interest rate, legal, liquidity and reputational risks, and for stress-testing, was approved by the authorised management bodies of the Bank in accordance with the regulations and recommendations issued by the Bank of Russia;

- as at 31 December 2017, the Bank maintained a system for reporting on the Group's significant credit, operational, market, interest rate, legal, liquidity and reputational risks, and on the Group's capital;

- the frequency and consistency of reports prepared by the Bank's risk management and internal audit functions during 2017, which cover the Group's credit, operational, market, interest rate, legal, liquidity and reputational risk management, was in compliance with the Bank's internal documentation. The reports included observations made by the Bank's risk management and internal audit functions as to their assessment of the effectiveness of the Group's procedures and methodologies, and recommendations for improvement;

- as at 31 December 2017, the Council and Executive Management of the Bank had responsibility for monitoring the Group's compliance with the risk limits and capital adequacy ratios established in the Bank's internal documentation. In order to monitor the effectiveness of the Group's risk management procedures and their consistent application during 2017, the Council and Executive Management of the Bank periodically discussed the reports prepared by the risk management and internal audit functions, and considered the proposed corrective actions.

Procedures with respect to elements of the Group's internal control and organization of its risk management systems were performed solely for the purpose of examining whether these elements, as prescribed in the Federal Law and as described above, comply with the requirements established by the Bank of Russia.

The engagement partner on the audit resulting in this independent auditors' report is:

Shevarenkov Evgeny Victorovich

JSC "KPMG"

Moscow, Russia

7 March 2018

	Note	2017 MRUB	2016 MRUB
Interest income	4	47,833	47,223
Interest expense	4	(17,094)	(18,424)
Net interest income		**30,739**	**28,799**
Fee and commission income	5	12,200	13,415
Fee and commission expense	6	(2,922)	(2,318)
Net fee and commission income		**9,278**	**11,097**
Other operating income/(loss), net	7	162	(499)
Operating income		**40,179**	**39,397**
Impairment losses on loans to customers	8	(2,284)	(11,040)
Impairment losses on property, equipment and intangible assets	8	-	(60)
Impairment losses on other assets	8	(230)	(45)
General administrative expenses	9	(19,824)	(18,536)
Operating expenses		**(22,338)**	**(29,681)**
Profit before tax		**17,841**	**9,716**
Income tax expense	10	(3,596)	(1,971)
Profit for the year		**14,245**	**7,745**

The consolidated financial statements as set out on pages 8 to 82 were approved by the Board of Management on 7 March 2018.

Chairman of the Board of Management

Y. Andresov

Chief Financial Officer

I. Kolikova

ООО
"ХКФ Банк"
HCF
Bank
ОБЩЕСТВО С ОГРАНИЧЕННОЙ ОТВЕТСТВЕННОСТЬЮ «Хоум Кредит энд Финанс Банк» * ОГРН 1027700280937
Home Credit & Finance Bank limited liability company
* МОСКВА *

The consolidated statement of profit or loss is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

	2017 MRUB	2016 MRUB
Profit for the year, recognised in consolidated statement of profit or loss	14,245	7,745
Other comprehensive income that is or may be reclassified subsequently to profit or loss		
Revaluation reserve for financial assets available for sale:		
- net change in fair value, net of tax	29	(261)
- net change in fair value transferred to profit or loss, net of tax	(15)	356
Cash flow hedge reserve:		
- effective portion of changes in fair value, net of tax	-	200
- net amount transferred to profit or loss, net of tax	-	(237)
Effect of foreign currency translation	(344)	(1,131)
Other comprehensive loss for the year, net of tax	**(330)**	**(1,073)**
Total comprehensive income for the year	**13,915**	**6,672**

Chairman of the Board of Management

Y. Andresov

Chief Financial Officer

I. Kolikova

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

ASSETS	Note	2017 MRUB	2016 MRUB
Cash and cash equivalents	11	23,040	23,122
Placements with banks and other financial institutions	12	3,464	7,461
Loans to customers	13	208,249	170,945
Positive fair value of derivative instruments		-	22
Financial assets available for sale	14	48,810	21,602
Property, equipment and intangible assets	15	7,160	7,799
Assets classified as held for sale		217	127
Investment in associate		108	138
Current income tax receivable		516	-
Deferred tax asset	22	3,146	4,818
Other assets	16	1,500	1,557
Total assets		**296,210**	**237,591**

LIABILITIES AND EQUITY			
Liabilities			
Debt securities issued	17	3,838	1,257
Subordinated debt	18	22,847	24,279
Due to banks and other financial institutions	20	17,148	6,973
Current accounts and deposits from customers	21	192,943	155,683
Negative fair value of derivative instruments		16	39
Current income tax liability		106	336
Other liabilities	23	6,439	5,227
Total liabilities		**243,337**	**193,794**
Equity			
Charter capital		4,406	4,406
Other capital contributions		10,631	10,631
Revaluation reserve for financial assets available for sale		23	9
Translation reserve		(1,300)	(956)
Retained earnings		39,113	29,707
Total equity		**52,873**	**43,797**
Total liabilities and equity		**296,210**	**237,591**

Chairman of the Board of Management

Y. Andresov

Chief Financial Officer

I. Kolikova

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

	Attributable to equity holders of the Group						
MRUB	**Charter capital**	**Other capital contributions**	**Revaluation reserve for financial assets available for sale**	**Cash flow hedge reserve**	**Translation reserve**	**Retained earnings**	**Total**
Balance at 1 January 2016	**4,406**	**10,631**	**(86)**	**37**	**175**	**24,491**	**39,654**
Profit for the year	-	-	-	-	-	7,745	7,745
Revaluation reserve for financial assets available for sale:							
- net change in fair value, net of tax	-	-	(261)	-	-	-	(261)
- net change in fair value transferred to profit or loss, net of tax	-	-	356	-	-	-	356
Cash flow hedge reserve:							
- effective portion of changes in fair value, net of tax	-	-	-	200	-	-	200
- net amount transferred to profit or loss, net of tax	-	-	-	(237)	-	-	(237)
Effect of foreign currency translation	-	-	-	-	(1,131)	-	(1,131)
Total comprehensive income for the year	-	-	95	(37)	(1,131)	7,745	6,672
Dividends declared	-	-	-	-	-	(2,529)	(2,529)
Balance at 31 December 2016	**4,406**	**10,631**	**9**	**-**	**(956)**	**29,707**	**43,797**
Balance at 1 January 2017	**4,406**	**10,631**	**9**	**-**	**(956)**	**29,707**	**43,797**
Profit for the year	-	-	-	-	-	14,245	14,245
Revaluation reserve for financial assets available for sale:							
- net change in fair value, net of tax	-	-	29	-	-	-	29
- net change in fair value transferred to profit or loss, net of tax	-	-	(15)	-	-	-	(15)
Effect of foreign currency translation	-	-	-	-	(344)	-	(344)
Total comprehensive income for the year	-	-	14	-	(344)	14,245	13,915
Dividends declared	-	-	-	-	-	(4,839)	(4,839)
Balance at 31 December 2017	**4,406**	**10,631**	**23**	**-**	**(1,300)**	**39,113**	**52,873**

Chairman of the Board of Management

Y. Andresov

Chief Financial Officer

I. Kolikova

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

	Note	2017 MRUB	2016 MRUB
Cash flow from operating activities			
Interest received		50,899	49,628
Interest paid		(17,129)	(18,735)
Fees and commissions received		12,138	13,097
Fees and commissions paid		(2,903)	(2,206)
Net (payments)/receipts from foreign exchange transactions		(978)	6,005
Other operating income received		78	141
Administrative and other operating expenses paid		(17,641)	(15,071)
Income tax paid		(2,641)	(514)
Cash flows from operating activities before changes in operating assets and liabilities		**21,823**	**32,345**
Changes in operating assets and liabilities			
Net decrease/(increase) in placements with banks and other financial		3,837	(267)
Net (increase)/decrease in financial assets available for sale		(26,887)	78
Net increase in loans to customers		(43,715)	(10,021)
Net (increase)/decrease in other assets		(97)	10
Net increase/(decrease) in current accounts and deposits from customers		37,530	(20,804)
Net increase in due to banks and other financial institutions		10,367	4,291
Net increase in other liabilities		12	142
Net cash from operating activities		**2,870**	**5,774**
Cash flows used in investing activities			
Dividends from associate		200	123
Proceeds from sale of property and equipment		281	17
Acquisition of property, equipment and intangible assets		(1,405)	(1,293)
Net cash used in investing activities		**(924)**	**(1,153)**
Cash flows used in financing activities			
Proceeds from the issue of debt securities		2,666	-
Repayments of debt securities issued		-	(9,315)
Repayments of subordinated debt		(225)	(2,046)
Dividends paid		(4,839)	(2,529)
Net cash used in financing activities		**(2,398)**	**(13,890)**
Net decrease in cash and cash equivalents		(452)	(9,269)
Effect of exchange rate changes on cash and cash equivalents		370	(1,109)
Cash and cash equivalents at the beginning of the year	11	23,122	33,500
Cash and cash equivalents at the end of the year	11	**23,040**	**23,122**

Chairman of the Board of Management

Y. Andresov

Chief Financial Officer

I. Kolikova

ООО "ХКФ Банк" HCF Bank Home Credit & Finance Bank limited liability company МОСКВА ОГРН 1027700280937

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

1. Description of the Group

OOO "Home Credit and Finance Bank" (the "Bank") was established in the Russian Federation as a Limited Liability Company and was granted its banking licence in 1990. In 2002 the Bank was acquired by Home Credit Group. On 13 October 2011 the Bank received General Banking Licence #316 from the Central Bank of Russia (the "CBR"). The Bank together with its subsidiaries is further referred to as the Group.

Registered office

8/1 Pravda st
Moscow 125040
Russian Federation

Participants	**Country of incorporation**	**Ownership interest (%)**	
		2017	**2016**
Home Credit B.V.	The Netherlands	99.99	99.99
Home Credit International a.s.	Czech Republic	0.01	0.01

The ultimate controlling owner is Petr Kellner, who exercises control over the Group through PPF Group N.V. registered in the Netherlands.

Consolidated subsidiaries	**Country of incorporation**	**Ownership interest (%)**	
		2017	**2016**
Financial Innovations (LLC)	Russian Federation	100.00	100.00
Bank Home Credit (SB JSC)	Kazakhstan	100.00	100.00
Eurasia Capital S.A.	Luxemburg	see below	see below
Eurasia Structured Finance No.3 B.V.	The Netherlands	see below	see below
Eurasia Structured Finance No.4 B.V.	The Netherlands	see below	see below
Bonus Center Operations (LLC)*	Russian Federation	-	100.00
HC Finance No.2 (LLC)**	Russian Federation	-	see below

Eurasia Capital S.A., Eurasia Structured Finance No.3 B.V., and Eurasia Structured Finance No.4 B.V., HC Finance No.2 (LLC) are special purpose entities established to facilitate the Group’s issues of debt securities and subordinated debt.

** As at 31 December 2017 Bonus Center Operations (LLC) was liquidated.*
*** As at 31 December 2017 HC Finance No.2 (LLC) was liquidated.*

Associate	**Country of incorporation**	**Ownership interest (%)**	
		2017	**2016**
Equifax Credit Services (LLC)	Russian Federation	25.00	25.00

Council		**Board of Management**	
Jiri Smejc	Chairman	Yuriy Andresov	Chairman
Irina Kolikova	Deputy Chairman	Artem Aleshkin	Deputy Chairman
Galina Vaisband	Member	Aleksandr Antonenko	Deputy Chairman
Yuly Tai	Member	Martin Schaffer	Deputy Chairman
		Sergey Shcherbakov	Deputy Chairman
		Olga Egorova	Member

1. Description of the Group (continued)

Principal activities

The activities of the Group are regulated by the CBR and the activities of the Subsidiary Bank Joint-Stock Company “Home Credit and Finance Bank” (Bank Home Credit (SB JSC)) are regulated by the National Bank of the Republic of Kazakhstan (the "NBRK"). The principal activity of the Group is the provision of the full range of banking products and services to individual customers across the Russian Federation and the Republic of Kazakhstan such as lending, deposit taking, saving and current accounts service and maintenance, payments, debit cards issuance and maintenance, Internet-banking, payroll and other banking services.

The loans are offered to existing and new customers across the Russian Federation and the Republic of Kazakhstan via a national wide distribution network comprising variable channels: own banking offices, points of sale at retailers, Russian Post branches, Kazakh Post branches and other third parties.

As at 31 December 2017 the Bank's distribution network comprised the head office in Moscow and 7 branches in Ufa, Rostov-on-Don, Saint-Petersburg, Yekaterinburg, Novosibirsk, Khabarovsk, Nizhniy Novgorod, 232 standard banking offices, 3,944 loan offices, 78 regional centres, 2 representative offices and over 98 thousand points of sale in the Russian Federation. As at 31 December 2017 the ATM network comprised 686 ATMs and payment terminals across the Russian Federation.

As at 31 December 2017 the distribution network in Kazakhstan comprised 41 standard banking offices, 8,833 loan offices and points of sale, 223 Kazakhstan post offices and 451 ATMs and payment terminals across the country.

Business environment

The Group’s operations are primarily located in the Russian Federation and the Republic of Kazakhstan. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation and the Republic of Kazakhstan, which display emerging-market characteristics. Legal, tax and regulatory frameworks continue to be developed, but are subject to varying interpretations and frequent changes that, together with other legal and fiscal impediments, contribute to the challenges faced by entities operating in the Russian Federation and the Republic of Kazakhstan.

The conflict in Ukraine and related events has increased the perceived risks of doing business in the Russian Federation. The imposition of economic sanctions on Russian individuals and legal entities by the European Union, the United States of America, Japan, Canada, Australia and others, as well as retaliatory sanctions imposed by the Russian government, has resulted in increased economic uncertainty including more volatile equity markets, a depreciation of the Russian Rouble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. In particular, some Russian entities may be experiencing difficulties in accessing international equity and debt markets and may become increasingly dependent on Russian state banks to finance their operations. The longer term effects of recently implemented sanctions, as well as the threat of additional future sanctions, are difficult to determine. Management of the Group believes that it takes all the necessary efforts to support the economic stability of the Group in the current environment.

The consolidated financial statements reflect management’s assessment of the impact of business environment of the Russian Federation and the Republic of Kazakhstan on the operations and financial position of the Group. The future business environment may differ from management’s assessment.

2. Basis of preparation

The consolidated financial statements for the year ended 31 December 2017 comprise the Bank and its subsidiaries.

(a) Statement of compliance

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS").

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost or amortised historical cost basis except that financial instruments at fair value through profit or loss and available-for-sale assets are stated at fair value. Other financial assets and liabilities are stated at amortised cost. Non-financial assets and liabilities are stated at historical cost, restated for the effects of inflation as described in Note 3(b).

(c) Presentation and functional currency

The national currency of the Russian Federation is the Russian Rouble ("RUB"). Management determined functional currency of the Bank and all of its subsidiaries, except Bank Home Credit (SB JSC), to be the RUB as it reflects the economic substance of the majority of underlying events and circumstances of the Group. The functional currency of Bank Home Credit (SB JSC) is Kazahstan Tenge ("KZT"). The RUB is the Group’s presentation currency for the purposes of these consolidated financial statements. Financial information presented in RUB is rounded to the nearest million unless otherwise stated.

(d) Basis of consolidation

(i) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the acquisition date as the fair value of the consideration transferred (including the fair value of any previously-held equity interest in the acquiree if the business combination is achieved in stages) and the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

The Group elects on transaction-by-transaction basis whether to measure non-controlling interests at fair value, or at their proportionate share of the recognsied amount of the identifiable net assets of the acquiree, at the acquisition date.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

(ii) Subsidiaries

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In particular the Group consolidates investees that it controls on the basis of de facto circumstances. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

2. Basis of preparation (continued)

(iii) Associates

Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the Group's share of losses exceeds the Group's interest in the associate, that interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

(iv) Structured entities

A structured entity is an entity designed so that its activities are not governed by way of voting rights. In assessing whether the Group has power over such investees in which it has an interest, the Group considers factors such as the purpose and design of the investee; its practical ability to direct the relevant activities of the investee; the nature of its relationship with the investee; and the size of its exposure to the variability of returns

(v) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the enterprise. Unrealised gains arising from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(vi) Acquisitions and disposals of non-controlling interests

The Group accounts for the acquisitions and disposals of non-controlling interests as transactions with equity holders in their capacity as equity holders. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the parent.

(e) Non-controlling interests

Non-controlling interests are the equity in a subsidiary not attributable, directly or indirectly, to the Group.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the equity attributable to equity holders of the Group. Non-controlling interests in profit or loss and total comprehensive income are separately disclosed in the consolidated statements of profit or loss and comprehensive income.

(f) Use of estimates and judgments

Management makes a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements. Actual results could differ from those estimates. In particular, information about significant areas of estimation, uncertainty and critical judgments made by management in preparing these consolidated financial statements is described in the following:
- Loan impairment - Notes 3(j) and 13;
- Estimates of fair values of financial instruments - Note 24(h);
- Fee and commission income from insurance - Note 3(q).

2. Basis of preparation (continued)

(g) Changes in accounting policies and presentation

The Group has adopted the following amendments to standards with a date of initial application of 1 January 2017:

• Disclosure Initiative (Amendments to IAS 7). IAS 7 Statement of Cash Flows has been amended as part of the IASB's broader disclosure initiative to improve presentation and disclosure in financial statements. The amendment requires disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. One way to meet this new disclosure requirement is to provide a reconciliation between the opening and closing balances for liabilities arising from financing activities. However, the objective could also be achieved in other ways.

• Recognition of Deferred Tax Asset for Unrealised Losses (Amendments to IAS 12). The amendments to IAS 12 Income Taxes clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. Therefore, assuming that the tax base remains at the original cost of the debt instrument, there is a temporary difference. The amendments show that the entity can recognise a deferred tax asset if the future bottom line of its tax return is expected to be a loss if certain conditions are met.

• Annual Improvements to IFRSs 2014–2016 Cycle – various standards (Amendments to IFRS 12). Amendments to IFRS 12 Disclosure of Interests in Other Entities clarify that the disclosure requirements for interests in other entities also apply to interests that are classified as held for sale or distribution.

3. Significant accounting policies

(a) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments unless the difference is due to impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss; a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or qualifying cash flow hedges to the extent that the hedge is effective, which are recognised in other comprehensive income.

(b) Inflation accounting

The Russian Federation ceased to be hyperinflationary with effect from 1 January 2003 and accordingly, no adjustments for hyperinflation are made for periods subsequent to this date. The hyperinflation-adjusted carrying amounts of equity items as at 31 December 2002 became carrying amounts as at 1 January 2003 for the purpose of subsequent accounting.

(c) Cash and cash equivalents

The Group considers cash, nostro accounts, amounts receivable under reverse repurchase agreements, and term placements with the CBR and the NBRK, banks and other financial institutions due within one month to be cash and cash equivalents. The minimum reserve deposits with the CBR and the NBRK are not considered to be cash equivalents due to restrictions on its withdrawability.

3. Significant accounting policies (continued)

(d) Financial instruments

(i) Classification

Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term
- part of a portfolio of identified financial instruments that are managed together and for which, there is evidence of a recent actual pattern of short-term profit-taking
- a derivative (except for derivative that is a financial guarantee contract or a designated and effective hedging instruments), or
- upon initial recognition, designated by the Group as at fair value through the profit or loss.

The Group designates financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed and evaluated on a fair value basis
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise, or
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

Financial assets and liabilities at fair value through profit or loss are not reclassified subsequent to initial classification.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as an asset. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as a liability.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group intends to sell immediately or in the near term, those that the Group upon initial recognition designates as at fair value through profit or loss, or those where its initial investment may not be substantially recovered, other than because of credit deterioration.

Held-to-maturity investments are those non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than loans and receivables and instruments designated as at fair value through profit or loss or as available-for-sale.

Available-for-sale assets are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held to maturity investments or financial instruments at fair value through profit or loss.

(ii) Recognition

Financial assets and liabilities are recognised in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

(iii) Measurement

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for loans and receivables and held to maturity investments which are measured at amortised cost less impairment losses and investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost less impairment losses.

3. Significant accounting policies (continued)

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

(iv) Fair value measurement principles

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 in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in these circumstances.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, the Group measures assets and long positions at the bid price and liabilities and short positions at the ask price.

(v) Gains and losses on subsequent measurement

Gains and losses on financial instruments classified as at fair value through profit or loss are recognised in the consolidated statement of profit or loss.

Gains and losses on financial assets available for sale are recognised in other comprehensive income (except for impairment losses and foreign exchange gains and losses on debt financial assets available for sale) until the asset is derecognised, at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised in the consolidated statement of profit or loss.

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in the consolidated statement of profit or loss when the financial asset or liability is derecognised or impaired, and through the amortisation process.

(vi) Derecognition

The Group derecognises a financial asset when the contractual rights to receive cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

If the Group purchases its own debt, it is removed from the consolidated 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 early retirement of debt.

3. Significant accounting policies (continued)

The Group enters into transactions whereby it transfers assets recognised on its consolidated statement of financial position, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the consolidated statement of financial position.

In transactions where the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost.

The Group also derecognises certain assets when it writes off balances pertaining to the assets deemed to be uncollectable.

(vii) Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase agreements are accounted for as secured financing transactions, with the securities retained in the consolidated statement of financial position and the counterparty liability included in amounts due to other banks or to customers, as appropriate. The difference between the sale and repurchase price represents interest expense and is recognised in the consolidated statement of profit or loss over the life of the agreement.

Securities purchased under agreements to resell are recorded as due from banks or customers as appropriate. The differences between the sale and repurchase prices are treated as interest and accrued over the life of the agreement using the effective interest method.

(viii) Derivative financial instruments, hedge accounting

The Group uses derivatives both for hedge accounting as determined in accordance with IAS 39 and to economically hedge its exposure to foreign exchange and interest rate risk arising from financing activities. The latter do not qualify for hedge accounting and thus any gain or loss on the derivative financial instruments is recognised in the consolidated statement of profit or loss.

The Group apply hedge accounting for cash flow hedges against currency risk. To qualify for hedge accounting in accordance with IAS 39, hedges must be highly effective. Derivatives used for hedging purposes are measured at fair value in the consolidated statement of financial position.

At inception of the hedge relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. Hedges are formally assessed for effectiveness on a monthly basis. A hedge is regarded as highly effective if the changes in the fair value of cash flows attributable to the hedged risk are expected to offset in a range of 80% to 125% during the hedging period.

Where a derivative is designated as a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised as other comprehensive income in equity. The amount recognised in equity is removed and included in profit or loss in the same period as the hedged cash flows affect profit or loss. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

If the derivative expires or is sold, terminated, or exercised, or no longer meets the criteria for cash flow hedge accounting, or the designation is revoked, hedge accounting is discontinued and the amount recognised in equity remains in equity until the forecast transaction affects profit or loss. If the forecast transaction is no longer expected to occur, hedge accounting is discontinued and the balance in equity is recognised immediately in profit or loss.

3. Significant accounting policies (continued)

(ix) Financial guarantees

A financial guarantee is a contract that requires the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees are recognised when losses are considered probable and can be measured reliably.

Financial guarantee liabilities are included within other liabilities.

(e) Securitisation

For securitised financial assets, the Group considers both the degree of transfer of risks and rewards on assets transferred to another entity and the degree of control exercised by the Group over the other entity.

When the Group, in substance, controls the entity to which financial assets have been transferred, the entity is included in these consolidated financial statements and the transferred assets are recognised in the consolidated statement of financial position.

When the Group has transferred financial assets to another entity, but has retained substantially all of the risks and rewards relating to the transferred assets, the transferred assets are recognised in the consolidated statement of financial position.

When the Group transfers substantially all the risks and rewards relating to the transferred assets to an entity that it does not control, the assets are derecognised from the consolidated statement of financial position.

If the Group neither transfers nor retains substantially all the risks and rewards relating to the transferred assets, the assets are derecognised if the Group has not retained control over the assets.

(f) Offsetting

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

(g) Property and equipment

(i) Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses. The cost for self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

(ii) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Operating leases, under the terms of which the Group does not assume substantially all the risks and rewards of ownership, are expensed on a straight line basis.

3. Significant accounting policies (continued)

(iii) Subsequent expenditure

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately, including major inspection and overhaul expenditure, is capitalised. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditure is recognised in the consolidated statement of profit or loss as an expense as incurred.

(iv) Depreciation

Depreciation is charged to the consolidated statement of profit or loss on a straight line basis over the estimated useful lives of the individual assets. Property and equipment are depreciated from the date the asset is available for use. The estimated useful lives are as follows:

Computers and equipment	2-5 years
Vehicles	3-5 years
Furniture	2-5 years
Leasehold improvements	2-5 years
Buildings	10-50 years

(h) Intangible assets

(i) Goodwill

Goodwill arising on an acquisition represents the excess of the cost of the acquisition over the fair value of the net identifiable assets and liabilities acquired. Goodwill is stated at cost less impairment losses.

(ii) Other intangible assets

Intangible assets, which are acquired by the Group, are stated at cost less accumulated amortisation and impairment losses. Expenditure on internally generated goodwill and brands is recognised in the consolidated statement of profit or loss as an expense as incurred.

(iii) Amortisation

Amortisation is charged to the consolidated statement of profit or loss on a straight line basis over the estimated useful lives of intangible assets. Goodwill is not amortised; other intangible assets are amortised from the date the asset is available for use. The estimated useful lives are as follows:

Software	1-10 years
Licenses	1-10 years

(i) Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Generally, non-current assets, or disposal groups, are measured at the lower of their carrying amount and fair value less cost to sell.

(j) Impairment

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the Group determines the amount of any impairment loss.

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset (a loss event) and that event (or events) has had an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

3. Significant accounting policies (continued)

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of a financial asset or group of financial assets that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

In addition, for an investment in an equity security available-for-sale a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

(i) Financial assets carried at amortised cost

Financial assets carried at amortised cost consist principally of loans and other receivables (loans and receivables). The Group reviews its loans and receivables to assess impairment on a regular basis.

The Group first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan or receivable in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment, using mathematical models. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable’s original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

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

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

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The Group writes off a loan balance (and any related allowances for loan losses) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

(ii) Financial assets carried at cost

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

All impairment losses in respect of these investments are recognised in the consolidated statement of profit or loss and cannot be reversed.

3. Significant accounting policies (continued)

(iii) Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by transferring the cumulative loss that is recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security 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, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

(iv) Non-financial assets

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

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

(k) Pensions

The Governments of the respective countries are responsible for providing pensions and retirement benefits to the Group's employees. A regular contribution linked to employees' salaries is made by the Group to the Government to fund the national pension plans. Payments under these pension schemes are charged as expenses as they fall due.

(l) Provisions

A provision is recognised in the consolidated statement of financial position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

3. Significant accounting policies (continued)

(m) Equity

According to the Charter of the Bank a participant of a Limited Liability Company has the right to withdraw from the company unilaterally. In such event the Bank has a liability to pay the participant its pro rata share of the Bank' net assets calculated in accordance with the Russian Accounting Standards.

This puttable financial instrument includes the obligation of the Bank to redeem participant's interest, however, management believes that exception conditions according to IAS 32 *Financial Instruments: Presentation* apply, including the total expected cash flows attributable to the instrument over its life are based substantially on change in recognized net assets calculated in accordance with IFRS, due to the fact that they are not significantly different from the Bank's net assets calculated in accordance with the Russian Accounting Standards.

As the result the Group presents charter capital, other capital contributions, revaluation reserve for financial assets available for sale, cash flow hedge reserve, retained earnings and translation reserve as equity.

(n) Dividends

The ability of the Group to declare and pay dividends is subject to the rules and regulations of Russian legislation.
Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

(o) Taxation

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

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

Deferred tax assets and liabilities are recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are not recognised for the following temporary differences: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for individual subsidiaries in the Group. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3. Significant accounting policies (continued)

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

In accordance with the tax legislation of the Russian Federation, tax losses and current tax assets of a company in the Group may not be set off against taxable profits and current tax liabilities of other Group companies. In addition, the tax base is determined separately for each of the Group's main activities and, therefore, tax losses and taxable profits related to different activities cannot be offset.

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes, penalties and late-payment interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made.

(p) Interest income and expense

Interest income and expense are recognised in the consolidated statement of profit or loss as they accrue, taking into account the effective rate of the asset/liability or an applicable floating rate. Interest income and expense include the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest basis.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of the loan together with the related direct costs, are deferred and recognised as an adjustment to the effective interest rate. Such items are amortised based on average actual historic lives of the related loans.

(q) Fee and commission income

Fee and commission income is recognised when the corresponding service is provided. The Bank acts as an agent for insurance providers offering their insurance products to consumer loan borrowers. Commission income from insurance represents commissions for such agency services received by the Bank from such partners. It is not considered to be integral to the overall profitability of consumer loans because it is determined and recognized based on the Bank's contractual arrangements with the insurance provider rather than with the borrower, the borrowers have a choice whether to purchase the policy, the interest rates for customers with and without the insurance are the same. The Bank does not participate on the insurance risk, which is entirely borne by the partner. Commission income from insurance is recognised in profit or loss when the Bank provides the agency service to the insurance company.

Penalty income is recognised in the consolidated statement of profit or loss when the penalty is charged to a customer, taking into account its collectability.

(r) Segment reporting

An operating segment is a component of a Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses related to transactions with other components of the same Group); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

3. Significant accounting policies (continued)

(s) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations were not yet effective as at 31 December 2017 and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

IFRS 9 Financial instruments. In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. It replaces IAS 39 Financial Instruments: Recognition and Measurement.

The Group will apply IFRS 9 as issued in July 2014 initially on 1 January 2018. Not all transition work has been finalised by the Group thus the effect of the adoption of IFRS 9 on the opening balance of the Group's equity at 1 January 2018 is not disclosed.

(i) Classification – Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 includes three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). It eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by- investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. In addition, on initial recognition the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset is classified into one of these categories on initial recognition. See (vii) for the transition requirements relating to classification of financial assets.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of IFRS 9 are not separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

3. Significant accounting policies (continued)

Business model assessment

The Group will make an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information that will be considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice, including whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading and those that are managed and whose performance is evaluated on a fair value basis will be measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group will consider the contractual terms of the instrument. This will include assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group will consider:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets – e.g. non-recourse asset arrangements; and
- features that modify consideration for the time value of money – e.g. periodic reset of interest rates.

All of the Group's retail loans and certain fixed-rate corporate loans contain prepayment features.
A prepayment feature is consistent with the SPPI criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination of the contract.

In addition, a prepayment feature is treated as consistent with this criterion if a financial asset is acquired or originated at a premium or discount to its contractual par amount, the prepayment amount substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable compensation for early termination), and the fair value of the prepayment feature is insignificant on initial recognition.

3. Significant accounting policies (continued)

Impact assessment

The Group has finalised the business model assessment. The Group is currently in the process of verification and testing of SPPI tool.

The standard will affect the classification and measurement of financial assets held as at 1 January 2018 as follows:

- Trading assets and derivative assets held for risk management, which are classified as held-for-trading and measured at FVTPL under IAS 39, will also be measured at FVTPL under IFRS 9.
- Loans and advances to banks and to customers that are classified as loans and receivables and measured at amortised cost under IAS 39 will in general also be measured at amortised cost under IFRS 9.
- Debt investment securities that are classified as available-for-sale under IAS 39 may, under IFRS 9, be measured at amortised cost, FVOCI or FVTPL, depending on the particular circumstances.

The Group has estimated that, on the adoption of IFRS 9 at 1 January 2018, the impact of these changes is not significant.

(ii) Impairment – Financial assets, loan commitments and financial guarantee contracts

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with the ‘expected credit loss’ model. This model is forward-looking and it eliminates the threshold for the recognition of expected credit losses, so that it is no longer necessary for a trigger event to have occurred before credit losses are recognised. Consequently, more timely information is required to be provided about expected credit losses.

Under IAS 39, an entity may only consider losses that arise from past events and current conditions. The effects of possible future credit loss events could not be considered, even when they were expected. IFRS 9 broadens the information that an entity may consider when determining its ECLs. Specifically, IFRS 9 allows an entity to base its measurement of ECLs on reasonable and supportable information that is available without undue cost or effort, and that includes historical, current and forecast information.

The new impairment model applies to the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- lease receivables; and
- loan commitments and financial guarantee contracts issued (previously, impairment was measured under IAS 37 Provisions, Contingent Liabilities and Contingent Assets).

Under IFRS 9, no impairment loss is recognised on equity investments.

IFRS 9 requires a loss allowance to be recognised at an amount equal to either 12-month ECLs or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date.

In accordance with IFRS 9, the Group will recognise loss allowances at an amount equal to lifetime ECLs for a financial instrument, if the credit risk on that financial instrument has increased significantly since initial recognition — whether assessed on an individual or collective basis — considering all reasonable and supportable information. If, at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, an entity shall measure the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses.

3. Significant accounting policies (continued)

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses and will be measured as follows:

- financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls – i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive;
- financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn and the cash flows that the Group expects to receive from this commitment; and
- financial guarantee contracts: the present value of the expected payments to reimburse the holder less any amounts that the Group expects to recover.

Financial assets that are credit-impaired are defined by IFRS 9 in a similar way to financial assets that are impaired under IAS 39.

Definition of default

Under IFRS 9, the Group will consider a financial asset to be in default when there is available information that:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the borrower is more than 90 days past due on the respective material credit obligation to the Group. Overdrafts are considered past due once the customer has breached an advised limit or been advised of a limit that is smaller than the current amount outstanding.

In assessing whether a borrower is in default, the Group will consider indicators that are:

- qualitative;
- quantitative: e.g. overdue status; and
- based on data developed internally and obtained from external sources (e.g. insolvency or bankruptcy loan registers).

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Credit risk grades

The Group will allocate each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The Group will use these grades in identifying significant increases in credit risk under IFRS 9. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default. These factors may vary depending on the nature of the exposure and the type of borrower.

Each exposure will be allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures will be subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

3. Significant accounting policies (continued)

Credit risk grades and client's score will be primary inputs into the determination of the probability of default (PD) development for exposures. The Group will collect performance and default information about its credit risk exposures analysed by jurisdiction, by type of product and borrower and by credit risk grading. For some portfolios, information purchased from external credit reference agencies may also be used.

The Group will employ statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis is planned to include – where reasonable and supportable information is available – the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors, as well as analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macroeconomic indicators are likely to include variables such as GDP growth, benchmark interest rates and unemployment.

Determining whether credit risk has increased significantly

Under IFRS 9, when determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, the Group will consider reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis consisting - based on availability and complexity - of the Group's historical experience, expert credit assessment and forward-looking information.

The criteria may vary by portfolio and will include a backstop based on delinquency in accordance with IFRS 9. As a backstop, and as required by IFRS 9, the Group will presumptively consider that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. The Group will determine days past due by counting the number of days since the earliest elapsed due date in respect of which full payment – subject to materiality threshold – has not been received.

The Group will primarily identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining probability of default (PD) as at the reporting date; with
- the PD that was estimated on initial recognition of the exposure.

The Group will deem the credit risk of a particular exposure to have increased significantly since initial recognition if the remaining lifetime PD is determined to have increased – since initial recognition – more than is defined for the respective exposure class, for retail more than agreed coefficient.

Assessing whether credit risk has increased significantly since initial recognition of a financial instrument requires identifying the date of initial recognition of the instrument. For certain revolving facilities (e.g. credit cards and overdrafts), the date when the facility was firstly used could be a long time ago. Modifying the contractual terms of a financial instrument may also affect this assessment.

In certain instances, using its expert credit judgement and, where possible, relevant historical experience, the Group may determine that an exposure has undergone a significant increase in credit risk if particular qualitative factors indicate so and those indicators may not be fully captured by its quantitative analysis on a timely basis.

The Group will monitor the suitability of the criteria used to identify significant increases in credit risk by regular reviews to confirm that results of assessment are compliant with IFRS 9 and internal guidelines and settings.

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value.

3. Significant accounting policies (continued)

Under IFRS 9, when the terms of a financial asset are modified due to borrowers financial difficulties and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly should reflect comparison of:

- the remaining PD at the reporting date based on the modified terms; with
- the PD estimated based on data on initial recognition and terms of the original contract.

The Group renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Group's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants.

Generally, forbearance is a qualitative indicator of default and credit impairment and expectations of forbearance are relevant to assessing whether there is a significant increase in credit risk.

Following forbearance, a customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be in default/credit-impaired or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECLs.

Inputs into measurement of ECLs

The key inputs into the measurement of ECLs are – in general – the following variables:

- PD;
- loss given default (LGD); and
- exposure at default (EAD).

These parameters will be derived – alone or together – from internally developed statistical models based on own historical data or derived from available market data.

For retail portfolio PD and EAD is usually estimated together using statistical models (stochastic Markov chain, Gross Roll Rate model) based on internally compiled data. Where it is available, market data may also be used to derive the PD for large corporate counterparties where there is not enough internally available data for statistical modelling.

LGD is estimated based on the history of recovery rates of claims against defaulted counterparties. It is calculated on a discounted cash flow basis using the effective interest rate as the discounting factor. For loans secured by retail property, loan-to-value (LTV) ratios are likely to be a key parameter in determining LGD and models will consider the structure, collateral, seniority of the claim, and recovery costs of any collateral that is integral to the financial asset.

For retail overdraft and credit card facilities and certain corporate revolving facilities that include both a loan and an undrawn commitment component, the Group will measure ECLs over a period when the Group's ability to demand repayment and cancel the undrawn commitment does not limit the Group's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Group can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Group becomes aware of an increase in credit risk at the facility level. This period will be estimated taking into account the credit risk management actions that the Group expects to take and that serve to mitigate ECLs. These include a reduction in limits and cancellation of the facility.

3. Significant accounting policies (continued)

Where modelling of a parameter is carried out on a collective basis, the financial instruments shall be grouped on the basis of shared risk characteristics, such as:

- instrument type;
- credit risk grade;
- collateral type;
- date of initial recognition;
- remaining term to maturity;

The groupings will be subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

For portfolios in respect of which the Group has limited historical data, external benchmark information will be used to supplement the internally available data.

Forward-looking information

Under IFRS 9, the Group plans to incorporate forward-looking information into assessment of whether the credit risk of an instrument has increased significantly since initial recognition and – where possible – as part of measurement of ECLs. External information used may include economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Group operates.

The Group plans – based on data availability and credibility of sources – using an analysis of historical data to estimate relationships between macro-economic variables and credit risk and credit losses. The key drivers may include variables such as interest rates, unemployment rates, GDP forecasts and other.

Impact assessment

The most significant impact on the Group's financial statements from the implementation of IFRS 9 is expected to result from the new impairment requirements. Impairment losses will increase and become more volatile for financial instruments in the scope of the IFRS 9 impairment model. Currently the Group is in the process of finalising its calculations and assessing the impact of the new requirements.

(iii) Classification – Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

However, under IAS 39 all fair value changes of financial liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes will generally be presented as follows:

- the amount of the change in the fair value that is attributable to changes in the credit risk of the liability will be presented in OCI; and
- the remaining amount of the change in the fair value will be presented in profit or loss.

(iv) Derecognition and contract modification

IFRS 9 incorporates the requirements of IAS 39 for the derecognition of financial assets and financial liabilities without substantive amendments.

However, it contains specific guidance for the accounting when the modification of a financial instrument not measured at FVTPL does not result in derecognition. Under IFRS 9, the Group will recalculate the gross carrying amount of the financial asset (or the amortised cost of the financial liability) by discounting the modified contractual cash flows at the original effective interest rate and recognise any resulting adjustment as a modification gain or loss in profit or loss. Under IAS 39, the Group does not recognise any gain or loss in profit or loss on modifications of financial liabilities and non-distressed financial assets that do not lead to their derecognition.

The Group expects an immaterial impact from adopting these new requirements.

3. Significant accounting policies (continued)

(v) Hedge accounting

IFRS 9 requires the Group to ensure that hedge accounting relationships are aligned with the Group's risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness. IFRS 9 also introduces new requirements on rebalancing hedge relationships and prohibiting voluntary discontinuation of hedge accounting.

When initially applying IFRS 9, the Group may choose as its accounting policy to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements in Chapter 6 of IFRS 9. The Group has chosen to apply the new requirements of IFRS 9.

(vi) Disclosures

IFRS 9 will require extensive new disclosures, in particular about credit risk, ECLs and hedge accounting.

(vii) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

The Group will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognised in retained earnings and reserves as at 1 January 2018.

The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application.

- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
- The designation of certain investments in equity instruments not held for trading as at FVOCI.

- For a financial liability designated as at FVTPL, the determination of whether presenting the effects of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.

If a debt investment security has low credit risk at 1 January 2018, then the Group will determine that the credit risk on the asset has not increased significantly since initial recognition.

IFRS 15 Revenue from Contracts with Customers establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. The core principle of the new standard is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard results in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. Given the nature of the Group's operations, this standard is not expected to have significant impact on the Group's financial statements.

3. Significant accounting policies (continued)

IFRS 16 Leases replaces the existing lease accounting guidance in IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. It eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, early adoption is permitted if IFRS 15 Revenue from Contracts with Customers is also adopted. The Group does not intend to adopt this standard early. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16.

Other standards. The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements.

- Annual Improvements to IFRSs 2014-2016 Cycle – Amendments to IFRS 1 and IAS 28.
- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2).
- IFRIC 22 Foreign Currency Transactions and Advance Consideration.
- IFRIC 23 Uncertainty over Income Tax Treatments.

(t) Comparative numbers

The presentation of certain captions relating to fee and commision income was changed as at 31 December 2017 in comparison with 31 December 2016 to better present the nature of the underlying transaction. Comparative information is reclassified to conform to changes in presentation in the curent year. The effect of this change in presentation is follows:

	2016 As previously reported MRUB	Effect of reclassifi-cations MRUB	2016 As reclassified MRUB
Reclassification of commission fee for early termination from consolidated statement of profit or loss caption "Other operating income/(loss), net" to other in caption "Fee and commission income"			
Other operating income/(loss), net	(431)	(68)	(499)
Fee and commission income	13,347	68	13,415

	2016 As previously reported MRUB	Effect of reclassifi-cations MRUB	2016 As reclassified MRUB
Reclassification of commission fee for early termination from consolidated statement of cash flows caption "Other operating income/(received), net" to other in caption "Fees and commissions received"			
Other operating income received	209	(68)	141
Fees and commissions received	13,029	68	13,097

4. Interest income and interest expense

	2017 MRUB	2016 MRUB
Interest income		
Loans to individuals	44,021	43,407
Financial assets available for sale	1,935	1,751
Placements with banks and other financial institutions	903	1,406
Loans to corporations	553	436
Amounts receivable under reverse repurchase agreements	421	223
	47,833	**47,223**
Interest expense		
Current accounts and deposits from customers	13,690	14,163
Subordinated debt	2,258	2,694
Due to banks and other financial institutions	768	825
Debt securities issued	304	700
Amounts payable under repurchase agreements	74	42
	17,094	**18,424**

Included within interest income on loans to individuals for the year ended 31 December 2017 is a total of MRUB 709 (2016: MRUB 966) accrued on impaired financial assets.

5. Fee and commission income

	2017 MRUB	2016 MRUB
Insurance agent commissions	7,531	8,437
Customer payments processing and account maintenance	1,405	1,243
Contractual penalties from customers	1,222	1,426
Cash operations	1,035	1,009
Fees from retailers	600	792
Pension agent commissions	230	339
Other	177	169
	12,200	**13,415**

6. Fee and commission expense

	2017 MRUB	2016 MRUB
Payments to the Deposit Insurance Agency	759	639
Customer payments processing and account maintenance	737	646
Cash transactions	603	554
Credit bureau	512	388
State duties	246	17
Other	65	74
	2,922	**2,318**

7. Other operating income/(loss), net

	Note	2017 MRUB	2016 MRUB
Share of the profit of associate		171	140
Net realised gain on disposal of financial assets available for sale		79	131
Net gain on early redemption of subordinated debt		4	207
Gain from sale of loans	13	2	-
Net gain on interest rate derivatives		1	14
Hedging derivatives instruments		-	(78)
(Loss)/gain from foreign exchange revaluation of financial assets and liabilities		(41)	1,133
Net loss on spot transactions and currency derivatives		(101)	(2,082)
Other		47	36
		162	**(499)**

8. Charge/(recovery) of impairment losses

	Note	2017 MRUB	2016 MRUB
POS loans	13	1,851	2,992
Credit card loans	13	491	3,242
Loans to corporations	13	287	142
Other assets	16	230	45
Car loans	13	(1)	(5)
Mortgage loans	13	(77)	247
Cash loans	13	(267)	4,422
Property, equipment and intangible assets	15	-	60
		2,514	**11,145**

9. General administrative expenses

	Note	2017 MRUB	2016 MRUB
Personnel related expenses		9,922	9,497
Payroll related taxes		1,961	1,929
Depreciation and amortisation	15	1,683	1,972
Information technology		1,065	823
Occupancy	27	1,047	1,112
Advertising and marketing		982	355
Telecommunication and postage		904	812
Repairs and maintenance		809	679
Professional services		707	624
Taxes other than income tax		223	214
Travel expenses		184	159
Other		337	360
		19,824	**18,536**

10. Income tax expenses

	2017 MRUB	2016 MRUB
Current tax expense	(1,932)	(1,233)
Deferred tax expense	(1,664)	(738)
	(3,596)	**(1,971)**

Reconciliation of effective tax rate

	2017 MRUB	2016 MRUB
Profit before tax	**17,841**	**9,716**
Income tax expense using the applicable tax rate 20%	(3,568)	(1,943)
Non-deductible costs	(68)	(37)
Income taxed at lower tax rates	40	9
	(3,596)	**(1,971)**

The tax effects relating to components of other comprehensive income comprise:

	2017			2016		
MRUB	**Amount before tax**	**Tax expense**	**Amount net of tax**	**Amount before tax**	**Tax benefit/ (expense)**	**Amount net of tax**
Net change in fair value of financial assets available for sale	18	(4)	14	119	(24)	95
Cash flow hedge reserve	-	-	-	(47)	10	(37)
	18	**(4)**	**14**	**72**	**(14)**	**58**

11. Cash and cash equivalents

	2017 MRUB	2016 MRUB
Amounts receivable under reverse repurchase agreements	9,007	7,024
Nostro accounts with the CBR	6,320	6,829
Cash	4,822	4,429
Placements with banks and other financial institutions due within one month	1,562	2,950
Nostro accounts with the NBRK	913	-
Placements with the NBRK	416	1,890
	23,040	**23,122**

No cash and cash equivalents are impaired or past due.

Placements with banks and other financial institutions shown above comprise nostro accounts and loans and deposits.

Placements with banks and other financial institutions due within one month

Nostro accounts	2017 MRUB	2016 MRUB
OECD banks	1,283	2,206
Largest 50 Russian banks	3	8
Other	276	736
	1,562	**2,950**

Amounts receivable under reverse repurchase agreements

	2017 MRUB	2016 MRUB
Largest 50 Russian banks	5,167	3,328
Other Russian non-banking financial institutions	3,840	3,696
	9,007	**7,024**

Collateral for amounts receivable under reverse repurchase agreements

	2017 MRUB	2016 MRUB
Leading Russian oil and gas companies	2,074	1,206
Largest 50 Russian banks	844	2,116
Government and government-owned institutions	472	1,261
Other	5,904	3,118
	9,294	**7,701**

None of the items described above are impaired or past due.

12. Placements with banks and other financial institutions

	2017 MRUB	**2016 MRUB**
Placements with MasterCard and VISA	1,823	1,655
Minimum reserve deposit with the CBR	1,328	1,102
Minimum reserve deposit with the NBRK	312	144
Term deposits with banks and other financial institutions due after one month	1	4,560
	3,464	**7,461**

The minimum reserve deposit with the CBR is a mandatory non-interest bearing deposit calculated in accordance with regulations issued by the CBR whose withdrawability is restricted.

In accordance with regulations issued by the NBRK, minimum reserve requirements are calculated as a percentage of particular Bank Home Credit’s (SB JSC) liabilities. Bank Home Credit (SB JSC) is required to comply with these requirements by maintaining average cash in local currency and nostro accounts with the NBRK equal or in excess of the average minimum requirements.

Placements with MasterCard and VISA are security deposits whose withdrawability is restricted.

None of the items described above are impaired or past due.

13. Loans to customers

	2017 MRUB	**2016 MRUB**
Cash loans	120,854	97,930
POS loans	74,731	61,667
Credit card loans	17,382	19,644
Loans to corporations	3,880	4,346
Mortgage loans	1,920	2,755
Car loans	-	4
Impairment allowance	(10,518)	(15,401)
	208,249	**170,945**

13. Loans to customers (continued)

The Group provides point-of-sale loans ("POS loans") for any purpose including household goods, services and other purposes. Cash loans and credit cards are issued for general purposes.

The following table provides the average size of loans granted and the average contractual term by type of loans as at 31 December:

	2017		2016	
	Size TRUB	**Term Months**	**Size TRUB**	**Term Months**
Cash loans	183.4	47	169.2	47
POS loans	38.0	18	37.2	17

	2017			2016		
	Min. monthly payment*	**Average credit limit**	**Term**	**Min. monthly payment***	**Average credit limit**	**Term**
	%	**TRUB**	**Months**	**%**	**TRUB**	**Months**
Credit cards	5%	66	60	5%	73	36

* Minimum monthly payment out of the outstanding principal balance on the respective credit card plus other charges.

As at 31 December 2017 the average loan-to-value ratio for mortgage loans was 52% (31 December 2016: 56%).

Analysis of collateral

The following table provides the analysis of loan portfolio by type of collateral as at 31 December:

	2017		2016	
	Portfolio MRUB	**% of loan portfolio**	**Portfolio MRUB**	**% of loan portfolio**
Real estate	4,610	2	5,614	3
Equity securities	1,190	1	813	-
Motor vehicles	-	-	4	-
No collateral	212,967	97	179,915	97
Total	**218,767**		**186,346**	

The amounts shown in the table above represent the gross amount of the loans, and do not necessarily represent the fair value of the collateral.

Mortgage loans are secured by underlying housing real estate. Car loans are secured by underlying motor vehicles. Credit card loans, cash loans and POS loans are not secured.

As at 31 December 2017 loans to corporations included secured loans with the total carrying amount of MRUB 3,451 collateralised with mortgages of MRUB 5,600 and equity securities of MRUB 1,216. Loan-to-value ratio of 59% (as at 31 December 2016: MRUB 3,604 collateralised with mortgages of MRUB 5,600 and equity securities of MRUB 1,216, loan-to-value ratio of 55%).

Overdue mortgage loans with a gross value of MRUB 426 (31 December 2016: MRUB 786) are secured by collateral with a fair value of MRUB 817 (31 December 2016: MRUB 1,142). For the remaining overdue loans to customers with a gross value of MRUB 15,880 (31 December 2016: MRUB 17,044) there is no collateral.

Collateral does not have a significant effect on the amount of loan impairment allowance.

As at 31 December 2017 repossessed collateral for mortgage loans amounted to MRUB 217 (31 December 2016: MRUB 127).

13. Loans to customers (continued)

	2017			2016		
MRUB	**Gross**	**Impairment allowance**	**Carrying amount**	**Gross**	**Impairment allowance**	**Carrying amount**
Loans to individuals						
Cash loans						
Current	112,354	(421)	111,933	88,918	(673)	88,245
Days past due:						
1 – 90	4,621	(1,428)	3,193	3,533	(2,492)	1,041
90 – 360	3,879	(3,196)	683	5,479	(4,991)	488
Total	**120,854**	**(5,045)**	**115,809**	**97,930**	**(8,156)**	**89,774**
POS loans						
Current	69,944	(314)	69,630	57,316	(331)	56,985
Days past due:						
1 – 90	2,318	(660)	1,658	1,626	(850)	776
90 – 360	2,469	(2,032)	437	2,725	(2,330)	395
Total	**74,731**	**(3,006)**	**71,725**	**61,667**	**(3,511)**	**58,156**
Credit card loans						
Current	14,789	(126)	14,663	15,963	(255)	15,708
Days past due:						
1 – 90	1,179	(461)	718	1,376	(843)	533
90 – 360	1,414	(1,160)	254	2,305	(2,007)	298
Total	**17,382**	**(1,747)**	**15,635**	**19,644**	**(3,105)**	**16,539**
Mortgage loans						
Current	1,495	(30)	1,465	1,971	(35)	1,936
Days past due:						
1 – 90	36	(10)	26	72	(23)	49
90 – 360	183	(90)	93	378	(182)	196
more than 360	206	(161)	45	334	(245)	89
Total	**1,920**	**(291)**	**1,629**	**2,755**	**(485)**	**2,270**
Car loans						
Current	-	-	-	2	-	2
Days past due:						
1 – 90	-	-	-	-	-	-
90 – 360	-	-	-	-	-	-
more than 360	-	-	-	2	(2)	-
Total	**-**	**-**	**-**	**4**	**(2)**	**2**
Loans to corporations						
Not past due	3,067	-	3,067	3,533	-	3,533
Not past due, but impaired	813	(429)	384	813	(142)	671
Total	**3,880**	**(429)**	**3,451**	**4,346**	**(142)**	**4,204**

13. Loans to customers (continued)

	2017		2016	
	NPLs MRUB	**Provision coverage %**	**NPLs MRUB**	**Provision coverage %**
Cash loans	3,879	130	5,479	149
POS loans	2,469	122	2,725	129
Credit card loans	1,414	124	2,305	135
Mortgage loans	389	75	712	68
Car loans	-	-	2	100
Total	**8,151**	**129**	**11,223**	**137**

Non-performing loans are defined by the Group as loans and receivables overdue for more than 90 days. Loans and receivables, except for mortgage and car loans, overdue for more than 360 days are written off. Mortgage and car loans and receivables overdue over 720 days are written off. Some of the loans written off can be subsequently sold. During the year ended 31 December 2017 the Group did not sell non-performing loans (year ended 31 December 2016: none).

During the year ended 31 December 2017 the Group sold performing mortgage loans with the gross value of MRUB 145 for MRUB 147. The gain of MRUB 2 is recognised in other operating income, net (year ended 31 December 2016: none) (Note 7).

The Group estimated the impairment on loans to customers in accordance with the accounting policy as described in Note 3(j). The key assumptions used in estimating impairment losses are as follows:
- future loan migration and collection experience will be consistent with recent experience;
- unsecured loans which borrowers are unable to repay in full can be partially recovered through collection of 6-8% of the loans' outstanding principal balances including sale of the loans to collection agencies;
- mortgage loans which borrowers are unable to repay in full can be partially recovered through the sale of collateral for 50% of the loans' outstanding principal balances.

At the end of 2014 the Group launched loan restructuring aimed at managing customer relationships and maximising collection opportunities. For impairment assessment purposes, such renegotiated loans are kept in the same category of assets as at the date of restructuring unless within a defined period of time borrowers fail to comply with the renegotiated terms or instead prove their performance under new conditions in which case they are treated as non-delinquent. If loan hasn’t been in compliance – then it is transferred to the bucket it would have been in if no restructuring was made. As at 31 December 2017 renegotiated loans to retail customers amounted to MRUB 4,269 (31 December 2016: MRUB 5,353).

Changes in collection estimates could affect the impairment losses recognised. For example, to the extent that estimated future cash flows of loans differ by plus/minus one percent, the loan impairment allowance as at 31 December 2017 would be MRUB 2,082 lower/higher (31 December 2016: MRUB 1,709).

13. Loans to customers (continued)

Analysis of movements in impairment allowance

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2017 are as follows:

MRUB	Cash loans	POS loans	Credit card loans	Mortgage loans	Car loans	Loans to corporations	Total
Balance at 1 January	**8,156**	**3,511**	**3,105**	**485**	**2**	**142**	**15,401**
Net charge	(267)	1,851	491	(77)	(1)	287	2,284
Loans recovered which previously were written off	3,961	831	790	123	1	-	5,706
Write offs	(6,774)	(3,161)	(2,636)	(240)	(2)	-	(12,813)
Effect of foreign currency translation	(31)	(26)	(3)	-	-	-	(60)
Balance at 31 December	**5,045**	**3,006**	**1,747**	**291**	**-**	**429**	**10,518**

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2016 are as follows:

MRUB	Cash loans	POS loans	Credit card loans	Mortgage loans	Car loans	Loans to corporations	Total
Balance at 1 January	**17,604**	**4,606**	**6,839**	**500**	**6**	**-**	**29,555**
Net charge	4,422	2,992	3,242	247	(5)	142	11,040
Loans recovered which previously were written off	3,922	799	816	41	6	-	5,584
Write offs	(17,577)	(4,791)	(7,787)	(303)	(5)	-	(30,463)
Effect of foreign currency translation	(215)	(95)	(5)	-	-	-	(315)
Balance at 31 December	**8,156**	**3,511**	**3,105**	**485**	**2**	**142**	**15,401**

14. Financial assets available for sale

	Note	2017 MRUB	2016 MRUB
Quoted debt securities			
Unpledged		**42,152**	**21,602**
Government and government-owned institutions		24,823	3,238
Leading Russian oil and gas companies		11,702	1,279
Largest 50 Russian banks		4,098	13,946
Other		1,529	3,139
Pledged as collateral under sale and repurchase agreements	20	**6,658**	**-**
Leading Russian oil and gas companies		4,119	-
Government and government-owned institutions		2,539	-
		48,810	**21,602**

As at 31 December 2017 Other included bonds of 1 529 MRUB with S&P rating from A- to BB+ (31 December 2016: 3,139 MRUB with S&P rating from B- to BB+).

15. Property, equipment and intangible assets

Movements in property, equipment and intangible assets for the year ended 31 December 2017 are as follows:

MRUB	Land and buildings	Vehicles	Furniture	Leasehold improvements	Computers and equipment	Intangible assets	Total
Cost							
Balance at 1 January	5,160	169	660	822	4,508	6,928	18,247
Additions	5	55	104	48	313	895	1,420
Effect of foreign currency translation	(4)	(3)	(9)	(9)	(46)	(65)	(136)
Disposals	(342)	(33)	(67)	(116)	(242)	(17)	(817)
Balance at 31 December	**4,819**	**188**	**688**	**745**	**4,533**	**7,741**	**18,714**
Accumulated depreciation and amortisation							
Balance at 1 January	1,510	109	453	293	4,010	4,073	10,448
Depreciation and amortisation charge	103	23	67	155	306	1,029	1,683
Effect of foreign currency translation	(1)	(1)	(4)	(4)	(9)	(30)	(49)
Disposals	(85)	(31)	(58)	(107)	(234)	(13)	(528)
Balance at 31 December	**1,527**	**100**	**458**	**337**	**4,073**	**5,059**	**11,554**
Net book value at 1 January	**3,650**	**60**	**207**	**529**	**498**	**2,855**	**7,799**
Net book value at 31 December	**3,292**	**88**	**230**	**408**	**460**	**2,682**	**7,160**

15. Property, equipment and intangible assets (continued)

Movements in property, equipment and intangible assets for the year ended 31 December 2016 are as follows:

MRUB	Land and buildings	Vehicles	Furniture	Leasehold improvements	Computers and equipment	Intangible assets	Total
Cost							
Balance at 1 January	5,172	168	783	1,080	4,726	6,117	18,046
Additions	4	1	6	9	543	744	1,307
Effect of foreign currency translation	(16)	(7)	(30)	(28)	(60)	(186)	(327)
Disposals	-	(15)	(125)	(245)	(285)	(49)	(719)
Transfers	-	22	26	66	(416)	302	-
Impairment allowance	-	-	-	(60)	-	-	(60)
Balance at 31 December	**5,160**	**169**	**660**	**822**	**4,508**	**6,928**	**18,247**
Accumulated depreciation and amortisation							
Balance at 1 January	1,408	109	455	294	3,729	3,216	9,211
Depreciation and amortisation charge	103	15	102	209	578	965	1,972
Effect of foreign currency translation	(1)	(2)	(11)	(11)	(29)	(63)	(117)
Disposals	-	(13)	(93)	(199)	(268)	(45)	(618)
Balance at 31 December	**1,510**	**109**	**453**	**293**	**4,010**	**4,073**	**10,448**
Net book value at 1 January	**3,764**	**59**	**328**	**786**	**997**	**2,901**	**8,835**
Net book value at 31 December	**3,650**	**60**	**207**	**529**	**498**	**2,855**	**7,799**

Movements in the impairment allowance are as follows:

	2017 MRUB	2016 MRUB
Balance at 1 January	**(84)**	**(76)**
Net charge	-	(60)
Amounts related to offices closed	15	52
Balance at 31 December	**(69)**	**(84)**

16. Other assets

	2017 MRUB	2016 MRUB
Settlements with suppliers	971	955
Taxes other than income tax	306	463
Prepaid expenses	94	83
Accrued income	29	4
Other	107	57
Impairment allowance	(7)	(5)
	1,500	**1,557**

Movements in the impairment allowance are as follows:

	2017 MRUB	2016 MRUB
Balance at 1 January	**(5)**	**(1)**
Net charge	(230)	(45)
Write-off	228	40
Effect of foreign currency translation	-	1
Balance at 31 December	**(7)**	**(5)**

17. Debt securities issued

	Maturity	Coupon rate	2017 MRUB	2016 MRUB
Unsecured KZT bond issue 1 of MKZT 6,769	February 2019	Fixed, 9.50%	1,206	1,257
Unsecured KZT bond issue 2 of MKZT 10,000	May 2020	Fixed, 15.00%	1,753	-
Unsecured KZT bond issue 3 of MKZT 5,000	October 2019	Fixed, 12.50%	879	-
			3,838	**1,257**

In February 2014 the Group issued the unsecured KZT denominated bond issue 1 with a fixed coupon rate which is valid until the final maturity.

In May 2017 the Group issued the unsecured KZT denominated bond issue 2 with a fixed coupon rate which is valid until the final maturity.

In October 2017 the Group issued the unsecured KZT denominated bond issue 3 with a fixed coupon rate which is valid until the final maturity.

18. Subordinated debt

	Maturity	Coupon rate	2017 MRUB	2016 MRUB
Loan participation notes issue of MUSD 500	April 2020/ April 2018*	Fixed, 9.38%	13,138	14,061
Loan participation notes issue of MUSD 200	April 2021/ April 2019*	Fixed, 10.50%	9,709	10,218
			22,847	**24,279**

** Early redemption option date / Repayment date*

In October 2012 the Group issued MUSD 500 of subordinated seven and a half year loan participation notes at the fixed rate of 9.38% through Eurasia Capital S.A. The terms of the loan agreement include a call option executable on 24 April 2018 ("the reset date"). After the reset date the interest rate is determined as two year US treasuries rate + 862.4 b.p. The proceeds from the issue were used to grant a subordinated loan to the Bank. In November 2012 the issue was registered with the CBR. As at 31 December 2017 the Group bought back the loan participation notes with a cumulative par value of MUSD 276 with result recognised in other operating income, net (Note 7).

In October 2013 the Group issued the MUSD 200 of Basel III compliant tier 2 seven and a half year loan participation notes at the fixed rate of 10.50% through Eurasia Capital S.A. The proceeds from the issue were used to grant a subordinated loan to the Bank. The terms of the loan agreement include a call option executable on 17 April 2019 ("the reset date"). After the reset date the interest rate is determined as two year US treasuries rate + 903 b.p. In November 2013 the issue was registered with the CBR. As at 31 December 2017 the Group bought back the loan participation notes with a par value of MUSD 35 with result recognised in other operating income, net (Note 7).

19. Reconciliation of movements of liabilities to cash flows arising from financing activities

	Liabilities		
	Subordinated borrowings	**Debt securities issued**	**Total**
Balance at 1 January 2017	**24,279**	**1,257**	**25,536**
Changes from financing cash flows			
Proceeds from debt securities issued	-	2,666	2,666
Repayment of subordinated borrowings	(225)	-	(225)
Total changes from financing cash flows	**(225)**	**2,666**	**2,441**
The effect of changes in foreign exchange rates	(1,041)	(136)	(1,177)
Other changes			
Capitalised borrowing costs	4	-	4
Interest expense	2,254	304	2,558
Interest paid	(2,424)	(253)	(2,677)
Balance at 31 December 2017	**22,847**	**3,838**	**26,685**

20. Due to banks and other financial institutions

	2017 MRUB	2016 MRUB
Unsecured loans	10,943	6,697
Secured loans	6,114	6
Other balances	91	270
	17,148	**6,973**

As at 31 December 2017 the Group pledged and transferred financial assets available for sale with a carrying amount of MRUB 6,658 (Note 14) as collateral for secured loans that had recourse only to the transferred assets. These financial assets might be repledged or resold by counterparties in the absence of any default by the Group, but the counterparty had an obligation to return the securities when the contract matures. The Group determined that it retained substantially all the risks and rewards related to these securities and therefore did not derecognise them. The fair value of the transferred assets available for sale and related secured loans was equal to their carrying amount and net position was MRUB 544.

21. Current accounts and deposits from customers

	2017 MRUB	2016 MRUB
Retail		
Term deposits	143,244	119,393
Current accounts and demand deposits	43,458	30,039
	186,702	149,432
Corporate		
Term deposits	5,923	5,999
Current accounts and demand deposits	318	252
	6,241	6,251
	192,943	**155,683**

22. Deferred tax asset and liability

The Group's applicable tax rate for deferred tax is 20% (2016: 20%). Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to a net deferred tax asset as at 31 December 2017 and as at 31 December 2016. The deductible temporary differences do not expire under the current tax legislation.

	Assets		**Liabilities**		**Net**	
MRUB	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Loans to customers	2,305	4,253	-	-	2,305	4,253
Negative fair value of derivative instruments	4	8	-	-	4	8
Financial assets available for sale	66	116	-	-	66	116
Property, equipment and intangible assets	-	-	(460)	(570)	(460)	(570)
Positive fair value of derivative instruments	-	-	-	(4)	-	(4)
Other assets	329	393	(10)	(21)	319	372
Debt securities issued	12	-	-	(17)	12	(17)
Current accounts and deposits from customers	-	-	(1)	(1)	(1)	(1)
Due to banks and other financial institutions	13	28	-	-	13	28
Other liabilities	888	633	-	-	888	633
Net deferred tax asset					**3,146**	**4,818**

22. Deferred tax asset and liability (continued)

Movements in temporary differences during the years ended 31 December 2017 and 31 December 2016 are presented as follows:

MRUB	1 January 2017	Recognised in profit or loss	Recognised in other comprehensive income	Translation reserve	31 December 2017
Loans to customers	4,253	(1,945)	-	(3)	2,305
Negative fair value of derivative instruments	8	(4)	-	-	4
Financial assets available for sale	116	(46)	(4)	-	66
Property, equipment and intangible assets	(570)	107	-	3	(460)
Positive fair value of derivative instruments	(4)	4	-	-	-
Other assets	372	(54)	-	1	319
Current accounts and deposits from customers	(1)	-	-	-	(1)
Debt securities issued	(17)	29	-	-	12
Due to banks and other financial institutions	28	(14)	-	(1)	13
Other liabilities	633	259	-	(4)	888
	4,818	**(1,664)**	**(4)**	**(4)**	**3,146**

MRUB	1 January 2016	Recognised in profit or loss	Recognised in other comprehensive income	Translation reserve	31 December 2016
Tax loss carry-forwards	2,931	(2,931)	-	-	-
Loans to customers	4,627	(374)	-	-	4,253
Negative fair value of derivative instruments	-	9	-	(1)	8
Financial assets available for sale	(249)	389	(24)	-	116
Property, equipment and intangible assets	(735)	154	-	11	(570)
Positive fair value of derivative instruments	(1,594)	1,580	10	-	(4)
Other assets	453	(85)	-	4	372
Current accounts and deposits from customers	(1)	-	-	-	(1)
Debt securities issued	(30)	13	-	-	(17)
Due to banks and other financial institutions	1	29	-	(2)	28
Other liabilities	167	478	-	(12)	633
	5,570	**(738)**	**(14)**	**-**	**4,818**

23. Other liabilities

	2017 MRUB	2016 MRUB
Settlements with suppliers	2,613	1,579
Accrued employee compensation	2,276	2,197
Provision for return of insurance fee	756	475
Other taxes payable	377	424
Accrued payments to the Deposits Insurance Agency	204	168
Provision for restructuring	38	51
Provision for litigations	20	69
Other	155	264
	6,439	**5,227**

Movements in the provision for return of insurance fee were as follows:

	2017 MRUB	2016 MRUB
Balance at 1 January	**475**	**253**
Net charge	2,041	1,656
Amounts returned	(1,760)	(1,434)
Balance at 31 December	**756**	**475**

Movements in the provision for litigations were as follows:

	2017 MRUB	2016 MRUB
Balance at 1 January	**69**	**131**
Net recovery	(31)	(15)
Amounts paid	(18)	(47)
Balance at 31 December	**20**	**69**

Movements in the provision for restructuring are as follows:

	2017 MRUB	2016 MRUB
Balance at 1 January	**51**	**38**
Net charge	-	42
Amounts related to offices closed	(13)	(29)
Balance at 31 December	**38**	**51**

24. Risk management, corporate governance and internal control

(a) Corporate governance framework

The Bank is established as a limited liability company in accordance with Russian law. The supreme governing body of the Bank is the general participants' meeting that is called for annual or extraordinary meetings. The general participants' meeting makes strategic decisions on the Bank's operations.

The general participants' meeting elects the Council. The Council is responsible for overall governance of the Bank's activities.

Russian legislation and the charter of the Bank establish lists of decisions that are exclusively approved by the general participants' meeting and that are approved by the Council. The Composition of the Council is presented in Note 1.

General activities of the Bank are managed by the sole executive body of the Bank (Chief Executive Officer), and collective executive body of the Bank (Board of Management). The Council elects the Board of Management. The executive bodies of the Bank are responsible for implementation of decisions of the general participants' meeting and the Council of the Bank. Executive bodies of the Bank report to the Council of the Bank and to the general participants' meeting. The composition of the Board of Management is presented in Note 1.

(b) Internal control policies and procedures

The Council and the Board of Management have responsibility for the development, implementation and maintaining of internal controls in the Group that are appropriate for the scale and nature of operations.

The purpose of internal controls system is to ensure:
• proper and comprehensive risk assessment and management
• proper business and accounting and financial reporting functions, including proper authorization, processing and recording of transactions
• completeness, accuracy and timeliness of accounting records, managerial information, regulatory reports, etc.
• reliability of IT-systems, data and systems integrity and protection
• prevention of fraudulent or illegal activities, including misappropriation of assets
• compliance with laws and regulations including anti-money laundering.

Management is responsible for identifying and assessing risks, designing controls and monitoring their effectiveness. Management monitors the effectiveness of the Bank's internal controls and periodically introduces additional controls or modifies existing controls as considered necessary.

The Group developed a system of standards, policies and procedures to ensure effective operations and compliance with relevant legal and regulatory requirements, including the following areas:
• requirements for appropriate segregation of duties, including the independent authorization of transactions
• requirements for the recording, reconciliation and monitoring of transactions
• compliance with regulatory and other legal requirements
• documentation of controls and procedures
• requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
• requirements for the reporting of operational losses and proposed remedial action
• development of contingency plans
• training and professional development
• ethical and business standards and
• risk mitigation, including insurance where this is effective.

There is a hierarchy of requirements for authorization of transactions depending on their size and complexity. A significant portion of operations are automated and the Group put in place a system of automated controls.

24. Risk management, corporate governance and internal control (continued)

The internal control system of the Bank comprises:
• the Council
• the Chief Executive officer and the Board of Management
• the Chief Accountant
• the risk management function
• the security function, including IT-security
• the human resource function
• the internal audit function
• the internal control (compliance) service
• other employees, division and functions that are responsible for compliance with the established standards, policies and procedures, including:
- heads of branches and heads of business-units
- business processes managers
- division responsible for compliance with anti-money laundering requirements
- professional securities market participant controller – an executive office and a division responsible for compliance with the requirements for securities market participants
- the legal officer – an employee and a division responsible for compliance with the legal and regulatory requirements
- other employees/divisions with control responsibilities.

The main responsibilities of internal audit function include the following:

• audit and efficiency assessment of the system of internal control as a whole, fulfillment of the decisions of key management structures
• audit of efficiency of methodology of assessment of banking risks and risk management procedures, regulated by internal documents in credit organisation (methods, programmes, rules and procedures for banking operations and transactions, and for the management of banking risks)
• audit of reliability of internal control system over automated information systems
• audit and testing of fairness, completeness and timeliness of accounting and reporting function and the reliability (including the trustworthiness, fullness and objectivity) of the collection and submission of financial information
• audit of applicable methods of safekeeping the credit organisation's property
• assessment of economic reasonability and efficiency of operations and other deals
• audit of internal control processes and procedures
• audit of internal control service and risk management service.

Internal control service conducts compliance activities focused primarily on regulatory risks faced by the Group.

24. Risk management, corporate governance and internal control (continued)

The main functions of internal control (compliance) service include the following:

• identification of compliance risks and regulatory risks
• monitoring of events related to regulatory risk, including probability of occurrence and quantitative assessment of its' consequences
• monitoring of regulatory risk
• preparation of recommendations on regulatory risk management
• coordination and participation of design of measures to decrease regulatory risk
• monitoring of efficiency of regulatory risk management
• participation in preparation of internal documents on regulatory risk management, anti-corruption, compliance with corporate behaviour rules, code of professional ethics and minimisation of conflicts of interest
• analysis of dynamics of clients' complaints
• analysis of economic reasonableness of agreements with suppliers
• participation in interaction with authorities, self-organized organisations, associations and financial market participants.

Compliance with Group standards is supported by a program of periodic reviews undertaken by Internal Audit. The Internal Audit function is independent from management and reports directly to the Council. The results of Internal Audit reviews are discussed with relevant business process managers, with summaries submitted to the Council and senior management of the Group.

Russian legislation, including the Federal Law dated 2 December 1990 No 395-1 *On banks and banking activity,* Direction of the CBR dated 1 April 2014 No 3223-U *On requirement to head of risk management service, head of internal control service, head of internal audit service of the credit organisation* establish the professional qualifications, business reputation and other requirements for members of the Council, Board of Management, Heads of internal audit service, internal control service and risk management service and other key management personnel. All members of the Bank's governing and management bodies meet with these requirements.

Legislation of Kazakhstan, including the Law dated 31 August 1995 No 2444 *On banks and banking activity in the Republic of Kazakhstan*, establishes the professional qualifications, business reputation and other requirements for members of the Board of Directors, Management Board, and other key management personnel. All members of the Bank Home Credit (SB JSC)'s governing and management bodies comply with these requirements.

Management believes that the Group complies with the CBR and the NBRK requirements related to risk management and internal control systems, including requirements related to the internal audit function, and that risk management and internal control systems are appropriate for the scale, nature and complexity of operations.

(c) Risk management policies and procedures

Management of risk is fundamental to the business of banking and forms an essential element of the Group's operations. The major (significant) risks faced by the Group are those related to market risk, credit risk, liquidity risk, and operational, legal and reputational risks.

The risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations. The Group has developed a system of reporting on significant risks and capital.

24. Risk management, corporate governance and internal control (continued)

As at 31 December 2017, the Bank's internal documentation establishing the procedures and methodologies for identification, managing and stress-testing the Group's significant risks, was approved by the authorized management bodies of the Bank in accordance with regulations and recommendations issued by the CBR.

The Board of Management is responsible for monitoring and implementing risk mitigation measures, and ensuring that the Group operates within established risk parameters. The Head of the Risk Department (Chief Risk Officer) is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the Chairman of the Board of Management. The Risk Department is not subordinate to, and does not report to, divisions accepting relevant risks.

The Council and management bodies of the Bank have responsibility for controlling the Group's compliance with risk limits and capital adequacy ratios as established by the Group's internal documentation. With the view of controlling effectiveness of the Group's risk management procedures and their consistent application the Council and management bodies of the Bank periodically receive reports prepared by the internal audit function and the Risk department, discuss the contents of these reports and consider proposed corrective actions.

Both external and internal risk factors are identified and managed throughout the organisation. Particular attention is given to identifying the full range of risk factors and determining the level of assurance over current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their respective areas of expertise.

The Group has exposure to the following risks from its use of financial instruments:

- credit
- market
- liquidity
- operational.

The Board of Management has overall responsibility for the establishment and oversight of the risk management framework. The Board has established the Credit Committee and the Asset and Liability Committee ("ALCO"), which are responsible for developing and monitoring risk management policies in their specified areas. Both committees report regularly to the Board of Management on their activities.

In compliance with the Group's internal documentation the Risk Department and internal audit function frequently prepare reports, which cover the Group's significant risks management. The reports include observations as to assessment of the effectiveness of the Group's procedures and methodologies, and recommendations for improvement.

The Group calculates mandatory ratios on a daily basis in accordance with the requirement of the CBR. As at 31 December 2017 and 31 December 2016 the mandatory ratios were in compliance with limits set by the CBR.

(d) Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Group. The majority of the Group's exposure to credit risk arises in connection with the provision of consumer financing to private individual customers, which is the Group's principal business. As the Group's loan portfolio consists of a large amount of loans with relatively low outstanding amounts, the loan portfolio does not comprise any significant individual items.

The Group has developed policies and procedures for the management of credit exposures, including credit scoring of customers, guidelines to limit portfolio concentration and the establishment of a credit department which actively monitors the Group's credit risk.

24. Risk management, corporate governance and internal control (continued)

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the consolidated statement of financial position and unrecognised contractual commitment amounts. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The Bank's management is responsible for the compliance of the banking group, wherein the Bank is the parent credit institution, with the requirements of the CBR in respect of mandatory ratios, including the banking group's maximum risk exposure ratio per borrower or group of related borrowers (N21); the banking group's maximum risk exposure to large credit risks ratio (N22).

N21 ratio regulates the credit risk of the banking group, wherein the Bank is the parent credit institution, in respect of a borrower or a group of related borrowers and sets the maximum ratio of the banking group's total credit claims (excluding unconsolidated participants of the banking group) to the borrower or group of related borrowers to the banking group's own funds.

N22 ratio regulates the total exposure to large credit risks of the banking group, wherein the Bank is the parent credit institution, and sets the maximum ratio of the banking group's total exposure to large credit risks (excluding unconsolidated participants of the banking group) to the banking group's own funds.

The structure of the banking group, wherein the Bank is the parent credit institution, is determined in accordance with the requirements of the Direction of the CBR dated 03 December 2015 No 509-P *Calculation of own funds, mandatory ratios and open currency position limits for banking groups* and may differ from the Group structure determined in accordance with IFRS requirements.

The Bank was in compliance with the mandatory ratios in respect of the banking group's credit risk as at 31 December 2017 and 31 December 2016.

Offsetting financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that:
• are offset in the Group's statement of financial position or
• are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

The similar agreements include derivative clearing agreements, global master repurchase agreements, and global master securities lending agreements. Similar financial instruments include derivatives, sales and repurchase agreements, reverse sale and repurchase agreements. Financial instruments such as loans and deposits are not disclosed in the table below unless they are offset in the statement of financial position.

The Group's derivative transactions that are not transacted on the exchange are entered into under International Derivative Swaps and Dealers Association Master Netting Agreements. In general, under such agreements the amounts owed by each counterparty that are due on a single day in respect of transactions outstanding in the same currency under the agreement are aggregated into a single net amount being payable by one party to the other. In certain circumstances, for example when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is due or payable in settlement transactions.

The Group's sale and repurchase and reverse sale and repurchase transactions are covered by Global Master Repurchase Agreements and similar agreements with terms similar to those of International Derivative Swaps and Dealers Association Master Netting Agreements.

The above International Derivative Swaps and Dealers Association Master Netting Agreements and similar master netting arrangements do not meet the criteria for offsetting in the consolidated statement of financial position.

The Group receives and accepts collateral in the form of cash and marketable securities in respect of sale and repurchase, and reverse sale and repurchase agreements.

24. Risk management, corporate governance and internal control (continued)

Such collateral is subject to the standard industry terms of the Global Master Repurchase Agreements. This means that securities received/given as collateral can be pledged or sold during the term of the transaction, but must be returned on maturity of the transaction. The terms also give each counterparty the right to terminate the related transactions upon the counterparty's failure to post collateral.

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2017:

				Related amount not offset in the consolidated statement of financial position		
MRUB	**Gross amount of recognised financial asset/liability**	**Gross amount of recognised financial asset/liability offset in the consolidated statement of financial position**	**Net amount of financial asset/liability presented in the consolidated statement of financial position**	**Financial instruments**	**Cash collateral received**	**Net amount**
Reverse sale and repurchase agreements	9,007	-	9,007	(9,007)	-	-
Total financial assets	**9,007**	**-**	**9,007**	**(9,007)**	**-**	**-**
Sale and repurchase agreements	6,114	-	6,114	(6,114)	-	-
Total financial liabilities	**6,114**	**-**	**6,114**	**(6,114)**	**-**	**-**

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2016:

				Related amount not offset in the consolidated statement of financial position		
MRUB	**Gross amount of recognised financial asset/liability**	**Gross amount of recognised financial asset/liability offset in the consolidated statement of financial position**	**Net amount of financial asset/liability presented in the consolidated statement of financial position**	**Financial instruments**	**Cash collateral received**	**Net amount**
Reverse sale and repurchase agreements	7,024	-	7,024	(7,024)	-	-
Total financial assets	**7,024**	**-**	**7,024**	**(7,024)**	**-**	**-**

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the consolidated statement of financial position that are disclosed in the above tables are measured in the consolidated statement of financial position on the following basis:

• derivative assets and liabilities – fair value
• assets and liabilities resulting from sale and repurchase agreements, reverse sale and repurchase agreements – amortised cost.

24. Risk management, corporate governance and internal control (continued)

The table below reconciles the "Net amounts of financial assets and financial liabilities presented in the consolidated statement of financial position", as set out above, to the line items presented in the consolidated statement of financial position as at 31 December 2017.

MRUB	Net amount	Line item in the consolidated statement of financial position	Carrying amount in the consolidated statement of financial position	Financial asset/liability not in the scope of offsetting disclosure	Note
Reverse sale and repurchase agreements	9,007	Cash and cash equivalents	23,040	14,033	11
Sale and repurchase agreements	6,114	Due to banks and other financial institutions	17,148	11,034	20

The table below reconciles the "Net amounts of financial assets and financial liabilities presented in the consolidated statement of financial position", as set out above, to the line items presented in the consolidated statement of financial position as at 31 December 2016.

MRUB	Net amount	Line item in the consolidated statement of financial position	Carrying amount in the consolidated statement of financial position	Financial asset/liability not in the scope of offsetting disclosure	Note
Reverse sale and repurchase agreements	7,024	Cash and cash equivalents	23,122	16,098	11

(e) Market risk

Market risk is the risk that changes in interest rates or foreign exchange rates will affect the Group's income or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters.

The majority of the Group's exposure to market risk arises in connection with the funding of operations with liabilities denominated in foreign currencies, and to the extent the interest rate repricing structure of interest bearing assets differs from that of liabilities.

Overall authority for market risk is vested in ALCO. Market risk limits are approved by ALCO based on recommendations of the Risk Department's Market Risk Management Division.

The Group manages its market risk by setting open position limits in relation to financial instrument, interest rate maturity and currency positions and stop-loss limits which are monitored on a regular basis and reviewed and approved by ALCO.

24. Risk management, corporate governance and internal control (continued)

In addition, the Group uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Group's overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by the Group include: risk factor stress testing, where stress movements are applied to each risk category and ad hoc stress testing, which includes applying possible stress events to specific positions.

The management of interest rates risk component of market risk, by monitoring the interest rate gap is supplemented by monitoring the sensitivity of net interest margin to various standard and non-standard interest rate scenarios.

(i) Exposure to equity price risk

Equity price risk is the risk that the value of equity instruments will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Equity price risk arises when the Group takes a long or short position in a financial instrument.

The Group's exposure to equity price risk is insignificant as its securities portfolio comprises an insignificant part of total assets. As at 31 December 2017 and 31 December 2016 the Group did not have open positions in equity securities.

(ii) Exposure to interest rate risk

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

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

24. Risk management, corporate governance and internal control (continued)

Effective interest rates and repricing analysis

The following table indicates effective interest rates for interest-earning financial assets and interest-bearing financial liabilities at the reporting date and the periods in which they reprice.

	2017							**2016**						
MRUB	**Effective interest rate**	**Less than 3 months**	**3 to 12 months**	**1 to 2 years**	**2 to 5 years**	**More than 5 years**	**Total**	**Effective interest rate**	**Less than 3 months**	**3 to 12 months**	**1 to 2 years**	**2 to 5 years**	**More than 5 years**	**Total**
Interest-earning financial assets														
RUB interest-earning financial assets														
Cash and cash equivalents	8.0%	1,766	-	-	-	-	1,766	10.4%	889	-	-	-	-	889
Placements with banks and other financial institutions	-	-	-	-	-	-	-	15.0%	-	10	-	-	-	10
Loans to customers														
Loans to corporations	17.0%	761	-	-	-	-	761	18.4%	1,271	-	-	-	-	1,271
Loans to individuals	22.9%	37,613	70,843	37,692	23,903	1,857	171,908	25.2%	33,808	59,338	31,528	18,001	2,149	144,824
Financial assets available for sale	8.7%	33,732	438	460	-	205	34,835	12.0%	3,599	6,910	-	-	-	10,509
USD interest-earning financial assets														
Cash and cash equivalents	5.6%	7,241	-	-	-	-	7,241	2.8%	6,317	-	-	-	-	6,317
Placements with banks and other financial institutions	-	-	-	-	-	-	-	7.0%	-	-	4,550	-	-	4,550
Loans to customers														-
Loans to corporations	6.0%	55	65	86	2,484	-	2,690	8.0%	72	68	91	2,702	-	2,933
Loans to individuals	12.7%	25	53	42	53	139	312	11.8%	96	132	106	79	126	539
Financial assets available for sale	6.7%	11,407	2,568	-	-	-	13,975	4.7%	1,310	9,783	-	-	-	11,093
KZT interest-earning financial assets														
Cash and cash equivalents	9.3%	416	-	-	-	-	416	11.0%	1,890	-	-	-	-	1,890
Loans to customers														
Loans to individuals	32.3%	7,984	14,658	6,909	3,027	-	32,578	36.6%	6,050	9,614	4,127	1,587	-	21,378

24. Risk management, corporate governance and internal control (continued)

Effective interest rates and repricing analysis

	2017							2016						
MRUB	**Effective interest rate**	**Less than 3 months**	**3 to 12 months**	**1 to 2 years**	**2 to 5 years**	**More than 5 years**	**Total**	**Effective interest rate**	**Less than 3 months**	**3 to 12 months**	**1 to 2 years**	**2 to 5 years**	**More than 5 years**	**Total**
Interest-bearing financial liabilities														
RUB interest-bearing financial liabilities														
Due to banks and other financial institutions	7.9%	6,494	3,031	-	-	-	9,525	10.0%	702	1,913	400	-	-	3,015
Current accounts and deposits from customers	6.7%	33,999	73,080	48,302	344	5,266	160,991	9.6%	34,427	76,080	12,690	4,587	-	127,784
USD interest-bearing financial liabilities														
Subordinated debt	10.3%	-	13,340	9,507	-	-	22,847	10.2%	-	451	23,828	-	-	24,279
Due to banks and other financial institutions	3.5%	1,043	522	-	-	-	1,565	2.2%	795	-	-	-	-	795
Current accounts and deposits from customers	1.4%	465	2,934	567	-	248	4,214	1.7%	1,654	2,489	90	-	-	4,233
EUR interest-bearing financial liabilities														
Due to banks and other financial institutions	4.0%	692	1,037	-	-	-	1,729	-	-	-	-	-	-	-
Current accounts and deposits from customers	0.4%	158	945	219	-	112	1,434	0.9%	705	924	12	-	-	1,641
KZT interest-bearing financial liabilities														
Debt securities issued	12.7%	43	48	-	3,747	-	3,838	10.3%	45	-	-	1,212	-	1,257
Due to banks and other financial institutions	13.4%	376	3,874	-	-	-	4,250	17.8%	211	2,410	272	-	-	2,893
Current accounts and deposits from customers	13.5%	3,352	7,659	2,959	-	-	13,970	15.7%	1,894	6,480	2,620	5	-	10,999
Net position as at 31 December														
in RUB		33,379	(4,830)	(10,150)	23,559	(3,204)	38,754		4,438	(11,735)	18,438	13,414	2,149	26,704
in USD		17,220	(14,110)	(9,946)	2,537	(109)	(4,408)		5,346	7,043	(19,171)	2,781	126	(3,875)
in EUR		(850)	(1,982)	(219)	-	(112)	(3,163)		(705)	(924)	(12)	-	-	(1,641)
in KZT		4,629	3,077	3,950	(720)	-	10,936		5,790	724	1,235	370	-	8,119

24. Risk management, corporate governance and internal control (continued)

Effective interest rates sensitivity analysis

An analysis of sensitivity of net profit and equity to changes in market interest rates based on a simplified scenario of a 1% symmetrical fall or rise in all yield curves and positions of interest bearing assets and liabilities existing as at 31 December 2017 and 31 December 2016 are presented as follows:

	2017 Total effect on net profit/ equity MRUB	2016 Total effect on net profit/ equity MRUB
RUB		
+ 1% rate increase	(177)	(198)
- 1% rate decrease	177	198
USD		
+ 1% rate increase	105	83
- 1% rate decrease	(105)	(83)
KZT		
+ 1% rate increase	47	43
- 1% rate decrease	(47)	(43)

An analysis of sensitivity of equity as a result of changes in the fair value of financial assets available for sale due to changes in the interest rates based on positions existing as at 31 December 2017 and 31 December 2016 and a simplified scenario of a 1% symmetrical fall or rise in all yield curves is as follows:

	2017 Total effect on equity MRUB	2016 Total effect on equity MRUB
+ 1% rate increase	(618)	(157)
- 1% rate decrease	618	157

24. Risk management, corporate governance and internal control (continued)

(iii) Foreign currency risk

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

Foreign exchange rate risk mainly arises due to the funding of the Group operations with liabilities denominated in foreign currencies. Derivative financial instruments are used by the Group to hedge the mismatches in the foreign currency structure of assets and liabilities. Assets and liabilities by currency as at 31 December are as follows:

			2017					2016		
MRUB	**USD**	**EUR**	**RUB**	**Other currencies**	**Total**	**USD**	**EUR**	**RUB**	**Other currencies**	**Total**
Assets										
Cash and cash equivalents	8,102	253	13,018	1,667	23,040	7,011	1,790	11,972	2,349	23,122
Placements with banks and other financial institutions	1,789	34	1,329	312	3,464	6,182	33	1,113	133	7,461
Loans to customers	3,002	-	172,669	32,578	208,249	3,472	-	146,095	21,378	170,945
Positive fair value of derivative instruments	-	-	-	-	-	-	-	22	-	22
Financial assets available for sale	13,975	-	34,835	-	48,810	11,093	-	10,509	-	21,602
Property, equipment and intangible assets	-	-	5,887	1,273	7,160	-	-	6,560	1,239	7,799
Assets classified as held for sale	-	-	217	-	217	-	-	127	-	127
Investment in associate	-	-	108	-	108	-	-	138	-	138
Current income tax receivable	-	-	516	-	516	-	-	-	-	-
Deferred tax asset	-	-	3,054	92	3,146	-	-	4,782	36	4,818
Other assets	14	37	923	526	1,500	36	29	1,115	377	1,557
Total assets	**26,882**	**324**	**232,556**	**36,448**	**296,210**	**27,794**	**1,852**	**182,433**	**25,512**	**237,591**
Liabilities										
Debt securities issued	-	-	-	3,838	3,838	-	-	-	1,257	1,257
Subordinated debt	22,847	-	-	-	22,847	24,279	-	-	-	24,279
Due to banks and other financial institutions	1,565	1,755	9,578	4,250	17,148	795	21	3,263	2,894	6,973
Current accounts and deposits from customers	4,268	1,462	171,488	15,725	192,943	4,294	1,664	137,247	12,478	155,683
Negative fair value of derivative instruments	-	-	-	16	16	-	-	-	39	39
Current income tax liability	-	-	-	106	106	-	-	227	109	336
Other liabilities	105	75	4,794	1,465	6,439	16	56	4,203	952	5,227
Total liabilities	**28,785**	**3,292**	**185,860**	**25,400**	**243,337**	**29,384**	**1,741**	**144,940**	**17,729**	**193,794**
Effect of foreign currency derivatives	1,797	2,423	(1,506)	(3,491)	(777)	1,581	(11)	(358)	(1,394)	(182)
Net position as at 31 December	**(106)**	**(545)**	**45,190**	**7,557**	**52,096**	**(9)**	**100**	**37,135**	**6,389**	**43,615**

24. Risk management, corporate governance and internal control (continued)

Foreign currency risk sensitivity analysis

An analysis of sensitivity of net profit and equity to change in the currency exchange rates based on positions existing as at 31 December 2017 and 31 December 2016 and a simplified scenario of a 10% change in USD, EUR and KZT to Russian Rouble exchange rates is as follows:

	2017 Total effect on net profit/ equity MRUB	**2016 Total effect on net profit/ equity MRUB**
Effect of 10% RUB depreciation against USD	(9)	(1)
Effect of 10% RUB appreciation against USD	9	1
Effect of 10% RUB depreciation against EUR	(44)	8
Effect of 10% RUB appreciation against EUR	44	(8)
Effect of 10% RUB depreciation against KZT	605	512
Effect of 10% RUB appreciation against KZT	(605)	(512)

(f) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations from its financial liabilities. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group’s reputation.

The Financial Markets department collects information from other departments regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. A portfolio of short-term liquid assets is maintained to ensure sufficient liquidity. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering different market conditions. Liquidity position projections are subject to regular review and approval by ALCO.

The following table shows assets and liabilities as at 31 December 2017 and 31 December 2016 by remaining contractual undiscounted cash flows. Such undiscounted cash flows differ from the amount included in the consolidated statement of financial position because the statement of financial position amount is based on discounted cash flows. Securities included in financial instruments available-for-sale securities that qualify as collateral for borrowing from the Central Bank of the Russian Federation are shown in the category “Less than 1 month” as management believes they are liquid assets which can be sold quickly or pledged into a repo transaction in response to liquidity needs, if necessary. In accordance with Russian legislation, individuals can withdraw their term deposits at any time, losing in most of the cases the accrued interest. Based on the past experience management believes term deposits and current accounts from individuals to be a stable source of funding, thus classifying them in accordance with contractual maturities and expected prolongations for term deposits or expected demand for current accounts. The presentation of liquidity risk has been changed since 2017.

24. Risk management, corporate governance and internal control (continued)

	2017							2016						
MRUB	**Less than 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 5 years**	**More than 5 years**	**No maturity**	**Total**	**Less than 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 5 years**	**More than 5 years**	**No maturity**	**Total**
Assets														
Cash and cash equivalents	23,050	-	-	-	-	-	23,050	23,126	-	-	-	-	-	23,126
Placements with banks and other financial institutions	-	-	-	-	-	3,464	3,464	-	-	11	5,036	-	2,901	7,948
Loans to customers	20,871	36,428	106,279	92,435	2,680	-	258,693	19,325	31,268	84,482	72,587	3,217	-	210,879
Positive fair value of derivative instruments	-	-	-	-	-	-	-	-	22	-	-	-	-	22
Financial assets available for sale	44,731	408	3,024	460	205	-	48,828	17,230	118	4,133	422	-	-	21,903
Property, equipment and intangible assets	-	-	-	-	-	7,160	7,160	-	-	-	-	-	7,799	7,799
Assets classified as held for sale	-	-	217	-	-	-	217	-	-	127	-	-	-	127
Investment in associate	-	-	-	-	-	108	108	-	-	-	-	-	138	138
Current income tax receivable	-	-	-	516	-	-	516	-	-	-	-	-	-	-
Deferred tax asset	-	-	-	-	-	3,146	3,146	-	-	-	-	-	4,818	4,818
Other assets	840	351	164	121	24	-	1,500	216	79	1,228	34	-	-	1,557
Total assets	**89,492**	**37,187**	**109,684**	**93,532**	**2,909**	**13,878**	**346,682**	**59,897**	**31,487**	**89,981**	**78,079**	**3,217**	**15,656**	**278,317**
Liabilities														
Debt securities issued	-	56	426	4,305	-	-	4,787	-	59	59	1,390	-	-	1,508
Subordinated debt	-	-	14,527	10,006	-	-	24,533	-	-	2,349	26,054	-	-	28,403
Due to banks and other financial institutions	7,076	1,637	8,984	-	-	-	17,697	1,640	346	4,709	778	-	-	7,473
Current accounts and deposits from customers	28,516	22,149	89,118	55,978	5,635	-	201,396	16,364	11,822	94,532	36,393	5,118	-	164,229
- Current accounts and deposits from individuals	*27,432*	*20,655*	*85,741*	*55,232*	*5,635*	-	*194,695*	*15,576*	*10,168*	*90,627*	*35,933*	*5,118*	-	*157,422*
- Current accounts and deposits from corporations	*1,084*	*1,494*	*3,377*	*746*	-	-	*6,701*	*788*	*1,654*	*3,905*	*460*	-	-	*6,807*
Negative fair value of derivative instruments	-	-	16	-	-	-	16	-	-	39	-	-	-	39
Current income tax liability	106	-	-	-	-	-	106	-	-	336	-	-	-	336
Other liabilities	3,141	2,226	778	294	-	-	6,439	1,149	2,784	1,092	202	-	-	5,227
Total liabilities	**38,839**	**26,068**	**113,849**	**70,583**	**5,635**	**-**	**254,974**	**19,153**	**15,011**	**103,116**	**64,817**	**5,118**	**-**	**207,215**
Net balance position	**50,653**	**11,119**	**(4,165)**	**22,949**	**(2,726)**	**13,878**	**91,708**	**40,744**	**16,476**	**(13,135)**	**13,262**	**(1,901)**	**15,656**	**71,102**
Irrevocable credit related commitments *	6,096	-	-	-	-	-	6,096	3,152	6	-	-	-	-	3,158
Net off-balance position	**6,096**	**-**	**-**	**-**	**-**	**-**	**6,096**	**3,152**	**6**	**-**	**-**	**-**	**-**	**3,158**
Cumulative net position	**44,557**	**55,676**	**51,511**	**74,460**	**71,734**	**85,612**		**37,592**	**54,062**	**40,927**	**54,189**	**52,288**	**67,944**	

** Other credit related commitments are disclosed in Note 26*

24. Risk management, corporate governance and internal control (continued)

Undiscounted cash flow from term deposits and current accounts from individuals based on contractual maturities was as follows:

	2017 MRUB	2016 MRUB
Less than 1 month	55,972	37,702
From 1 to 3 months	20,637	10,168
From 3 to 12 months	81,501	87,207
From 1 to 5 years	36,585	22,345
	194,695	**157,422**

(g) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Group's operations and are faced by all business entities.

The objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management. This responsibility is supported by the development of standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorization of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective.

(h) Fair value of financial instruments

The estimates of fair value are intended to approximate 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. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or transfer of liabilities.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using other valuation techniques.

24. Risk management, corporate governance and internal control (continued)

The following assumptions are used by management to estimate the fair values of financial instruments that are traded in active markets:

- The estimation of the fair value of debt securities issued was made by using market quotes in the range of 98.52-102.89% from notional amount for debt securities issued in KZT.
- The estimation of the fair value of subordinated debt was made by using market quotes in the range of 101.26-103.62% from notional amount for subordinated debt issued in USD.

The following assumptions are used by management to estimate the fair values of other financial instruments:

- The estimation of the fair value of POS, cash and credit card loans was made by using discounting future cash flows at discount rates of 18.5-22.3%. The estimation of the fair value of mortgage loans was made by using discounting future cash flows at discount rates of 10.5%
- The estimation of the fair value of due to banks and other financial institutions was made by using discounting future cash flows at discount rates of 6.3-6.9% in RUB, 1.4% in USD, 1.0% in EUR and 9.3% in KZT
- The estimation of the fair value of current accounts and deposits from customers was made by using discounting future cash flows at discount rates of 7.0% in RUB, 0.1-2.3% in USD, 0.5-2.3% in EUR and 7.9-12.2% in KZT
- The Group uses valuation models for determining the fair value of financial instruments at fair value through profit or loss based on FX spot rates as set by the CBR, benchmark interest rates and other inputs.

The Group measures fair values for financial instruments recorded in the consolidated statement of financial position using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

· Level 1: Quoted market price (unadjusted) in an active market for an identical instrument
· Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data
· Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The Group has a control framework with respect to the measurement of fair values. This framework includes the Risk Department, which is independent of front office management and reports to the Chief Risk Officer, and which has overall responsibility for the independent verification of the results of trading and investment operations and all significant fair value measurements.

Specific controls include:

- verification of observable pricing
- re-performance of model valuations
- a review and approval process for new models and changes to models involving both quarterly calibration and the back testing of models against observed market transactions
- analysis and investigation of significant daily valuation movements
- review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 instruments compared to previous month.

24. Risk management, corporate governance and internal control (continued)

Where third-party information, such as broker quotes or pricing services, are used to measure fair value, the Risk Department assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet IFRS requirements. This includes:

- verifying that the broker or pricing service is approved by the Group for use in pricing the relevant type of financial instrument
- understanding how the fair value has been arrived at the extent to which it represents actual market transactions
- when prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement
- where a number of quotes for the same financial instrument have been obtained, how fair value has been determined using those quotes.

Significant valuation issues are reported to the Board of Management.

The following table analyses the fair values of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement was categorised as at 31 December 2017:

		Fair value			
MRUB	**Carrying amount**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets					
Loans to customers	208,249	-	-	212,186	212,186
Liabilities					
Debt securities issued	3,838	3,877	-	-	3,877
Subordinated debt	22,847	23,355	-	-	23,355
Due to banks and other financial institutions	17,148	-	17,416	-	17,416
Current accounts and deposits from customers	192,943	-	193,711	-	193,711

The following table analyses the fair values of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement was categorised as at 31 December 2016:

		Fair value			
MRUB	**Carrying amount**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets					
Loans to customers	170,945	-	-	171,489	171,489
Liabilities					
Debt securities issued	1,257	1,224	-	-	1,224
Subordinated debt	24,279	25,065	-	-	25,065
Current accounts and deposits from customers	155,683	-	156,213	-	156,213

The estimates of fair values of financial assets other than loans to customers and financial liabilities other than debt securities issued, subordinated debt and current accounts and deposits from customers as at 31 December 2017 and 31 December 2016 are not materially different from their carrying values.

24. Risk management, corporate governance and internal control (continued)

The table below analyses financial instruments measured at fair value as at 31 December 2017, by the level in the fair value hierarchy into which the fair value measurement was categorised:

MRUB	Level 1	Level 2	Total
Assets			
Financial assets available for sale	48,640	170	48,810
Liabilities			
Negative fair value of derivative instruments	-	16	16

The table below analyses financial instruments measured at fair value as at 31 December 2016, by the level in the fair value hierarchy into which the fair value measurement was categorised:

MRUB	Level 1	Level 2	Total
Assets			
Positive fair value of derivative instruments	-	22	22
Financial assets available for sale	17,734	3,868	21,602
Liabilities			
Negative fair value of derivative instruments	-	39	39

25. Derivative financial instruments

As at 31 December 2017 the following derivative contracts were outstanding:

Contract type	Maturity	Sell/Buy	Notional amount (in RUB equivalent) MRUB	Fair value MRUB
Trading derivative instruments				
Foreign currency swap contracts	less than 1 month	USD/KZT	1,293	-
	less than 1 month	RUB/EUR	1,185	-
	less than 1 month	RUB/USD	323	-
	1 to 3 months	KZT/EUR	689	(1)
	3 to 6 months	GBP/EUR	1,023	16
	3 to 6 months	KZT/GBP	1,010	(10)
	6 to 12 months	KZT/USD	1,728	(27)
	6 to 12 months	EUR/USD	1,043	(3)
	6 to 12 months	KZT/EUR	1,033	9
				(16)
Total derivative instruments				**(16)**

25. Derivative financial instruments (continued)

As at 31 December 2016 the following derivative contracts were outstanding:

Contract type	**Maturity**	**Sell/Buy**	**Notional amount (in RUB equivalent) MRUB**	**Fair value MRUB**
Trading derivative instruments				
Foreign currency swap contracts	less than 1 month	RUB/USD	370	-
	less than 1 month	USD/RUB	2	-
	less than 1 month	EUR/RUB	12	-
	6 to 12 months	KZT/USD	1,232	(39)
Interest rate swap contracts	1 to 3 months	Fixed/Floating (RUB)	4,000	22
				(17)
Total derivative instruments				**(17)**

26. Commitments

Credit related commitments

The Group has outstanding commitments to extend credit. These commitments take the form of approved credit limits related to customers' credit card accounts, approved overdraft facilities, guarantees and approved consumer loans.

	2017 MRUB	**2016 MRUB**
Credit card commitments	17,054	14,905
POS and cash loan commitments	6,096	3,152
Undrawn overdraft facilities to corporations	-	6
	23,150	**18,063**

The total outstanding contractual commitments to extend credit indicated above represent future cash requirements. Credit related commitments to individual clients are mainly classified into category “less than one month” in terms of maturity, however some of these commitments may expire or terminate without being funded.

27. Operating leases

The Group leases a number of premises and equipment under operating leases. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

Non-cancellable operating lease rentals are payable as follows:

	2017 MRUB	**2016 MRUB**
Less than one year	648	605
Between one and five years	1,589	1,375
More than five years	214	149
	2,451	**2,129**

During the year ended 31 December 2017 MRUB 1,047 (2016: MRUB 1,112) was recognised as an expense in the consolidated statement of profit or loss in respect of operating leases (Note 9).

28. Contingencies

Taxation contingencies

The taxation systems in the Russian Federation and the Republic of Kazakhstan are relatively new and are characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three and five subsequent calendar years accordingly; however, under certain circumstances a tax year may remain open longer. Recent events suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

Starting from 1 January 2012 new transfer pricing rules came into force in Russia. These provide the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controllable transactions if their prices deviate from the market range or profitability range. According to the provisions of transfer pricing rules, the taxpayer should sequentially apply five market price determination methods prescribed by the Tax Code.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible, with the evolution of the interpretation of transfer pricing rules in the Russian Federation and changes in the approach of the Russian tax authorities, that such transfer prices could be challenged. Since the current Russian transfer pricing rules became effective relatively recently, 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 Group.

These circumstances may create tax risks in the Russian Federation and the Republic of Kazakhstan that are more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian and Kazakhstan tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

29. Related party transactions

(a) Transactions with the parent

Amounts included in the consolidated statement of profit or loss in relation to transactions with the parent are as follows:

	2017 MRUB	**2016 MRUB**
Interest income	264	670
Interest expense	(2)	-
Loss from foreign exchange revaluation of financial assets and liabilities	(167)	(2,332)
	95	**(1,662)**

Amounts included in the consolidated statement of financial position in relation to transactions with the parent are as follows:

	2017 MRUB	**2016 MRUB**
Placements with banks and other financial institutions	-	4,550
Due to banks and other financial institutions	(692)	-
	(692)	**4,550**

As at 31 December 2017 due to banks and other financial institutions shown above included term deposits in the amount of MRUB 692 at an effective interest rate 15.24% with a maturity from one to three months (31 December 2016: placements with banks and other financial institutions MRUB 4,550 at an effective interest rate of 7.0% with a maturity from one to two years).

(b) Transactions with entities controlled by the ultimate controlling entity

Amounts included in the consolidated statement of profit or loss in relation to transactions with entities controlled by the ultimate controlling entity are as follows:

	2017 MRUB	**2016 MRUB**
Interest income	-	186
Interest expense	(1,290)	(1,385)
Fee and commission income	1,247	1,002
Loss from foreign exchange revaluation of financial assets and liabilities	-	(91)
Net gain/(expense) on spot transactions and currency derivatives	561	(493)
Other operating income, net	164	57
General administrative expenses	(1,499)	(1,173)
	(817)	**(1,897)**

29. Related party transactions (continued)

Amounts included in the consolidated statement of financial position in relation to transactions with entities controlled by the ultimate controlling entity are as follows:

	2017 MRUB	2016 MRUB
Cash and cash equivalents	61	234
Property, equipment and intangible assets	906	844
Other assets	48	37
Subordinated debt	(10,318)	(10,417)
Due to banks and other financial institutions	(4,072)	(2,567)
Current accounts and deposits from customers	(13)	(142)
Negative fair value of derivative instruments	(16)	(39)
Other liabilities	(180)	(85)
	(13,584)	**(12,135)**

As at 31 December 2017 due to banks and other financial institutions amounted to MRUB 4,072 at an effective interest rate of 7.56% with the maturity less than one month and from one month to one years (31 December 2016: MRUB 2,567 at an effective interest rate 9.4% with the maturity less than one month and from one month to two years).

As at 31 December 2017 current accounts and deposits from customers included other balances of MRUB 13 with the maturity less than one month (31 December 2016: other balances of MRUB 142 with the maturity less than one month).

As at 31 December 2017 subordinated debt amounted to MRUB 10,318 at an effective interest rate of 10.2% with the maturity from three months to five years (31 December 2016: MRUB 10,417 at an effective interest rate 10.2% with the maturity from one year to five years).

(c) Transactions with members of key management

Amounts included in the consolidated statement of profit or loss in relation to transactions with members of key management (members of the Council and the Board of Management) of MRUB 641 (2016: MRUB 913) represent compensation for the year and severance pay.

30. Capital management

The Group's lead regulator, the CBR, sets and monitors capital requirements for both the Bank and the Group as a whole. Bank Home Credit (SB JSC) is regulated and monitored in Kazakhstan by the NBRK.

The Group defines as capital those items defined by statutory regulation as capital for credit institutions. The Group calculates the amount of capital and capital adequacy ratios for prudential purposes in accordance with the Provision of the CBR dated 28 December 2012 No 395–P *On methodology of calculation of own funds (capital) of the credit organisations (Basel III)*. As at 31 December 2017, this minimum levels of core capital, primary capital and total capital to risk weighted assets were 4.5%, 6.0% and 8.0% respectively (31 December 2016: 4.5%, 6.0% and 8.0% respectively).

Since 1 January 2016 the Group should comply with capital buffers: capital conservation buffer and countercycle buffer.

The Group maintains capital adequacy at the level appropriate to the nature and volume of its operations.

The Group provides the territorial CBR that supervise the Bank with information on mandatory ratios in accordance with set form. The Accounting department controls on a daily basis compliance with capital adequacy ratios.

The calculation of capital adequacy of the Group based on requirements set by the CBR as at 31 December 2017 and 31 December 2016 was as follows:

	2017 MRUB	**2016 MRUB**
Risk-weighted assets (N20.0)	**427,584**	**413,919**
Risk-weighted assets (N20.1, N20.2)	**429,179**	**413,813**
Core capital	38,902	32,921
Primary capital	38,902	32,921
Additional capital	15,674	23,457
Total capital	**54,576**	**56,378**
Core capital adequacy ratio N20.1	**9.1%**	**8.0%**
Primary capital adequacy ratio N20.2	**9.1%**	**8.0%**
Total capital adequacy ratio N20.0	**12.8%**	**13.6%**

The Group also calculates its capital adequacy in compliance with the Basel Accord issued in 1988 and amended in 1998 ("Accord") set out by the Bank of International Settlements ("BIS"). Tier I capital is represented by equity. Tier II capital is represented by subordinated debt up to 50% of tier I. In accordance with the Accord the minimum levels of Tier I capital and total capital to risk weighted assets are 4.0% and 8.0% respectively.

30. Capital management (continued)

The calculation of capital adequacy based on requirements set by BIS as at 31 December 2017 and 31 December 2016 was as follows:

	2017 MRUB	2016 MRUB
Risk weighted assets	**273,581**	**227,507**
Tier I capital	52,873	43,797
Tier II capital	12,253	17,777
Total capital	**65,126**	**61,574**
Tier I ratio	19.3%	19.3%
Capital Adequacy Ratio	23.8%	27.1%

As at 31 December 2017 and 31 December 2016 the Group was fully in compliance with the capital regulations described above.

31. Segment analysis

The Board of Management is the chief operating decision maker. The Board of Management reviews internal reporting on a regular basis to assess the performance of individual segments and to allocate resources accordingly.

The Board of Management monitors performance mainly from a product perspective and geographical perspective.

Operational information is represented by major reportable segments being POS loans, cash loans and credit card loans. Other segments comprising mortgage loans, car loans, loans to corporations and treasury operations are less significant and thus are not reported separately by the Group.

The Group operates in the Russian Federation and the Republic of Kazakhstan. In presenting geographical information the allocation of revenue is based on the geographical location of customers and assets.

Revenues of reportable segments consist of interest and fee income including inter-segment revenues resulting from allocation of financing raised by the treasury function to major segments. Performance of individual segments is assessed by the Board of Management based on segment profit or loss.

Total segment assets mainly consist of the loan portfolio and interest earning financial assets accumulated as a result of treasury operations. A presentation of segment revenues, segment profit and assets is provided below.

31. Segment analysis (continued)

(a) Operational segments

MRUB	POS loans	Credit card loans	Cash loans	Other segments	Total
Year ended 31 December 2017					
External interest income	11,388	5,182	27,267	3,996	**47,833**
Fee and commission income	3,341	1,807	4,999	1,757	**11,904**
Inter segment revenue	-	-	-	14,791	**14,791**
Total revenues	**14,729**	**6,989**	**32,266**	**20,544**	**74,528**
External interest expense	-	-	-	(17,094)	**(17,094)**
Inter segment interest expense	(2,692)	(2,138)	(9,901)	-	**(14,731)**
Inter segment other operating expense	(6)	(7)	(47)	-	**(60)**
Fee and commission expense	(455)	(963)	(749)	(297)	**(2,464)**
Other operating income, net	-	-	-	16	**16**
(Charge)/recovery of impairment losses	(1,851)	(491)	267	(209)	**(2,284)**
Total expenses	**(5,004)**	**(3,599)**	**(10,430)**	**(17,584)**	**(36,617)**
Segment profit	**9,725**	**3,390**	**21,836**	**2,960**	**37,911**
Year ended 31 December 2016					
External interest income	11,054	6,334	25,715	4,120	**47,223**
Fee and commission income	4,371	2,079	4,715	1,862	**13,027**
Inter segment revenue	-	-	-	13,797	**13,797**
Total revenues	**15,425**	**8,413**	**30,430**	**19,779**	**74,047**
External interest expense	-	-	-	(18,424)	**(18,424)**
Inter segment interest expense	(2,237)	(2,109)	(8,753)	-	**(13,099)**
Inter segment other operating expense	(109)	(119)	(470)	-	**(698)**
Fee and commission expense	(318)	(798)	(531)	(301)	**(1,948)**
Other operating expense, net	-	-	-	(867)	**(867)**
Charge of impairment losses	(2,992)	(3,242)	(4,422)	(384)	**(11,040)**
Total expenses	**(5,656)**	**(6,268)**	**(14,176)**	**(19,976)**	**(46,076)**
Segment profit/(loss)	**9,769**	**2,145**	**16,254**	**(197)**	**27,971**

31. Segment analysis (continued)

Segment assets

MRUB	POS loans	Credit card loans	Cash loans	Other segments	Total
Carrying amount at 31 December 2017	71,725	15,635	115,809	64,876	**268,045**
Carrying amount at 31 December 2016	58,156	16,539	89,774	41,782	**206,251**

A reconciliation of segment revenues to total revenues is provided as follows:

	2017 MRUB	2016 MRUB
Segment revenues	**74,528**	**74,047**
Inter segment revenue	(14,791)	(13,797)
Unallocated fee and commission income	296	388
Total revenues	**60,033**	**60,638**

A reconciliation of segment profit to total loss before tax is provided as follows:

	2017 MRUB	2016 MRUB
Segment profit for reportable segments	**37,911**	**27,971**
Unallocated fee and commission income	296	388
Unallocated fee and commission expense	(458)	(370)
Unallocated other operating income	146	368
Unallocated impairment losses	(230)	(105)
General administrative expenses	(19,824)	(18,536)
Profit before tax	**17,841**	**9,716**

Reportable segments' assets are reconciled to total assets as follows:

	2017 MRUB	2016 MRUB
Total segment assets	**268,045**	**206,251**
Cash and cash equivalents (excluded from other segments)	13,878	15,654
Placements with banks and other financial institutions (excluded from other segments)	1,640	1,247
Property, equipment and intangible assets	7,160	7,799
Assets classified as held for sale	217	127
Investment in associate	108	138
Income tax asset	3,662	4,818
Other assets	1,500	1,557
Total assets	**296,210**	**237,591**

31. Segment analysis (continued)

(b) Geographical segments

MRUB	Russian Federation	Kazakhstan	Eliminations	Total
Year ended 31 December 2017				
External interest income	38,152	9,681	-	**47,833**
Fee and commission income	9,593	2,607	-	**12,200**
Inter segment revenue	13	-	(13)	**-**
Total revenues	**47,758**	**12,288**	**(13)**	**60,033**
External interest expense	(14,405)	(2,689)	-	**(17,094)**
Inter segment interest expense	-	(13)	13	**-**
Inter segment other operating income/(expense), net	(2)	26	-	**24**
Fee and commission expense	(2,624)	(298)	-	**(2,922)**
Other operating income/(expense), net	2,561	(84)	(2,339)	**138**
Impairment (losses)/recovery	(2,634)	120	-	**(2,514)**
General administrative expenses	(15,435)	(4,389)	-	**(19,824)**
Total expenses	**(32,539)**	**(7,327)**	**(2,326)**	**(42,192)**
Profit before tax	**15,219**	**4,961**	**(2,339)**	**17,841**
Income tax expense	(2,569)	(1,027)	-	**(3,596)**
Profit for the year	**12,650**	**3,934**	**(2,339)**	**14,245**

31. Segment analysis (continued)

MRUB	Russian Federation	Kazakhstan	Eliminations	Total
Year ended 31 December 2016				
External interest income	39,911	7,312	-	**47,223**
Fee and commission income	9,896	3,519	-	**13,415**
Inter segment revenue	505	-	(505)	**-**
Total revenues	**50,312**	**10,831**	**(505)**	**60,638**
External interest expense	(16,693)	(1,731)	-	**(18,424)**
Inter segment interest expense	-	(505)	505	**-**
Inter segment other operating expense, net	(219)	(283)	-	**(502)**
Fee and commission expense	(2,071)	(247)	-	**(2,318)**
Other operating income, net	2,287	265	(2,549)	**3**
Impairment losses	(10,948)	(197)	-	**(11,145)**
General administrative expenses	(14,657)	(3,879)	-	**(18,536)**
Total expenses	**(42,301)**	**(6,577)**	**(2,044)**	**(50,922)**
Profit before tax	**8,011**	**4,254**	**(2,549)**	**9,716**
Income tax expense	(1,111)	(860)	-	**(1,971)**
Profit for the year	**6,900**	**3,394**	**(2,549)**	**7,745**

Segment assets and liabilities

MRUB	Russian Federation	Kazakhstan	Eliminations	Total
31 December 2017				
Cash and cash equivalents	20,891	2,149	-	**23,040**
Placements with banks and other financial institutions	4,316	312	(1,164)	**3,464**
Loans to customers	175,671	32,578	-	**208,249**
Financial assets available for sale	46,820	1,990	-	**48,810**
Property, equipment and intangible assets	5,887	1,273	-	**7,160**
Assets classified as held for sale	217	-	-	**217**
Investment in associate	1,884	-	(1,776)	**108**
Current income tax receivable	516	-	-	**516**
Deferred tax asset	3,054	92	-	**3,146**
Other assets	948	552	-	**1,500**
Total assets	**260,204**	**38,946**	**(2,940)**	**296,210**
Debt securities issued	-	3,838	-	**3,838**
Subordinated debt	22,847	-	-	**22,847**
Due to banks and other financial institutions	9,605	8,707	(1,164)	**17,148**
Current accounts and deposits from customers	176,010	16,933	-	**192,943**
Negative fair value of derivative instruments	-	16	-	**16**
Current income tax liability	-	106	-	**106**
Other liabilities	4,908	1,531	-	**6,439**
Total liabilities	**213,370**	**31,131**	**(1,164)**	**243,337**

31. Segment analysis (continued)

MRUB	Russian Federation	Kazakhstan	Eliminations	Total
31 December 2016				
Cash and cash equivalents	20,282	2,840	-	**23,122**
Placements with banks and other financial institutions	7,317	144	-	**7,461**
Loans to customers	149,567	21,378	-	**170,945**
Positive fair value of derivative instruments	22	-	-	**22**
Financial assets available for sale	21,602	-	-	**21,602**
Property, equipment and intangible assets	6,560	1,239	-	**7,799**
Assets classified as held for sale	127	-	-	**127**
Investment in associate	1,914	-	(1,776)	**138**
Deferred tax asset	4,782	36	-	**4,818**
Other assets	1,154	403	-	**1,557**
Total assets	**213,327**	**26,040**	**(1,776)**	**237,591**
Debt securities issued	-	1,257	-	**1,257**
Subordinated debt	24,279	-	-	**24,279**
Due to banks and other financial institutions	3,290	3,683	-	**6,973**
Current accounts and deposits from customers	142,271	13,412	-	**155,683**
Negative fair value of derivative instruments	-	39	-	**39**
Current income tax liabilitiy	227	109	-	**336**
Other liabilities	4,257	970	-	**5,227**
Total liabilities	**174,324**	**19,470**	**-**	**193,794**

Chairman of the Board of Management

Y. Andresov

Chief Financial Officer

I. Kolikova