One Bank
One
UniCredit

2017

Annual Report

Banking that matters. | UniCredit Bank

Banking that matters. UniCredit Bank

One Bank, One UniCredit.

We are a simple, successful Pan European Commercial Bank, with a fully plugged-in CIB, delivering a unique Western, Central and Eastern European network to our extensive franchise of 25 million clients.
Our strategy is long-term. We are transforming the Group through decisive actions to lay the groundwork for the future, changing the way we work to anticipate our clients' medium-term evolution. Everything we do is designed to make UniCredit a true Pan European Winner.

Financial Highlights

	2017	2016	change 2017-2016
ASSETS AT THE END OF THE YEAR, RUB million			
Total assets, including	**1 186 142**	**1 172 250**	**1.2%**
Loans to customers	668 523	677 011	-1.3%
Securities	128 273	93 949	36.5%
LIABILITIES AT THE END OF THE YEAR, RUB million			
Total liabilities, including	**985 908**	**990 575**	**-0.5%**
Amounts due to customers	827 103	779 102	6.2%
Amounts due to credit institutions	85 427	152 109	-43.8%
Total Equity	**200 233**	**181 675**	**10.2%**
CAPITAL (CB RF) AT THE END OF THE YEAR, RUB million			
Total capital	**201 393**	**174 105**	**15.7%**
CAPITAL (BASEL II) AT THE END OF THE YEAR, RUB million			
Total capital	**205 334**	**192 267**	**6.8%**
PROFIT FOR THE YEAR, RUB million			
Net interest income	41 260	45 100	-8.5%
Non-interest income	10 407	8 087	28.7%
Operating income	**51 667**	**53 187**	**-2.9%**
Net income from financial activities	**40 503**	**35 599**	**13.8%**
Operating costs	-17 788	-18 008	-1.2%
Losses/gains on disposal of fixed assets	-1	12	-105.9%
Profit before income tax expense	**22 714**	**17 602**	**29.0%**
Income tax expense	-4 657	-3 579	30.1%
Total profit for the year	**18 057**	**14 023**	**28.8%**
KEY PERFORMANCE INDICATORS			
Return on average equity (ROE)	9.5%	8.1%	
Return on average assets (ROA)	1.5%	1.1%	
Total capital ratio (Basel II)	17.2%	16.2%	
Central Bank of Russia N1 capital adequacy ratio	18.2%	16.2%	
Cost/income ratio	34.4%	33.9%	
STAFF			
Number	4 044	4 084	-1%
GEOGRAPHY			
Branches in Moscow	38	38	0%
Regional branches	53	55	-4%
RepOffices	11	11	0%
Offices abroad	1	1	0%
Total Number of Offices	**103**	**105**	**-2%**

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Chief Executive Officer's message

"We are transforming through decisive actions. Everything we do is designed to make UniCredit a true pan European Winner."

Jean Pierre Mustier
Chief Executive Officer

Dear Shareholders,

I would like to thank you for your ongoing support during our transformation. At UniCredit, we are taking decisive actions to become more competitive and build a strong, sustainable Bank, poised for future growth. We have executed on all our commitments in 2017, including a successful €13bn capital increase and the disposals of Pioneer Investments and Bank Pekao stakes. We concluded FINO Phase 1, with the sale of a €17.7bn portfolio. Everything we do is designed to make UniCredit a true pan European Winner.

Our strategy is to be One Bank, One UniCredit: a simple, successful, pan European commercial bank, with a fully plugged in CIB, delivering a unique Western, Central and Eastern European network to our extensive client franchise.

This strategy is long-term. What we are doing today to implement Transform 2019 – our strategic plan – is laying the groundwork for the future. It is changing the way we work to anticipate our clients' medium-term evolution, including their use of multiple channels.

Our investments in digital aim to improve the customer experience as we continue to optimise our processes and our cost base. New commercial dynamics are driving how we train and develop our people.

Our management is clear on this vision and their actions are underpinned by a strict long-term incentives structure based on the plan's key performing indicators. All our people are focused on the ongoing execution of Transform 2019. It is their energy, commitment and hard work which allow UniCredit to deliver tangible results.

As presented to investors at the 2017 Capital Markets Day in December, our performance is fully on track and we have confirmed all the Transform 2019 key targets, with a better risk profile and an improved dividend payout.

We have **strengthened our capital position,** resulting in a lower SREP Pillar 2 Requirement and an S&P upgrade to a BBB rating with a stable outlook. We have confirmed our 2019 CET1 ratio target whilst anticipating additional regulatory headwinds during the plan period. Post 2019, the CET1 ratio will remain above 12.5 per cent, thanks to an organic capital generation that will fully absorb the expected regulatory impacts.

In terms of **asset quality,** we signed binding agreements to reduce our stake in FINO to below 20 per cent. A more disciplined risk management strategy and underwriting processes are driving significant improvements in all our asset quality metrics. Finally, as announced, we are improving on our original Group Gross NPEs' target, cutting a further €4.0bn by the end of 2019. The full rundown of the Non Core portfolio, which will occur by end 2025, is entirely self-funded.

In terms of **transforming our operating model,** we have confirmed our overall revenues and cost targets. Our FTE and branch reductions are ahead of schedule and our digital and IT transformation is fully on track.

We continue to **maximise commercial bank value,** with the ongoing transformation resulting in higher productivity. Our activities in Western Europe continue to benefit from the revamped network with new service models for retail and SME customers as well as a strong multichannel strategy. Cost reductions are progressing according to plan. In two other core divisions, CEE and CIB, we have further strengthened our leadership positions while keeping a strong focus on risk.

Finally, In terms of **adopting a lean but steering centre,** decisions taken at our latest EGM concerning, for example, a simplified share structure, position us as best in class in terms of European corporate governance.

Finally, on behalf of the Board of Directors and the whole Group, I would like to extend a special thanks to Giuseppe Vita, whose successful tenure as the Chairman of UniCredit is coming to a close. Giuseppe's significant contributions over the past six years have been very precious to our development. His vision and support have enabled UniCredit to grow into one of the few truly pan European commercial banks.

Sincerely,

Jean Pierre Mustier
Chief Executive Officer
UniCredit S.p.A.

Highlights

UniCredit is a simple successful Pan European Commercial Bank, with a fully plugged in CIB, delivering a unique Western, Central and Eastern European network to our extensive client franchise: 25 million clients.
UniCredit offers local expertise as well as an international one reaching and supporting its clients globally, providing them with unparalleled access to leading banks in its 14 core markets as well as in other 18 countries worldwide. UniCredit European banking network includes Italy, Germany, Austria, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Hungary, Romania, Russia, Serbia, Slovakia, Slovenia and Turkey.

Financial Highlights[1]

Operating income
€ 19,619 m

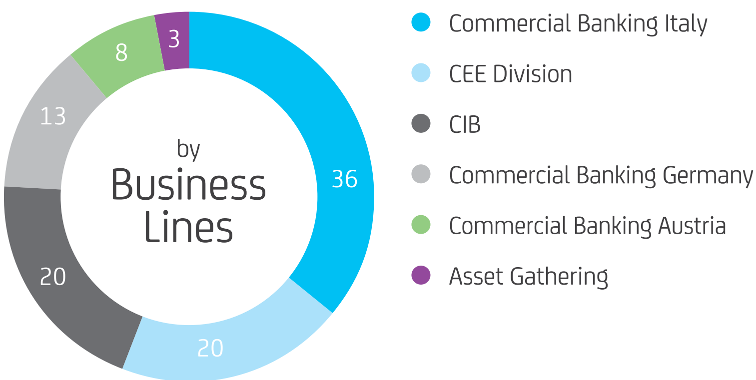
Net profit (loss)
€ 5,473 m

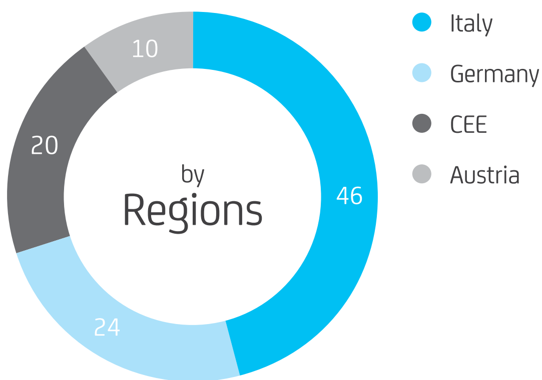
Shareholders' equity
€ 59,331 m

Total assets
€ 836,790 m

Common Equity Tier 1 ratio*
13.60%

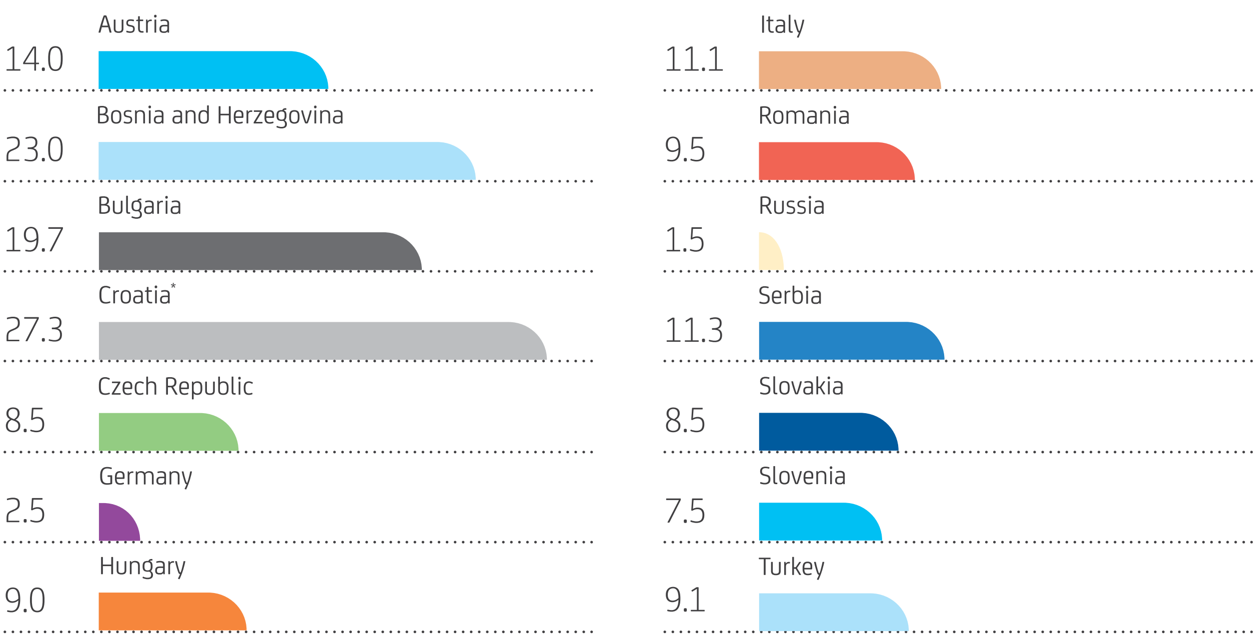
Revenues[1] (%)





1. Data as at December 31, 2017. In accordance with IFRS5, the profit/loss of Bank Pekao S.A., Pioneer Global Asset Management S.p.A. and their subgroups' companies till the date of the deconsolidation, were recognized in Income Statement under item "Profit (loss) after tax from discontinued operation".
Disposals were finalized during 2017.
* Fully loaded CET1 ratio.

Market Shares[2] (%)



2. Market Shares in terms of Total Loans as at November 2017.
* data as at October 2017.
Source Company data, National Central Banks.

Transform 2019 Milestones

Transform 2019 – our strategic plan – is yielding tangible results.

Our strategy is to be One Bank, One UniCredit: a simple, successful, Pan European Commercial Bank, with a fully plugged in CIB, delivering a unique Western, Central and Eastern European network to our extensive client franchise.

2016 CAPITAL MARKETS DAY

Strengthen and Optimise Capital

02.03

CAPITAL INCREASE

Successful **€13bn capital increase**

Strengthen and Optimise Capital

07.06

STRENGTHEN CAPITAL

Disposal of 32.8% stake in **Bank Pekao**

Transform Operating Model

01.07

UBIS REORGANISATION

UBIS reorganisation brings improved accountability and simplified processes to further improve customer experience

Strengthen and Optimise Capital

03.07

STRENGTHEN CAPITAL

Disposal of **Pioneer Investments** to Amundi

Improve Asset Quality

17.07

FINO PHASE 1 SUCCESSFULLY CLOSED

FINO Phase 1 definitive agreements signed with Pimco and Fortress for the sale of €17.7bn portfolio

Improve Asset Quality

21.09

STRENGTHEN RISK CONTROLS

New Risk Management structure in place to further strengthen the effectiveness of risk controls

Adopt Lean but Steering Corporate Center

04.12

CORPORATE GOVERNANCE SIMPLIFICATION

Strengthened corporate governance and simplified share capital structure to position UniCredit as best in class in terms of European **corporate governance**

2017 CAPITAL MARKETS DAY

Improve Asset Quality

The banking industry is evolving but our core business will always be to support client growth with a unique proposition linked to credit. It is our responsibility to provide advice and support so that companies can develop and globalise – while ensuring sustainable growth. This also means looking beyond purely economic returns, to drive investments with a positive impact on society.

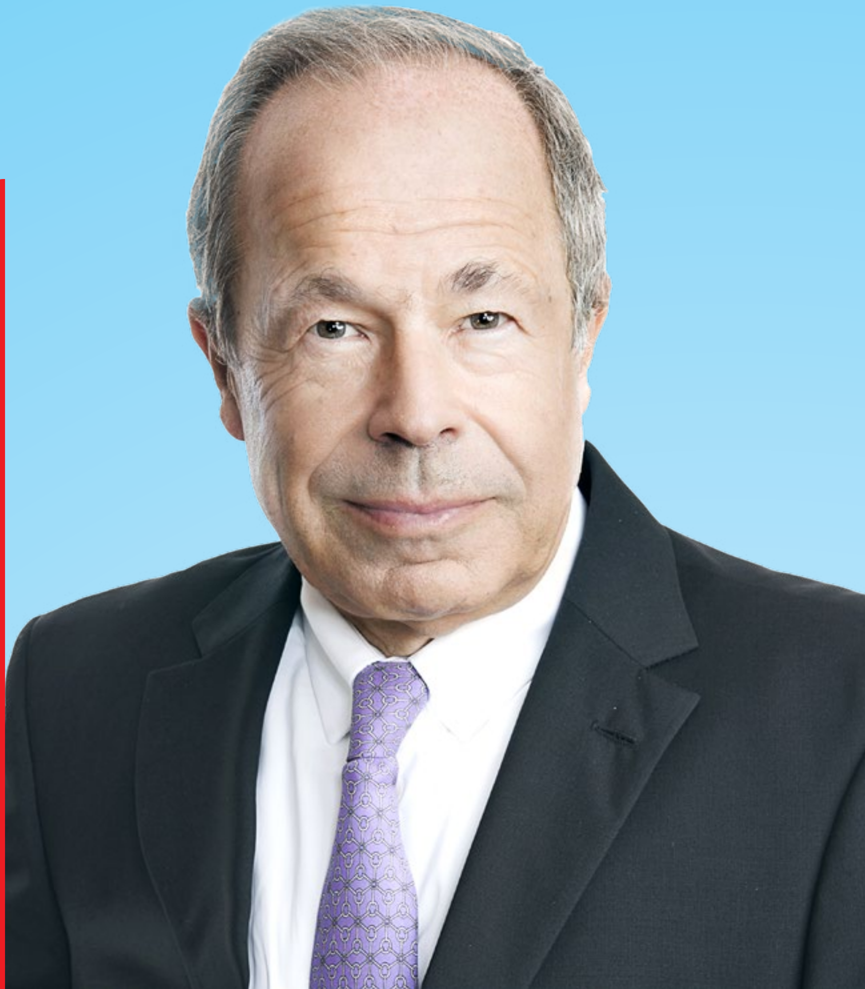
In UniCredit, **"Improve Asset Quality"** is a key pillar of our strategic plan.
- We are focused on the proactive de-risking of our balance sheet
- A strong risk discipline safeguards the quality of future origination
- A new risk management structure further strengthens the effectiveness of our risk controls.

Key Asset Quality Metrics

	2016	2017	2019
Coverage ratio	55.6%	56.2%	>54%
Group Gross NPEs ratio	11.8%	10.2%	7.8%
FINO* portfolio disposal	FINO Phase 1 signed in December 2016	FINO Phase 1 concluded with **€ 17.7bn**	FINO Phase 2 signed to sell down below **20%**

* FINO stands for: Failure Is Not an Option.

Message from the Chairman of the Supervisory Board



"Over the year 2017, all the banks of the CEE area worked hard to achieve the targets and goals set out in Transform 2019, and UniCredit Bank made a significant contribution to our common achievements."

Erich Hampel
Chairman of the Supervisory Board

Dear Shareholders, Clients, Colleagues and Friends,

I am proud to present the 2017 Annual Report of UniCredit Bank on behalf of the Supervisory Board.

In 2017, UniCredit Group's Central and Eastern Europe (CEE) division, which includes UniCredit Bank as a member, made a major contribution to the Group's aggregate profit, yet again proving the CEE region's worth as the engine of UniCredit's growth and development, a fact that was reflected in the Transform 2019 strategic plan. Over the last year, all the banks of the CEE area worked hard as parts of a single bank to achieve the targets and goals set out in Transform 2019, and the Russian UniCredit Bank made a significant contribution to our common achievements.

In 2017, the Bank focused on maintaining reliability, efficiency, and the high quality of its assets. A well-balanced business model and high-quality customer base enabled the Bank both to preserve its position as the largest foreign bank in Russia by volume of assets and to improve such important indicators as capital adequacy and return on equity (ROE). Meanwhile, thanks to its excellent reputation and customers' trust, UniCredit Bank maintains a diversified base of independent funding sources.

At year-end 2017, UniCredit Bank raised its profit up to RUB 18 bn while preserving stable income and consistently focusing on cost control and risk management. The Bank maintained a cost-to-income ratio of 34.4%, which secures its status as one of Russia's most cost-effective major banks. Furthermore, the Bank made huge advances in various projects aimed at the digital transformation of business, in expanding its customer base, and attracting international customers. The number of the Bank's retail customers came close to 2 million in 2017 and the Bank's international customer portfolio is growing. A vast office network and experience of cross-border services are among UniCredit Group's major strengths made available by UniCredit Bank to the international companies operating in Russia.

In 2018, UniCredit Bank will consistently follow the Group's Transform 2019 strategic plan relying on its professional team and high-quality customer base. The Bank is committed to preserving the Group's strong positions in the Russian banking market by providing invariably high-quality customer service.

I would like to thank the Management Board members and all UniCredit Bank employees for their excellent performance in 2017. In 2018, we will follow our Five Fundamentals consistently to promote the interests of our customers, shareholders, and all parties involved.

Erich Hampel,
Chairman of the
Supervisory Board
of UniCredit Bank

About UniCredit Bank

AO UniCredit Bank is a Russian commercial bank, operating in Russia since 1989. Ranked 9th by total assets based on the 2017 results (Interfax-100 ranking), UniCredit Bank is the largest foreign bank in Russia. UniCredit Bank is fully owned (100%) by UniCredit Group (UniCredit S.p.A.).

The Bank benefits from its strong position in the large Russian corporate finance market and sustainable retail banking business. Since 2015 the Bank is included in the list of systemically important credit institutions of Russia*.

General information

- Until December 20, 2007, the Bank was called International Moscow Bank, registered by the State Bank of the USSR on October 20, 1989.
- Since 1991 the Bank has operated under General License No.1 for banking operations.
- The first bank in Russia with majority foreign ownership.
- On December 20, 2007, International Moscow Bank officially changed its name to UniCredit Bank.

Data as of 31.12.2017

Total assets
₽ 1,186.1 billion

Total Equity
₽ 200.2 billion

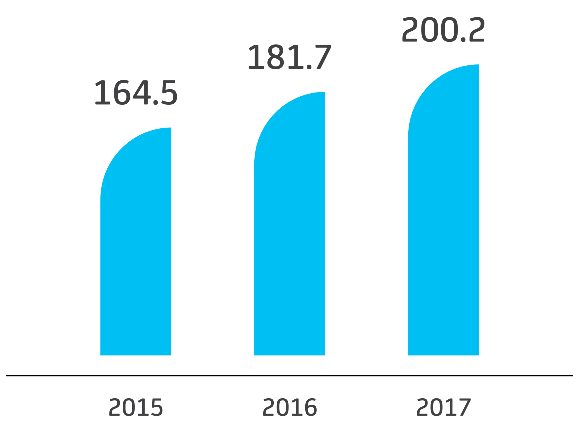
Retail customers
more than 1,976 000

Corporate clients
About 28,700

Employees
Around 4,000

Capital

RUB billion



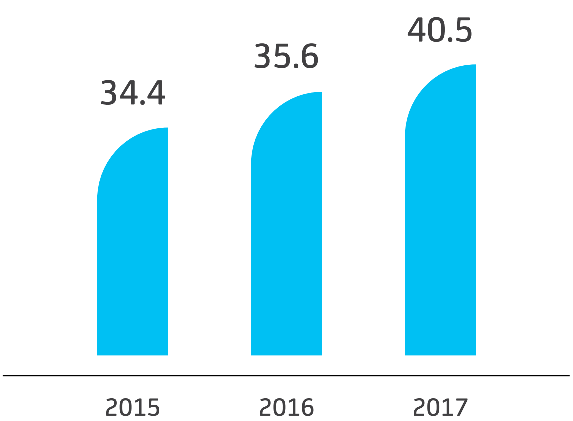
* In accordance with the statement issued by the Press Service of the Bank of Russia.

UniCredit Bank in Russia

Moscow and the Moscow Region
Saint-Petersburg
Arkhangelsk
Barnaul
Belgorod
Chelyabinsk
Irkutsk
Kaluga
Kazan
Kemerovo
Krasnodar
Krasnoyarsk
Lipetsk
Nizhny Novgorod
Novorossiysk
Novosibirsk
Omsk
Orenburg
Perm
Rostov-on-Don
Samara
Saratov
Sochi
Stavropol
Tyumen
Ufa
Volgograd
Voronezh
Yekaterinburg

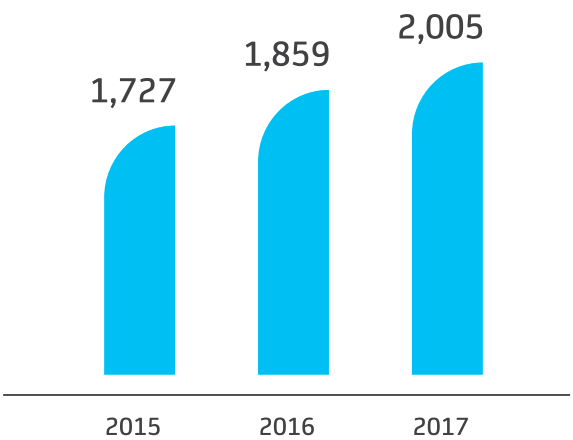
Net income from financial activities

RUB billion



Number of customers

Corporate and individual clients, thousand



Strengthen and optimise capital.

Following a € 13 billion capital increase, we confirmed a 2019 fully loaded CET1 ratio target above 12.5 percent and an organic capital generation that will fully absorb the expected regulatory impacts: our capital position is stronger and in line with best in class G-SIFIs.

Strategy and Results in 2017

Message from the Chairman of the Management Board

"The long experience of UniCredit Bank gained over 28 years of work in Russia, its high-calibre team and strong support from the Group enabled us to meet our goals for 2017 in line with the Group strategy."

Mikhail Alekseev

Chairman of the Management Board

Dear Customers, Partners and Colleagues,

The Russian UniCredit Bank worked hard in 2017 to achieve the targets set out in the Transform 2019 strategic plan, as did all of the banks in UniCredit Group. The goal of the Transform 2019 plan, implementation of which began last year, is to transform the Group into one of the most successful banks in Europe.

The Russian banking market was impacted by contrary currents in 2017. On the one hand, we saw gradual recovery of economic growth and a slow down in inflation; on the other hand, several banks, including major players, required a bail-out by the regulator to continue their operations, and so the share of state-owned banks in the economy has increased substantially.

Despite the challenging environment, the long experience of UniCredit Bank gained over 28 years of work in Russia, its high-calibre team and strong support from the rest of the Group enabled us to meet our goals for 2017 in line with the Group strategy and the expectations of our customers.

Implementing the Transform 2019 strategic plan, UniCredit Bank in Russia focused last year on development of business with large corporates and affluent retail clients. Besides, we took advantage of the opportunities created by economic recovery and also invested in digital banking.

UniCredit Bank retained its position as the largest foreign-owned bank in Russia at the end of 2017 as well as its long-established position among the top-10 most profitable Russian banks. Our net profit exceeded 18 bn roubles, and all of our business units contributed to this strong result.

Strengthening of our capital base and full implementation of all requirements set by the regulator were key priorities for the Bank last year. The Bank's capital base was in excess of 200 bn roubles by year-end and its N1 capital adequacy ratio rose to 18.2%, reconfirming our sustainability and reliability. Moreover, UniCredit Bank retained its status in 2017 as one of Russia's systemically important credit institutions, as defined by the Central Bank.

Strict risk control and improvement of asset quality are crucial for achieving the objectives of the Group's strategic plan. The Bank made consistent improvements to its risk and capital management performance during 2017. Work to reduce the level of existing bad loans and prevent their future increase led to reduction in the overall amount of non-performing loans and lowering of their share in the Bank's total loan portfolio in 2017.

In 2017, banks competed strongly with financial technology companies to win customers, transferring many operations to digital channels. We expect that recent changes to legislation in Russia will enable banks to provide most services to customers remotely. UniCredit Bank in Russia has been particularly active in further implementation of digital services according to the Group strategy. The Bank speeded up development of its mobile applications using Agile approach, introduced contactless payment technologies and launched chatbots in popular messengers. We continued to invest in cybersecurity to make sure that we provide the best digital services while safeguarding the finances and personal information of our customers.

UniCredit Bank in Russia made progress in 2017 with its human resource development programme, true to the core principles of UniCredit Group. This work included a complete reform of the remote professional development system for the employees and implementation of several cross-functional projects, including at the international level.

Following the Group strategy UniCredit Bank in Russia continued to support inspiring projects in culture and arts in 2017. The Bank maintained its partnership with the Pushkin Museum of Fine Arts, issuing the third edition of our joint card for Private Banking clients. Reflecting the Group's Italian origins, UniCredit Bank supported a number of projects related to Italian culture, including the exhibition The Poetics of Landscape at the Multimedia Art Museum (MAMM), dedicated to the work of Italian photographer Mario Giacomelli, and the Russia-Italia Film Festival (RIFF).

Corporate social responsibility also received due attention in 2017, when we ran various projects to help children with serious health problems, war veterans and senior citizens. UniCredit Bank in Russia held its eighth annual "You Can Help" contest for the best charity idea put forward by the Bank employees, and we was the general partner of the "Sport Vo Blago" charity race, organized by the Syndrome of Love and Downside Up foundations.

On behalf of the Management Board, I would like to thank all UniCredit Bank employees for their contribution to another year of strong performance in 2017. By our common efforts, we are carrying out the strategic plan of UniCredit Group and providing our customers all over Russia with services and products of European standards. We will continue our work in 2018, faithful to the core principles of the Group and for the benefit of our customers, our shareholders and the society.

Mikhail Alekseev,
Chairman of the Management
Board of UniCredit Bank

Main Achievements in 2017

“In 2017, the main achievements of UniCredit Bank confirm all its main strengths: reliability, high standards in HR, products and services meeting modern customers’ needs.”

Graziano Cameli

Chief Operating Officer, Member of the Management Board

UniCredit Bank Awarded Top Employers 2018 Certification

UniCredit Group and AO UniCredit Bank received Top Employers Certification, awarded annually for high standards in human resources management by the Top Employers Institute. It is the 6th time that UniCredit Bank has received the award.

The Top Employers certification process is based on an in-depth review of conformity to the relevant standards. All the responses were subjected to an independent audit, which provided evidence of the excellent working conditions in UniCredit Group and of the Bank’s status in a narrow range of companies who have earned these prestigious certificates.

UniCredit Bank Ranks 2nd among the Most Reliable Banks in Russia According to Forbes

Forbes magazine published its ranking of the 100 Most Reliable Russian Banks in 2018 based on 2017 results.

It is the 10th time in a row that UniCredit Bank has been included in the list of the most reliable Russian banks, placing second among the top-13.

ACRA Assigns Credit Rating AAA(RU) to AO UniCredit Bank, Outlook Stable

On June 27, 2017, the Analytical Credit Rating Agency (ACRA) assigned AO UniCredit a credit rating of AAA(RU) – the highest credit rating on the national scale – with a Stable outlook.

UniCredit Bank's credit rating is determined by a very high likelihood of receiving extraordinary support from the parent bank UniCredit S.p.A. marked by high creditworthiness. UniCredit's standalone creditworthiness assessment (SCA) is also high due to a combination of its strong market position, solid loss absorption buffer, and an adequate risk profile.
Among other key rating assessment factors, ACRA noted UniCredit's stable profitability regardless of the economic cycle, strong liquidity position and a satisfactory funding profile.

UniCredit Bank Becomes a Participant in the Preferential Lending Programme for the Agricultural Sector

In early 2017, AO UniCredit Bank and the Ministry of Agriculture of the Russian Federation entered into a cooperation agreement under the auspices of the preferential lending programme for agribusiness companies. The Bank was included in the list of authorised credit institutions entitled to grant loans to agribusiness companies at a maximum preferential interest rate of 5%.
The programme was developed to improve the efficiency of government support of the agricultural sector and is intended to facilitate companies' access to concessionary financing.

Euromoney Trade Finance Survey 2018 Puts UniCredit Group In Leading Positions in the Best Trade Finance Services Category in Russia

According to the results of Euromoney's annual trade finance survey, UniCredit Group took leading positions in the new Best Services category in Russia and several Central and Eastern European (CEE) countries in 2018. The Group was also declared the Global Best Service Provider in multiple categories and Market Leader in Trade Finance in CEE as well as several European countries.
The rankings, based on the opinions of 7,255 corporate banking customers, recognised the Group's continuous leadership in trade finance.

UniCredit Bank Presents New World Elite Mastercard® Jointly with the Pushkin State Museum of Fine Arts and Mastercard

AO UniCredit Bank, Mastercard payment system, the Pushkin State Museum of Fine Arts, and the Albertina Museum (Vienna, Austria) presented the World Elite Mastercard®, UniCredit Bank's new card for UniCredit Private Banking customers in Russia. This card combines the advantages of a premium card product with the opportunities of the Pushkin Museum's Friends programme and the Albertina Museum's privileges – free visits for cardholders.
The design of UniCredit Bank's new World Elite Mastercard® is based on a masterpiece in the collection of the Pushkin State Museum of Fine Arts – "Bucentaur's Return to the Pier by the Palazzo Ducale" (1727-1729) by Giovanni Antonio Canal (Canaletto).

UniCredit Bank Implements Cutting-Edge Contactless Payment Technologies

In 2017, multiple contactless payment services became available to the holders of UniCredit Bank's cards. Owners of iOS- and Android-based smartphones can now use Apple Pay and Android Pay contactless payment services.
Holders of UniCredit Bank's Visa cards were among the first in Russia to enjoy access to the Garmin Pay service – a fast, safe, and user-friendly contactless payment method using a Garmin watch.

JPMorgan Chase Bank Again Awards UniCredit Bank for High Payment Quality

On December 11, 2017, JPMorgan Chase Bank N. A., New York, recognised UniCredit Bank once again for the high quality of its outbound payment orders in US Dollars.
The exceptional quality of UniCredit Bank's commercial MT103 payment orders (99.77% of STP payments) was commended by the Elite Quality Recognition Award. It is the 9th year in a row that the Bank received the Award, after 7 consecutive years when the Bank's commercial payments received the Quality Recognition Award.

UniCredit Bank and "Sport Vo Blago" Charity Race Raises Over RUB 2.5 million to Support People with Down Syndrome

On May 13, 2017, the Tsytsin Main Moscow Botanical Garden of Russian Academy of Sciences hosted UniCredit Bank and "Sport Vo Blago" charity race organised by the Syndrome of Love and Downside Up foundations to support people with Down syndrome. Partners and over 600 participants helped raise RUB 2,451,558 to support social and creative development studios for children with Down syndrome. This year, the race was supported by UniCredit Bank acting in the capacity of general partner.

UniCredit Bank Recognised by SPEAR'S Russia Wealth Management Awards 2017 as Best Foreign Bank

On December 18, 2017, Moscow hosted the awards ceremony of SPEAR'S Russia Wealth Management Awards 2017 in Private Banking. AO UniCredit Bank was named the Best Foreign Bank in Russia.
SPEAR'S Russia Wealth Management Awards is Russia's first annual award for private banking, wealth management and related industries.

UniCredit Bank Launches Chatbots in Popular Messengers

Following in the tracks of customers who are increasingly making extensive use of messaging applications, in 2017 UniCredit Bank developed and launched chatbot customer support platforms in popular messengers, intended for both private customers and SMEs.
The bot menu consists of modules corresponding to customers' most frequent requests. Customers can also obtain more details about the Bank's products and services from the operator in the chat.

Report on the Bank's Activities

Macroeconomics and the Russian Banking Sector in 2017

Macroeconomics

Economic growth resumed in Russia in 2017: GDP increased by 1.5%, according to preliminary estimates, driven by internal demand, both consumption (deferred purchases) and investment (dominated by large state-run projects). Yet the economy is still operating below pre-crisis peaks, as structural constraints continue to inhibit growth, and future drivers are obscure as the recovery is coming to an end.

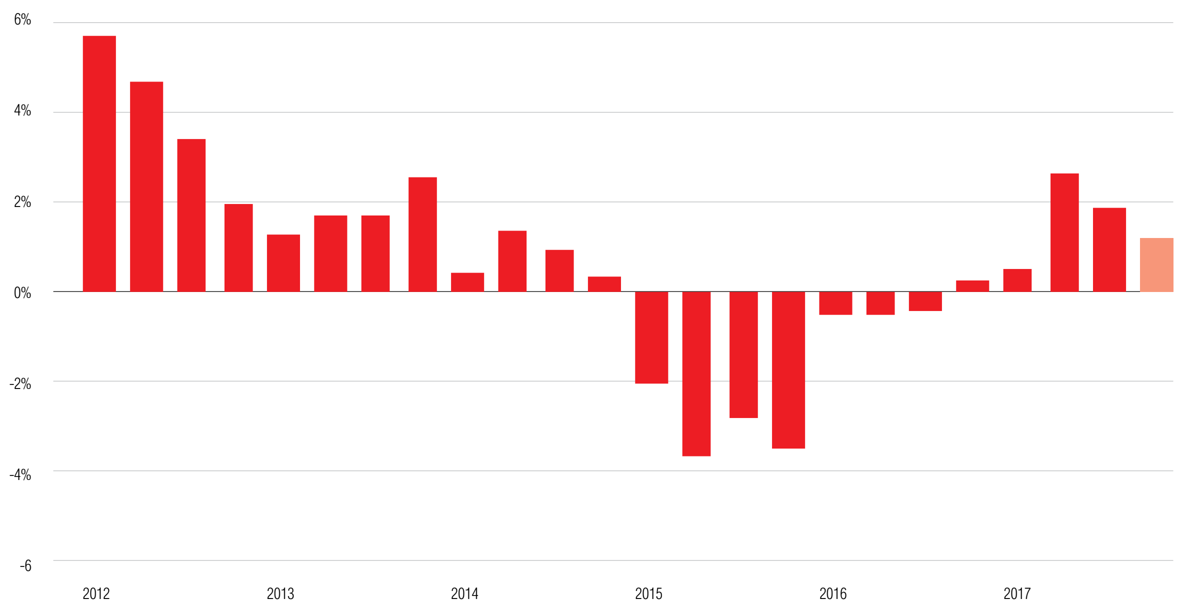
Oil prices continued to climb throughout 2017, supported by the agreement between OPEC countries and allies from outside the organization to curb production. Brent averaged $55/bbl in 2017, 22% higher than in 2016. Also, the decoupling of the Russian rouble exchange rate from commodity price fluctuations contributed to a significant rise in the oil price measured in local currency, which had increased beyond RUB 3,800 a barrel by the end of the year.

The latter has, together with a conservative spending policy, improved the federal budget execution: the overall deficit shrank to just 1.4% of GDP (as compared to 3.5% in 2016 and 2.2% expected for 2017). At the same time, the Reserve fund was fully depleted in 2017, while the Ministry of Finance resumed FX purchases into an alternative account, having accumulated approximately $14 bn throughout the year. The new fiscal rule that became effective from January 1, 2018 calls for larger FX purchases at any given level of market oil prices that exceed ca. $40/bbl, which is likely to limit rouble appreciation while generally damping exchange rate volatility.

The domestic currency in 2017 became more sensitive to the influence of cross-border capital flows, having benefited from high risk appetite among global investors and their focus on emerging markets. Rouble assets earned 14.6% carry return in 2017 (amid a 13% appreciation of the rouble against the US dollar), and ranked 4th most attractive among emerging markets, while the share of foreign holdings of OFZs approached 40% of the tradable market volume. Such a high exposure to external flows, however, inherits risks associated with the potential unwinding of these positions – either as a result of the narrowing interest rate differential, or in the event that the threat of tighter sanctions becomes credible.

While the stronger rouble, together with the pickup in domestic demand, drove imports up by 17% in volumes, improved conditions in commodities markets contributed to an increase in the current account surplus, which amounted to $40.2 bn in 2017 (up 58% on 2016). At the same time, Russian banks and companies grew more accustomed to existing sanctions, as illustrated by the end of deleveraging: in 2017 external debt ceased falling, while the rollover rate increased to almost 100%. Yet the share of foreign assets and liabilities on banks'

GDP GROWTH SLOWED DOWN, Y\Y



balance sheets continued to decline, decreasing their exposure to external shocks.

Despite some recovery in consumption, a number of factors continued to drive inflation lower in 2017. Inflation targeting by the Central Bank of Russia (CBR) set the trend on deceleration, while a record harvest and rouble appreciation resulted in an overshooting of the 4% target, and CPI added only 2.5% during the year. This allowed for some policy easing throughout the year: the key rate was cut by a total of 225 basis points – to 7.75%. Still, the CBR remains concerned over inflationary expectations, which demonstrate a moderate decline, but are not well anchored yet. As a result, the monetary authorities are likely to maintain a moderately tight policy in 2018, although the transition to normalization may be completed earlier than was expected before.

Inflation slowdown was one of the major reasons for the pickup in real wages. However, overall incomes continued to slump amid slow indexation of pensions and weak entrepreneurial income. This in turn has induced a decrease in the population's propensity to save, as well as an increase in demand for credit: until December 2017 consumers were net borrowers. Together with high differentiation of incomes, this creates potential credit risks for the banking system in the medium term.

Overall, we believe that a number of uncertainties will weigh on future growth. The sources of uncertainties have not changed much: elevated expectations, the sustainability of drivers, monetary policy developments and the use of fiscal resources, as well as external aspects – all these factors can influence the key macro parameters in a number of ways. We expect growth to slow down to 1.3% in 2018 as oil prices return to $60/bbl, while the rouble's strength will be partially eroded by intensified FX purchases by the Ministry of Finance. Inflation is likely to pick up from the current exceptionally low levels, although the CBR's target of 4% will probably be achieved again.

Banking Sector

In 2017, the Russian banking sector's net result amounted to RUB 790 bn – a decrease of about 15% compared to 2016 (RUB 930 bn). This decline was mostly caused by financial problems experienced by large banks such as Bank Otkritie, B&N Bank, and Promsvyazbank.

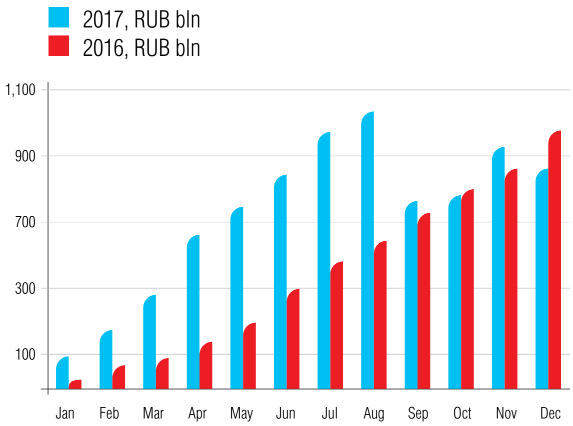
Banking sector assets increased by 6.4% y/y, but net of FX revaluation there was an increase of 4.7% y/y– quite in line with our expectations. Corporate lending stagnated at the level of 2016: it added 0.2% y/y (or -2.0% y/y net of FX) to RUB 30.2 trln, while the share of FX loans declined from 32% to 30% during 2017. The portfolio

INFLATION BELOW THE CENTRAL BANK OF RUSSIA TARGET

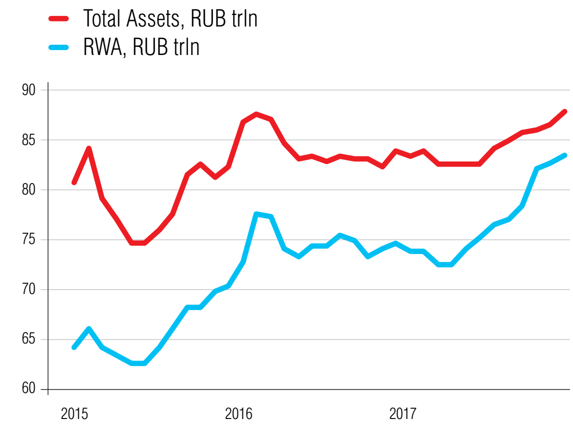
Report on the Bank's Activities (Continued)

Macroeconomics and the Russian Banking Sector in 2017 (Continued)

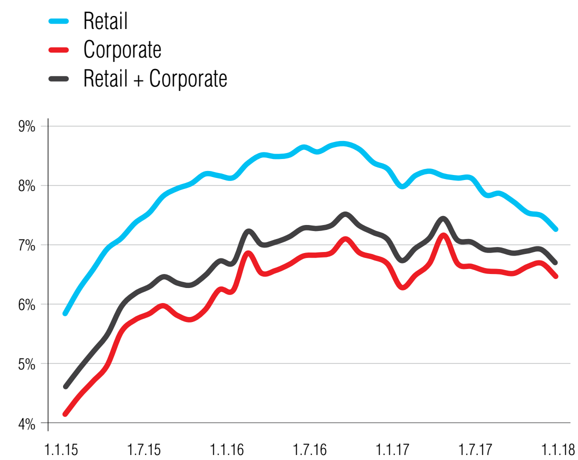
PORTFOLIO QUALITY IMPROVED



RISKY ASSETS GROW FASTER THAN TOTAL



PORTFOLIO QUALITY IMPROVED



quality was rather stable in this segment: overdue was at 6.4% at the end of the year (as compared to 6.3% in 2016).

Retail lending was growing during 2017, and by the end of the year it reached RUB 12.2 trln (+12.7% y/y). The demand for retail loans was mainly supported by the government subsidies for mortgage loans, as well as by decreasing interest rates. Overdue payments in this segment fell from 7.9% to 7.0% throughout the year.

Individuals increased their deposits to RUB 26.0 trln (+7.4%) in 2017, mostly favoring short-term deposits, while the share of long-term deposits declined from 47% to 41%. In part, this reflects the declining interest rates – while banks are attempting to minimize interest costs and risks, individuals become less eager to save. It is worth mentioning that in 2017, individuals became net lenders of the sector: retail funding increased by RUB 1.8 trln vs. an increase in lending by RUB 1.4 trln.

Banking system capital remained the same at RUB 9.4 trln (+0.1% y/y). At the same time, the banking sector's capital adequacy ratio lowered to 12.1% from 13.1% during the year, due to an increase in risk-weighted assets, mostly related to a combination of factors: an increase in retail loans and securities portfolios, as well as growth in interbank activity and securities.

In 2018, we expect the Russian banking sector to grow moderately by 2% (as measured by total assets). The corporate portfolio might add even more – about 3% y/y due to recovering investment demand. However, in our opinion, it is the retail segment what will drive the sector: it will continue growing faster than the corporate segment, although some slowdown is likely, despite extension of the government's supportive programs in mortgage and car lending.

The banks in the sector will stay exposed for regulatory developments, including internationally approved (e.g. Basel, etc.) and local reforms (segmenting the sector by license types). Despite all the challenges, the sector seems to be rather stable and solid in terms of liquidity position, and possible capital support from shareholders and the regulator. While pre-crisis profitability levels seem to be unachievable now, the ability to generate profits and ensure sustainability of operations fully depend on business models and the solidity of risk management.

2017 Financial Results

"Unicredit Bank net profit increased by 28.8% y/y while further improving capital adequacy and liquidity position."

Stefano Santini

Member of the Management Board

The participants of a general shareholders' meeting held on April 17, 2017, decided to assign the 2016 net profit after tax in the amount of RUB 14,023 million to the retained earnings.

Major Transactions

Under the Russian Federal Law "On Joint Stock Companies", a major transaction is one with value in excess of 25 percent of the company's total assets. For AO UniCredit Bank a major transaction would therefore be the transaction worth more than RUB 294,554 million (under 2017 RAS accounting statements). In 2017, the Bank did not undertake any such major transactions.

Related Parties Transactions

In 2017, the Bank did not enter into any transactions in which The Bank's directors, top managers or other parties listed in the Federal Law "On Joint Stock Companies" had an interest. Further information about related parties' transactions is given in AO UniCredit Bank audited consolidated financial statements.

Footnote 28 of the consolidated financial statements lists transactions with related parties made in the normal course of business in accordance with the requirements of IAS 24 "Related Party Disclosures".

As at March 1, 2018, as a result of the transaction between AO UniCredit Bank and its sole shareholder UniCredit S.p.A., AO UniCredit Bank acquired 40% of capital in BARN B.V. (the Netherlands), that is the sole shareholder of AO "RN Bank" (Russian Federation) since 2013. The remaining 60% in the authorized capital of BARN B.V. belongs to RN SF Holding B.V. (the Netherlands), which is a joint venture with equal participation (50%-50%) of RSI Bank S.A. and Nissan Motor Co., Ltd.

Report on the Bank's Activities (Continued)

2017 Financial Results (Continued)

Net profit

According to IFRS, AO UniCredit Bank Russia reported a net profit of RUB 18,057 million in 2017, which is 28.8% higher than in 2016 despite the negative macro environment.

The Bank's operating income amounted to RUB 51,667 million, 2.9% less than in the previous year. Operating costs reduced by 1.2% versus 2016 to RUB 17,788 million and the Bank's cost/income ratio remained at an excellent level of 34.4%. Loan loss provisions charged down by 41.5% compared to the previous year, though NPL coverage increased from 68.1% in 2016 to 76.4% in 2017 reflecting prudent risk approach. The Bank's profitability ratios improved: return on equity (ROE) of 9.5% and return on assets (ROA) of 1.5% (2016: ROE 8.1%, ROA 1.1%).

Net Interest Income

The overall UniCredit Bank's net interest income totaled RUB 41,260 million and decreased by RUB 3,840 million or 8.5% compared to 2016 partly as the result of lowering trend of FX rates (FX effect composed RUB -509 million in y/y change), interest rates and margins, accompanied by change in regulatory environment negatively affecting net interest margin of UniCredit Bank.

Non-Interest Income

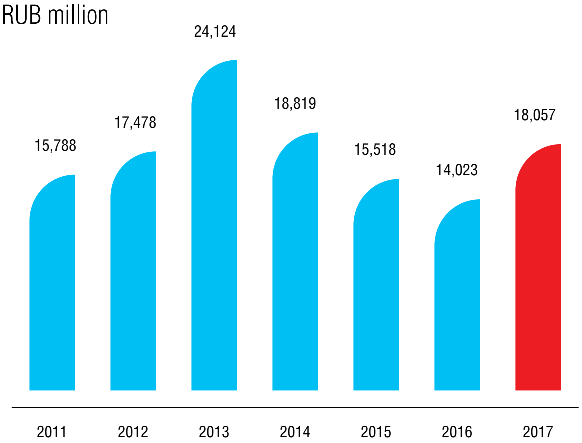
Net fee and commission income amounted to RUB 7,002 million and were higher than in 2016 by RUB 1,026 million (+17.2% y/y) supported by strong commercial performance both in Corporate and Retail banking.

Gain on disposal of available-for-sale financial assets composed RUB 1,206 million (compared to RUB 234 million in 2016).

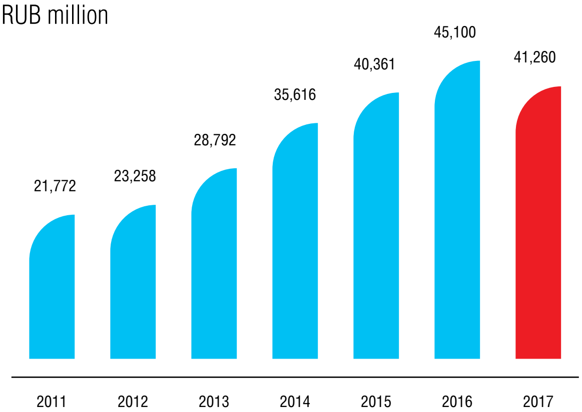
Loan impairment

The total allowances for loan impairment decreased by RUB 2,468 million at the end of 2017 down to RUB 42,787 million. Asset quality maintained solid: the weight of the impaired loans in total loan portfolio decreased to 7.3% (8.4% in 2016) and overall impaired loans coverage ratio reached 76.4% (68.1% in 2016). The loan impairment allowances to total portfolio coverage ratio amounted to 6.0% (compared to 6.3% in 2016). The loan impairment charge was RUB 10,076 million in 2017, a RUB 7,143 million decrease compared to 2016.

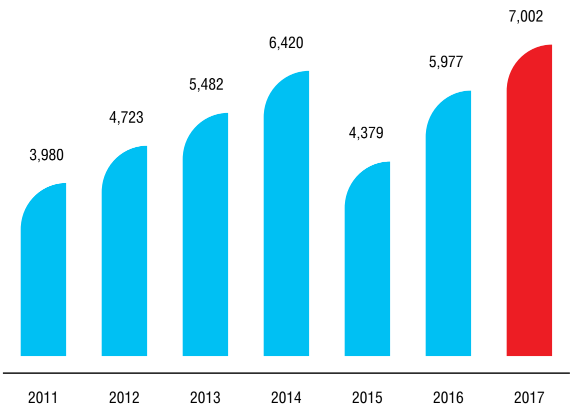
NET PROFIT AFTER TAX,
RUB million



NET INTEREST INCOME,
RUB million



NET FEE INCOME,
RUB million



Operating costs

In 2017, total operating costs amounted to RUB 17,788 million (1.2% lower compared to the previous year). Strict cost management procedures allowed to maintain cost/income ratio at an excellent level of 34.4%, one of the best among Russian and European banks.

Assets

The value of total assets increased by 1.2% and amounted to RUB 1,186,142 million. The gross loans to customers totaled RUB 711,310 million (decreased by RUB 10,955 million compared to the last year (o/w RUB -11,719 million due to FX effect). Retail portfolio (gross, including SME) increased to RUB 137,637 million (+RUB 11,009 million, +8.7% y/y). Total gross loans to corporate customers (including reverse repurchase agreements and lease receivables) decreased down to RUB 573,673 million (-RUB 21,964 million, -3.7% y/y).

The trading securities portfolio increased from RUB 2,406 million in 2016 to RUB 20,870 million in 2017, while available-for-sale portfolio increased from RUB 60,627 million in 2016 to RUB 77,466 million in 2017.

Liabilities

In 2017, UniCredit Bank continued to maintain well-diversified funding base. The client's deposits base increased by 6.2% or RUB 48,001 million compared to the last year (o/w RUB -18,756 million due to FX effect), up to RUB 827,103 million at 2017 year end. Corporate deposits, representing 68% of total customer funds, reached the level of RUB 563,402 million, while Retail and Private deposits amounted to RUB 263,702.

The volume of debt securities amounted to RUB 6,510 million at the year-end.

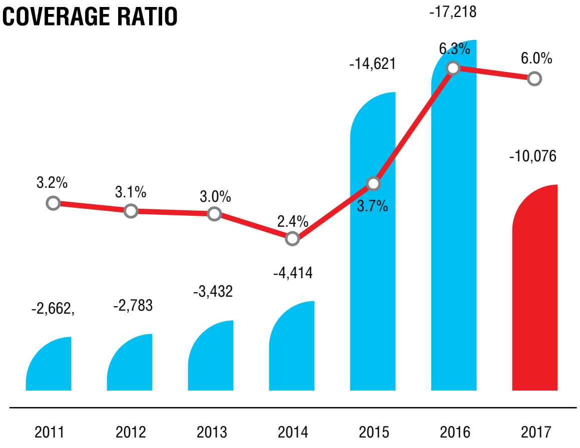
Shareholders' equity

Total Equity increased up to RUB 200,233 million or by 10.2% compared to 2016, further supporting results sustainability.

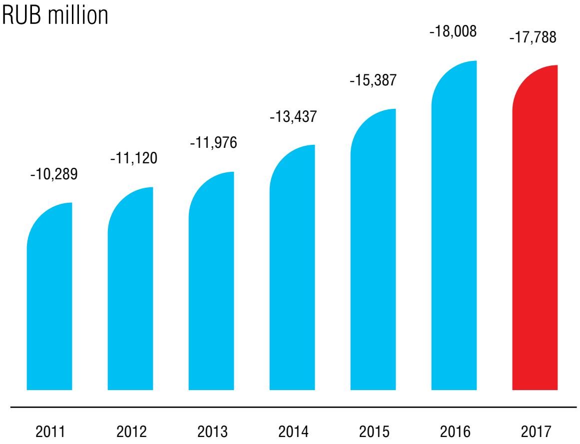
The N1 capital adequacy ratio (under CBR methodology) stood at 18.2% at the end of 2017, which is significantly above the CBR limit.

PROVISIONS CHARGE FOR LOANS IMPAIRMENT,
RUB million

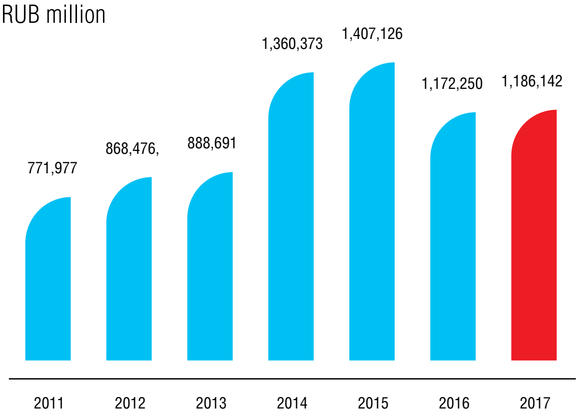
COVERAGE RATIO



OPERATING COSTS,
RUB million



TOTAL ASSETS,
RUB million



Report on the Bank's Activities (Continued)

Assets and Liabilities Management

In 2017, UniCredit Bank was in the process of active optimisation of the liability structure in order to raise interest income and concurrently create the best possible conditions for lending. Specifically, the Bank managed to reduce borrowings from Top-10 depositors by 7% as part of the funding optimisation process, and thus diversify and lower the concentration of the deposit portfolio.

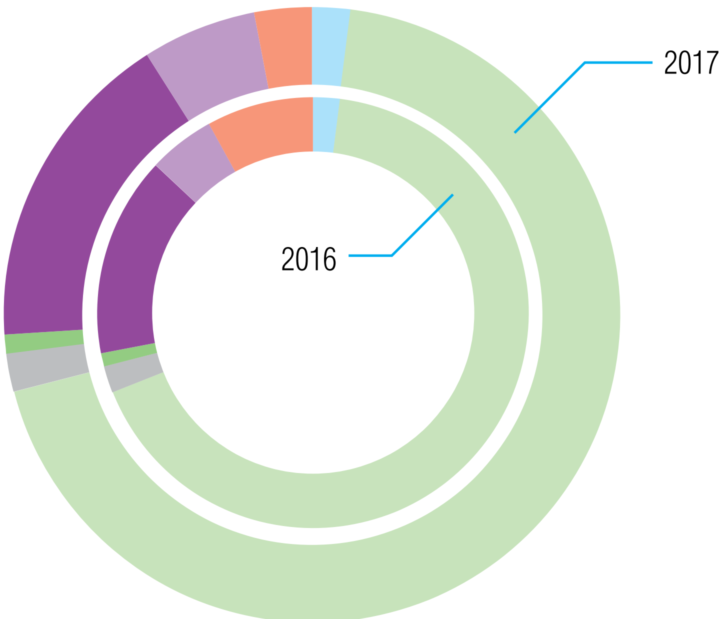
Thanks to funding optimisation, the Bank was able to preserve interest income in the context of proactive refinancing of the corporate credit portfolio and contraction of the credit margin. The Bank has equally made important improvements in the Funds Transfer Pricing (FTP) procedure to support the credit portfolio, improving competitiveness on the asset side and launch the granting of loans with a floating interest rate pegged to the key rate of the Bank of Russia.

In 2017, liquidity management was in line with the Group's paradigm, presuming more stringent requirements to liquidity ratios compared with the regulatory requirements. Regulatory liquidity requirements (N2, N3, N4, N26 liquidity ratios) were met with the safe cushion throughout the year. In 2017, pursuant to the Group's requirement, the Bank started complying with the Basel III NSFR (Net Stable Funding Ratio) that replaced the Structural Liquidity Limit (STRL). Moreover, the Bank maintained a consistently high level of loans available for pledge with the Central Bank subject to Regulation No.312-P providing the possibility of attracting funds on the pledge of non-marketable assets.

Monitoring of compliance with the limits was carried out on a day-to-day basis throughout the year. Monitoring was carried out by the independent Market Risk Unit. The Asset - Liability Committee reviewed the findings on a weekly basis.

In the summer of 2017, the Analytical Credit Rating Agency (ACRA) assigned AO UniCredit Bank a credit rating of AAA(RU) – the highest credit rating on the national scale – with a stable rating outlook. Assignment of a credit rating on the national scale enabled the Bank to continue attracting funds from pension funds, insurance companies and other corporate customers covered by the new legal requirements that rely on the national rating scales.

STRUCTURE OF LIABILITIES AS OF DECEMBER 31, *%*



	2016	2017
CBR	0.0%	0.0%
Intragroup Funding	2.0%	1.6%
Due to Customers	66.5%	69.7%
Subordinated Debt	2.5%	2.3%
Own Bonds	0.6%	0.5%
Capital	15.5%	16.9%
Other liabilities	4.4%	5.8%
Due to Banks	8.5%	3.2%

Corporate and Investment Banking

“Last year was yet another year when UniCredit Bank demonstrated commitment to its customers and preservation of solid relations by offering a full range of financial solutions that meet the demands of both Russian and international players.”

Kirill Zhukov-Emelyanov,
Member of the Management Board

Development of corporate banking was among UniCredit Bank’s key priorities in 2017. An integrated business management approach helped the Bank to preserve its status as a major player in corporate banking.

At year-end, the corporate loan portfolio amounted to RUB 570 bn. The deposit portfolio reached RUB 564 bn. The total revenue of corporate banking amounted to RUB 28.7 bn, while profit before tax rose by 6% compared to previous year and reached RUB 15.3 bn. A balanced approach to risk assessment enabled the Bank to preserve its leading positions in the market in terms of loan portfolio quality. The share of overdue loans at year-end 2017 was 4% compared with an average of 6.4% for the banking system as a whole. Meanwhile, industrial diversification of the portfolio remained consistently high.

The indicators reflecting business management performance were in positive territory. The share of non-credit income rose compared to last year and exceeded 50%. A significant contribution to the growth of non-credit income was made by an increase in the number of derivative trades, as well as transactional business. Overall capital productivity thus demonstrated consistent growth compared to the previous period.

Focusing on a long-term partnership with its clients, UniCredit Bank is successfully investing in its relations with both existing and new customers. In 2017, the Bank closed a number of important deals with major Russian companies. The Bank continued proactive business development in the medium corporate regional business, which helped the Bank to preserve its status as a key investor in

Report on the Bank's Activities (Continued)

Corporate and Investment Banking (Continued)

regional markets. After joining the preferential lending programme for the agricultural sector in 2017, the Bank gained the opportunity to support solid companies in the sector both on commercial terms and with the help of the interest rates state subsidy programme. Thanks to its international reach and close cooperation with colleagues from UniCredit Group in other countries, UniCredit Bank significantly increased its customer portfolio in the international segment and the volume of business with existing customers.

In 2017, UniCredit Bank preserved its leadership in the syndicated loan market, ranking in the top three Russian banks by the number of loans and the amount of financing provided. The Bank carried out multiple initial placements of clients' bonds. As proof of its impressive capabilities in the Russian bond market, the Bank successfully closed a number of placements for major Russian companies. The Bank's performance in the trade finance market has been traditionally strong.

UniCredit Group's extensive international reach allows it to find optimal solutions, implement projects, and pursue opportunities in foreign trade activities. It is worth noting that the Bank is a full-fledged participant of the Elite UniCredit CEE Lounge programme in partnership with the London Stock Exchange. The programme is intended for dynamic companies in the medium segment striving to accelerate their growth. In 2017, a number of new participants joined the programme – successful and ambitious representatives of regional business.

Automation of internal processes is rapidly progressing. In the current context of a dynamically advancing digital landscape, the Bank is activiely working on the development of digital technologies. IT investments are among the Bank's key priorities. This ensures constant improvement of existing services and the introduction of new cutting-edge solutions appreciated by customers. A reliable, modern IT infrastructure makes it possible to offer a full range of solutions and services to customers.

In 2018, the Bank will continue to move forward in fostering its relationships with existing customers and continuing the expansion of its customer base by offering a full package of financial solutions and actively making use of UniCredit Group's capabilities. Special attention will be devoted to maintaining high customer service standards.

CORPORATE PORTFOLIO STRUCTURE

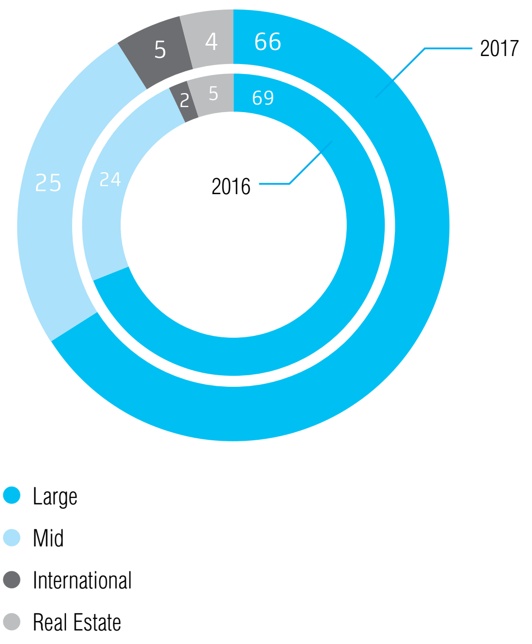
Energy (incl. oil and gas)	15.32%
Food and beverage	13.82%
Chemicals, pharma, healthcare	11.98%
Non-ferrous metals and mining (excl. precious metals)	10.88%
Mining of precious metals	7.19%
Other machinery, metals	6.06%
Media, paper	5.94%
Financial institutions & insurance	5.46%
Automotive	4.02%
Construction, wood	3.88%
Consumer goods	3.02%
Real estate	2.93%
Steel/metal production	2.87%
Telecom, IT	2.57%
Agriculture, forestry	1.78%
Textiles	0.96%
Electronics	0.47%
Transport, travel	0.43%
Services	0.23%
Shipping	0.12%
Tourism	0.08%

International Center

In 2017, the International Center managed not only to maintain a leading position among international banks in Russia, but also to widen its portfolio extensively. The current expansion in Russia creates value for shareholders on trusting relationships with customers and care about their satisfaction.

Despite a challenging macroeconomic situation, 2017 results show that the International Center did not exhaust its potential, achieving more than double growth in some indicators, such as corporate lending, in comparison with 2016 results. Also, in 2017, the International Center managed to widen its portfolio by consistently attracting new clients, which indicates a steady growth from year to year.

CORPORATE LOAN PORTFOLIO STRUCTURE BY SEGMENTS, %



To provide more efficient customer service as the portfolio has grown significantly, business units have been segmented according to companies' geographical origin, introducing German, Italian and Austrian desks. The International Center is now planning further active expansion into the markets of the Americas, Northern Europe and Asia.

The year 2018 will be one of continued close cooperation with UniCredit Group. The Bank will be focusing on further market expansion, implementation of efficiency improvements and maintenance of its position as a leading bank for international clients in Russia. The main plans include structural reorganization to increase customer satisfaction and creation of a Client Support Team with global and local account managers.

Structured and Project Finance

Trends that were observed in the structured finance loan market in 2016 were maintained in 2017.

In particular, on top of limited demand for new financing from corporate clients, increased competition was observed from Chinese and other international banks that had previously limited their participation in the Russian loan market. Against the backdrop of financial institutions' increased interest in the corporate sector, there was also growth in foreign investors' demand for Eurobonds of Russian issuers, the number of placements of which significantly exceeded the values of 2016, which led to a significant reduction in the cost of borrowing for domestic companies in both the banking and public debt markets.

Nonetheless, in 2017 UniCredit Bank maintained its high position in the syndicated loan market, ranking in the top three both by overall volumes and number of closed deals. Supplementary to the Mandated Lead Arranger role, UniCredit Bank also acted as Coordinator in a number of syndicated transactions.

In addition to lending, the Bank continued to actively promote advisory services in the project financing field. As a result of such efforts, several major mandates were secured to support the development of strategically important projects in the mining and pulp and paper industries.

In 2018, the Bank is committed to retaining a strong leadership position in the Russian market across all structured financing products, leveraging UniCredit Group's expertise and network to serve clients' interests.

Cash Management

The recently completed migration to a new core banking platform allowed the Bank to expand the functionality of its existing products and to reduce the time required for the development and adjustment of new services. In 2017, the Bank actively worked on the creation of complex solutions for clients in such strategically important areas of Cash Management as the centralization of Treasury functions, the implementation of combined Cash Pooling systems, and the use of Host-to-Host (H2H) data exchange channels on the basis of the international standard ISO 20022, as well as on improvements to the system of electronic banking services (EB). Special attention was paid to EB capabilities for managing the accounts of a group of companies and efficient remote cooperation with the Bank in Currency Control. The Bank's services for creating Cash Pooling structures with non-resident accounts gained popularity among international companies. Customized solutions combining several Cash Pools of different types into one Notional Pool were implemented for large Russian holdings. The number of local and international customers using H2H channels increased several times. There was steady client demand for Customs and corporate cards. Merchant acquiring and cash collection services provided by the Bank through its partners also grew.

Report on the Bank's Activities (Continued)

In 2017, the Bank offered its settlement center solutions to all client segments: the largest Russian corporations, international and regional companies. Several projects with international corporations in Russia as well as Russian companies abroad were successfully completed. Close cooperation between product and relationship managers in the area of special offers for Russian corporations allowed the Bank to win a number of important deals for centralization of settlements and liquidity management. Optimization of feedback collection from the regions and regular customer surveys allow the Bank to promptly receive important information on market demands and expectations.

In 2018, the Bank will continue implementation of the Settlement Bank concept for its customers, offering the full range of essential services and solutions. The key directions in product development will remain unchanged: effective liquidity management, convenient electronic channels for data exchange with integration into clients' ERP systems, faster payments at lower costs, a continuous process of improvement to existing products and reduced time-to-market for new Cash Management solutions.

Correspondent Banking

In 2017, UniCredit Bank continued to render clearing services to correspondent banks, servicing about 280 Loro accounts opened by banks from 45 countries. Considerable efforts were made to optimize and increase the efficiency of the entire network of correspondent banks with Loro and Nostro accounts.

UniCredit Bank reaffirmed its position among the leaders of Russian banking market by volume of Russian rouble payments on behalf of non-resident banks.

Trade Finance

Trade finance is traditionally one of the Bank's top priorities for development. The Bank's reputation in this area has repeatedly been confirmed by Best Trade Finance Provider awards from the authoritative publications Euromoney and Global Finance. In 2017, along with the Group's other banks in Central and Eastern Europe, the Bank was named Best Trade Finance Provider in the CEE region by Euromoney.

In trade finance, the main goals of the Bank in 2017 were the maintenance of portfolio quality, a balanced approach towards risk assessment and a flexible pricing policy. At the same time, the Bank actively developed cooperation in trade finance both with active and potential customers on the basis of product range enhancement and proposing customized solutions aimed at meeting clients' needs.

While certain caution on the part of customers regarding long-term financing denominated in foreign currencies still exists, demand for documentary instruments, especially letters of credit, covering import contracts remains at a high level. Such instruments cover both huge CAPEX programmes and the purchase of consumer goods and services, food and beverage, and pharmaceuticals.

The vast network of UniCredit Group in Europe, Asia and America allows the Bank to service trade flows with all parts of the globe, providing high-quality services on attractive terms.

The guarantee business demonstrated notable growth in 2017, with a prevalence of Russian liabilities.

The competitive advantages of the Bank are its focus on customers, high-quality services and long track record in successful execution of settlements and realization of trade finance projects both in Russian and international markets.

Due to these factors, the Bank is traditionally ranked among the leaders of the market with a reputation as one of the most professional and reliable banks.

Factoring / Receivables Finance

The Bank provides factoring finance to large and mid-size companies as well as to international clients.

UniCredit Bank offers a wide range of solutions in financing trade receivables and payables – from traditional factoring with recourse to the seller, to complex programmes of supply chain finance. Being a member of the international association Factors Chain International (FCI), the Bank actively develops international factoring. As a part of UniCredit Group, the Bank offers its clients effective solutions both in Russia and globally.

In 2017, the main tasks in factoring were maintaining portfolio quality and a balanced approach towards risk management.

With electronic technologies developing rapidly, the electronic interchange of documents is increasingly a key factor for the development of factoring and this sphere is constantly developing. Thus, one of the priorities in the further development of factoring products, in addition to efficiency improvements and further diversification of the product line, will be expansion of the use of electronic platforms and tools as well as the development of technological solutions for factoring financing.

Structured Trade and Export Finance

Long-term tied financing under Export Credit Agencies (ECA) cover remains a significant product for UniCredit Group. The product continues to be in high demand amongst Russian corporate clients, being one of the most affordable tools for obtaining long-term financing in foreign currency. On the one hand, the product offers a capital-light structure, which allows the Bank to finance large-scale investment projects on a long-term basis, and on the other hand, it allows Russian companies to attract financing for the purpose of upgrading production facilities on beneficial conditions.

In 2017, an increase in activity for ECA-covered financing was observed among Russian corporate clients compared with the previous year. Thanks to its historically strong position in ECA financing and customer-oriented approach, UniCredit Group closed a number of deals with Russian companies and won mandates for ECA-covered financing by Russian corporations in various industries. Accordingly, the Group confirmed its stable position in the Export Finance market, showing good performance in the current competitive environment.

With solid experience collaborating with all the leading European ECAs and with further development of cooperation with Asian and North American ECAs, UniCredit Group plans to continue supporting its Russian clients with customized ECA-covered finance solutions.

Global Securities Services

The Global Securities Services (GSS) unit of UniCredit Bank is a part of UniCredit Group's Global Securities Services division, which covers 11 markets of Central and Eastern Europe (CEE), including Russia. Being part of the largest custody network in the CEE and having many years of expertise on the Russian securities market, UniCredit Bank's GSS provides high-standard services to leading international financial institutions, including global custodians and investment funds, using UniCredit Group's global approach towards service and client relations.

GSS offers a wide range of settlement and custody services, including safekeeping and accounting of rights, stock exchange and OTC settlement on free of payment (FOP) and on delivery versus payment (DVP) basis in Russian roubles and foreign currencies both in Russian and international securities markets, monitoring of corporate actions information and participation in corporate actions on clients' behalf, proxy voting, receipt and distribution of income under securities, tax agent services, support of pledge transactions and tailor-made structured deals.

GSS continuously works on the development of its client services, automation of business processes and optimization of document interchange, in particular by improving end-to-end transaction processing and switching over to electronic document flow instead of using paper documents.

UniCredit Bank is a member of the National Finance Association (NFA), and its GSS representatives actively participate in efforts to improve securities legislation and market infrastructure and represent UniCredit Bank in various committees and working groups of the National Settlement Depository (NSD) and NFA. GSS of UniCredit Bank together with NSD and other securities market participants actively worked on the development of corporate actions reform, as well as the standardization of interaction with counterparties in the course of conducting of corporate actions, as well as ISO 20022.

Financial Markets

The tendency for low volatility in the foreign exchange market remained in 2017, which combined with a high level of competition and lower margins to put pressure on the budget. At the same time, there was notable progress in business development: strengthening of the team, automatization of most operational processes, implementation of the Electronic Trading Platform.

The Bank's plans for 2018 remain ambitious. The Bank expects to concentrate on traditional FX and interest rates hedging with corporate clients, however it also plans to expand its product line. In 2018, the Bank will be developing sales of the entire product line of financial market instruments: FX, deposits, derivatives, Money Market Lines.

On the backdrop of general growth in the Russian corporate bond primary market, the Bank managed to close a significant number of deals in 2017. Underlining the strength of the DCM team, the Bank executed several successful placements for existing DCM clients such as MTS, Megafon, RN Bank, X5, and VSK, as well as deals with a number of international and Russian companies and banks with which the Bank has just started active and fruitful cooperation in this sphere, such as ChelPipe, AFK Sistema, TMK, IIB, AHML, Sovcombank.

In 2018, the Bank's priorities will include focusing on key and new debt market clients and retaining a strong position as one of the leading organizers of corporate bond issues. The Bank also plans to use favorable market conditions for placing its own bonds, as appropriate.

Report on the Bank's Activities (Continued)

Corporate and Investment Banking (Continued)

Corporate Finance Advisory and Capital Markets

In 2017, the Corporate Finance Advisory and Capital Markets Department captured recovery in M&A activity in Russia. It successfully closed three M&A transactions and signed another, which is now pending closure. On the Russian corporate Eurobond market, investors' continued appetite and UniCredit Bank's strong competencies and expertise allowed the Bank to act as a Joint Lead Manager and a Bookrunner in seven Eurobond offerings outside Russia. In all deal origination and execution activities, we collaborate with the Group's Russian and international client relationship teams to ensure constant focus on the client's interests.

UniCredit Bank's 2017 M&A transactions include advisory to an international listed bank on the sale of its subsidiary in Russia, sale of a regional stone wool insulation and sandwich panels producer to a strategic investor, sale of a metallurgical company to a leading steelmaker, and sale of a local dairy producer to an international cheese and dairy player.

UniCredit Bank maintains a constantly ongoing dialogue with the key Russian clients on bank financing and debt capital markets advisory. The strong brand in international debt capital markets and the continued active participation in Russian offerings led the Bank to realize a series of placements in 2017. The Bank acted as a Joint Lead Manager in the Eurobond issuance for Gazprom, NLMK, EuroChem, PhosAgro, Norilsk Nickel, Credit Bank of Moscow, and Rusal. The Bank will keep its focus on supporting the key clients on international debt capital markets in 2018.

UniCredit Leasing

In 2017, UniCredit Leasing continued its successful and progressive development. This allowed strengthening of the company's competitive position among the largest leasing companies in Russia.

According to IFRS, UniCredit Leasing's net profit amounted to 580 mln roubles after tax in 2017, which exceeds the corresponding figure for 2016 by 76%. The volume of new business increased by 26% compared with 2016, the leasing portfolio grew by 26%, and the number of leasing transactions – by 43%. The year 2017 ended with portfolio quality results significantly exceeding the market's average thanks to UniCredit Leasing's top management taking timely measures with regard to potentially defaulting clients.

Significant positive dynamics of the company's key indicators are related not only to the emerging market recovery trend, but also to proactive work of the team. UniCredit Leasing has been demonstrating stable results above the market average in recent years.

In May 2017, RAEX Rating Agency (Expert RA) revised the credit rating of UniCredit Leasing due to changes in the methodology and assigned a rating of ruAA (which corresponds to rating A++ "Exceptionally high level of creditworthiness" according to the previously applied methodology). The rating outlook is «Stable».

UniCredit Leasing has been actively participating in the State Leasing Subsidy Programme initiated by the Ministry of Industry and Trade of the Russian Federation in 2015. In 2017 about 1,400 vehicles were financed under the terms of the programme. The total amount of financing is about 3.6 bn roubles, with UniCredit Leasing saving about 350 mln roubles for its clients. UniCredit Leasing plans to continue participating in the programme with its partners in the coming years, in order to ensure a high level of service and strengthen business competitiveness.

Key types of assets both in new business and the lease portfolio include loaders, warehousing and packaging equipment, food processing machinery, telecommunications equipment, computers and business machines, and agricultural equipment.

The main goal for UniCredit Leasing for 2018 is to enhance the attractiveness of the leasing service package for UniCredit Bank clients, as well as to develop vendor-leasing programmes with leading international manufacturers and suppliers of vehicles, construction equipment, agricultural equipment, and other types of assets.

Maintenance of a high-quality leasing portfolio along with strengthening its competitiveness in the main cities of presence – Moscow, St. Petersburg, Krasnodar, Novosibirsk – remain integral parts of UniCredit Leasing's strategy. Providing financing for the SME segment is also part of the business development plan for 2017, as well as expanding the product line including insurance services for UniCredit clients in Russia. The plans include participation in federal and local subsidy programmes for real sectors of the economy via leasing; and participation in the programme of subsidizing leasing of machinery produced by the Republic of Belarus. Active improvement of IT systems, automation of business processes and further introduction of electronic document management with customers are also on the UniCredit Leasing's list of goals for the coming year.

Private Banking

At year-end 2017, UniCredit Private Banking demonstrated strong growth in terms of total assets under management. Total assets in UniCredit Private Banking rose by 14.5%, both due to an increase in the number of customers and in the volume of the average portfolio per customer. Growth in the investment portfolio amounted to 15%.

Further intensification of cooperation with colleagues in the corporate unit in 2017 resulted in a greater number of customers (+6%) and a larger volume of customer assets under UniCredit Private Banking management, exceeding EUR 63 mln exclusively within the framework of this cooperation.

The successes of UniCredit Private Banking in Russia were recognised by various rankings both domestically and internationally. UniCredit Bank was recognised by SPEAR'S Magazine as the Foreign Private Bank of the Year in Russia and was awarded at SPEAR'S Russia Wealth Management Awards 2017. In addition, Igor Ryabov, Head of Private Banking at UniCredit Bank, was shortlisted in SPEAR'S Russia Wealth Management Awards 2017 for the Banker of the Year category. Furthermore, UniCredit Private Banking ranked among the top five banks in the Private Banking & Wealth Management category according to Frank Research Group. UniCredit Group was named Best Private Bank in Central and Eastern Europe at Global Finance's World's Best Private Banks Awards 2018.

In 2017, a third limited edition of the World Elite Mastercard was issued in partnership with the MasterCard payment system and the Pushkin State Museum of Fine Arts. The Albertina Museum (Vienna, Austria) is the third partner of the project. Cooperation with the Albertina Museum was made possible by Schoellerbank, one of Austria's oldest banks which, like UniCredit Bank, is part of UniCredit Group. UniCredit Bank's new World Elite Mastercard for UniCredit Private Banking customers in Russia combines the advantages of a premium card product with the opportunities of the Pushkin Museum's Friends programme and the Albertina Museum's privileges – free visits for cardholders. The design of the new card is based on a masterpiece in the collection of the Pushkin State Museum of Fine Arts – "Bucentaur's Return to the Pier by the Palazzo Ducale" (1727-1729) by Giovanni Antonio Canal (Canaletto).

UniCredit Private Banking continues to keenly follow on cultural events and provides its customers with opportunities to take part in the most exciting of them. Over the course of the year, the Bank and its partners co-sponsored a number of events for collectors and owners of private collections.

The annual charity auction for the Special Childhood Centre for Curative Pedagogics, traditionally sponsored by UniCredit Bank, was a memorable event. The Centre for Curative Pedagogics is the Bank's long-standing partner for charity projects. At the Bank's invitation, Private Banking customers actively took part in the auction with great warmth and pleasure.

In 2017, UniCredit Private Banking continued its cooperation with the strongest international partners in the investment product segment – Pioneer Investments, Franklin Templeton Investments, Schroder Investment Management, BNP Paribas Investment Partners and J.P. Morgan Asset Management, combined with the concurrent promotion of structured products. To support Private Banking managers as they develop investment offers for asset allocation, risk management, portfolio performance evaluation, and report generation, the UniQue application was launched within the framework of the investment Advisory 2.0 project – a full-fledged CRM system for investment products.

Retail Banking

"We continue to increase our share of the Bank's total revenues and maintain strong positions in the Russian banking sector."

Ivan Matveev

Member of the Management Board

The year 2017 was very successful for retail business. The entire team's concerted and effective efforts helped achieve both income and net profit targets. Lending figures were more than 40% higher compared to last year, and in auto lending the Bank increased its share and secured a solid position among Russia's top-five auto lenders. We continue to increase our share of the Bank's total revenues and maintain strong positions in the Russian banking sector.

More and more customers are choosing our beneficial offers and high-quality service – in 2017, the number of retail customers almost reached 2 million and the number of SME customers exceeded 22,000.

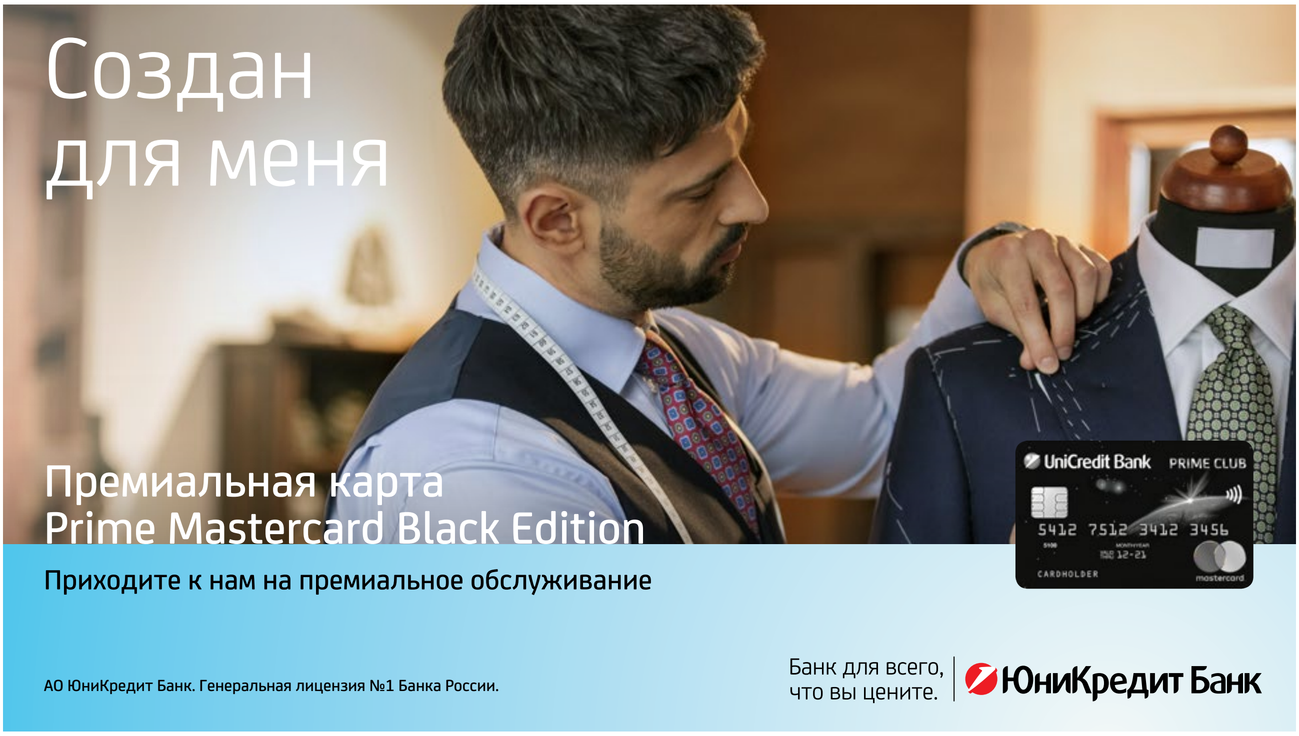
Customers notice the improving quality of service: over the course of the year, UniCredit Bank moved from 8th to 5th position in the People's Ranking published by the Banki.ru web portal.

The Bank's significance was recognised by the professional community. In 2017, UniCredit Bank was once again included in Forbes' list of Russia's most reliable banks, taking 2nd place.

Savings, Investments and Insurance

The key success of 2017 was a significant growth in the portfolio of individuals' fixed-term deposits. Implementation of new, appealing customer offers, particularly The Second deposit, and promotion of the Bank's image of reliability enabled the Bank to acquire 25,000 new customers and increase its deposit portfolio by 150%. These successes pushed the Bank to 14th place among banks in terms of deposit portfolio size.

In 2017, customers showed consistent interest in investment programmes, sales of which grew by 6% compared to the previous year.



PRIME package

To respond to customers' wishes, we updated the Growth Vector programme of unit linked life insurance providing for annual payment of investment income.

The Bank also made improvements to yet another popular product – the Investments In Health programme of saving life insurance – by increasing its availability to customers in the regions.

In 2017, the Bank launched new services addressing customers' pressing needs and making their life easier. These include the emergency legal defence service, provided by Zakonia company. Towards the end of the year, we launched the first truly digital product – turnkey tax deduction.

Bank Cards

In 2017, development of debit cards and packages was focused on the optimisation of the current card mix and development of a new offer for prime customers. These activities resulted in the implementation of free service terms for the mass segment packages and the EXTRA package intended for the mass affluent segment.

As for credit cards, sales grew by over 80% in 2017 compared to the previous year. Top priorities are to optimise customer acquisition processes and create the necessary infrastructure to ensure fast and convenient card application submissions. A new online process of application submission via the Bank's website was developed in 2017. Potential customers can complete an electronic form online and obtain a response within 10 minutes by text message. This substantially saves time for customers and for Bank employees alike, as credit analysis is fully automated.

In 2017, the model for acquiring payroll card customers was modified by shifting focus to customers capable of ensuring the best possible financial result for the Bank. The Bank implemented a number of initiatives aimed at optimising banking processes, enhancing service quality, and improving the acquisition and retention processes for payroll customers.

Credit Products

On the backdrop of a recovering automotive market, the volume of car loans in 2017 amounted to RUB 34 bn, 60% higher compared to 2016 and a third above the market average. UniCredit's share rose from 6% to 7%, while the lending portfolio grew by 12%.

Product initiatives made an important contribution to these successes. Improvements were made in the lending terms of the Prestige

Report on the Bank's Activities (Continued)

Retail Banking (Continued)

Car loans with state subsidies

programme intended for affluent-segment customers, resulting in the issuance of over 10,000 car loans for a total amount of RUB 14.2 bn. There were equally major improvements in the lending terms for used cars, including expansion of the Selected segment by including eight new auto holdings in the programme.

A major success was the launch of the First Car and Family Car programmes with state subsidies providing customers with a discount of 10% on the car price. Under these programmes, 1,700 loans for a total of RUB 912 mln were issued.

In mortgage lending, the Bank actively implemented its process optimisation project in 2017, helping accelerate the mortgage application consideration process from five to two days, while the number of applications increased three-fold.

Furthermore, to improve the appeal of the Bank's mortgage offer, a flexible discount matrix was implemented as part of dynamic pricing, along with the launch of the Reliable Client programme aimed at attracting the low-risk customer segment and the Promo programme for the Bank's special partners.

Progress in all aspects of the mortgage business – chain productivity, product supply, partner management, lending procedure – resulted in a higher issuance rate, 50% above the year before.

Consumer credit sales in 2017 reached the highest level in the Bank's history to date. Compared with the previous year, issuance of consumer loans was 31% higher. Cross-selling accounted for 89% of sales, reaching RUB 23 bn.

Small and Medium-Sized Enterprises

The year 2017 was marked by dynamic growth in new products and services for small and medium enterprises. The Free cashier campaign was launched in the first half of the year, helping the Bank acquire more than 1,300 new customers. The offer targeting retail companies included all the necessary banking products and services, as well as a cash register equipment certificate from the Bank's partners. Over 200 partners are involved in the campaign. The customers acquired through this campaign account for RUB 30 mln of the Bank's income.

The transactional product and process mix was supplemented by such innovations as a centralised collection process, extended banking hours for customers in Moscow and the Moscow Region (until 8:30 pm), and flexible acquiring rates under the updated Retail package. An option for express transfers was introduced. Towards the end of the year, a special offer was introduced for companies engaged in foreign economic activities – Free Pass to Foreign Economic Activities.

CLASSIC, GOLD, EXTRA Packages

In lending, the Bank implemented such important initiatives as increasing the maximum distance to the customer's registered business address, raising the maximum overdraft limit up to RUB 20 mln, and extending the term of pledge when refinancing loans with other banks. Towards the end of the year, the Bank launched a business refinancing campaign for loans with other banks on competitive price terms (10.5%), standardised a simplified tender guarantee consideration process, formalised the pre-approved overdraft product for existing customers, and optimised lending processes, for example, loan repayment by third parties, and lending against receipt.

Remote Service Channels

Development of remote service channels remains one of the priorities in retail business. The Bank is expanding the functions of remote channels, making them more customer-friendly, and increasing the share of retail sales via online bank, the mobile application, the Bank's website and the call centre. In 2017, mobile application users were the primary focus, while the online bank service was also provided with a number of upgrades.

In March 2017, the Bank launched a notification service for new traffic tickets. As a new traffic ticket is entered into the system, customers who use the mobile application receive a push notification and an e-mail notification. After the service was implemented, the number of tickets paid through remote channels doubled.

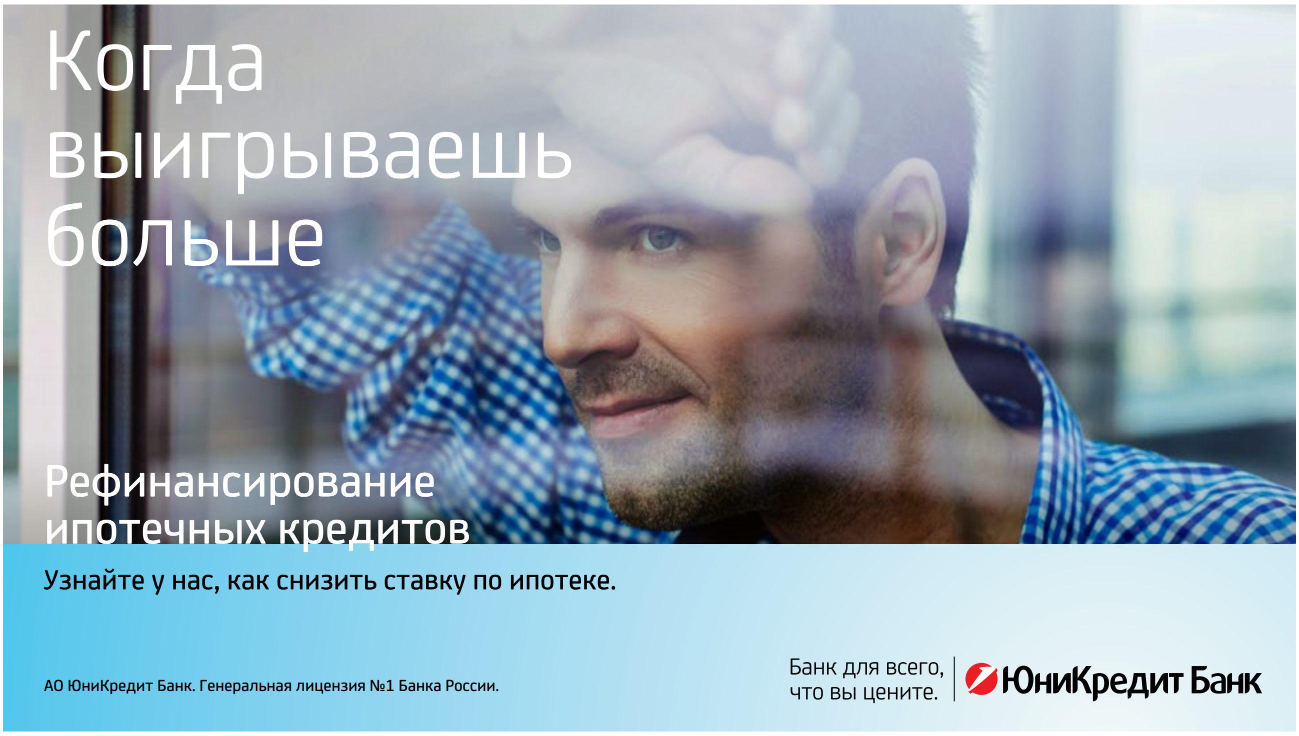
In August 2017, the Bank implemented connections to Enter.UniCredit by account number in the online bank and the mobile application. Previously, customers without cards could not connect the service without visiting a Bank branch. As a result, in 2017 over 10,000 customers were able to connect to the service remotely using their account number. Moreover, the connection procedure was simplified: customers can now enter an easy-to-remember login and password when connecting.

In November, customers received the possibility to change their card PIN online using the mobile application or internet bank. Customers changed their PIN over 4,500 times in the first two months after the service was launched. Customers may change their PIN for free in the mobile application.

In late 2017, customers gained online card activation capabilities with the opportunity to set their own PIN free of charge in the mobile application and online bank. Customers carried out more than 2,000 card activations during the first month of the service's operation.

Strategy and Results in 2017 (Continued)

Retail Banking (Continued)



Mortgage refinancing

The option to make loan payments using cards from other banks was introduced in the mobile application and online bank. This service helps customers make loan payments without leaving home.

Moreover, transfers to Bank customers by phone number were introduced in late 2017. As many as 2,000 customers have already used this service.

As part of the cost optimisation and recording system expansion, all units of the Bank were transferred to a new recording system – Verint. This enabled the Bank to halve the cost of each work station. Call centre employees launched a non-typical call tracking process in order to improve the quality of service.

Mobile.UniCredit

Several important improvements were made for mobile application users' convenience in 2017. The Bank introduced a chat facility with operators providing prompt responses on issues of interest, as well as the Operations Abroad service that the customers can use to notify the Bank of their travel plans in order to avoid unexpected card blocking. Over the course of 2017, Bank customers sent about 4,000 notifications. There were changes in the terms of adding money to a UniCredit card using a card from a different bank – customers can now do this through the mobile bank free of charge.

There were major improvements in the transfer service. In the case of card-to-card transfers, customers can now save the card details and get the receipt emailed to them as proof of payment; and the fee is now calculated at the time of the transfer. Customers gained the possibility to make transfers to state-run public entities and pay taxes.

The application gained a Bonus section providing information on discounts and individual offers from the Bank partners. The option to save or email a receipt for services was added.

Over the course of the year, Mobile.UniCredit users were offered the opportunity to take part in campaigns with monetary prizes, which helped turn about half of their participants into active users of the mobile bank.

Enter.UniCredit

In 2017, the following functions were added to online banking: saving a bank statement as a PDF or CSV file; spending charts for all cards with cost breakdown by category (e.g., gas stations, cafes, etc.); and the opportunity to send ideas for possible improvements to online banking services from directly within the online bank interface.

In addition, the online banking site's redesign continued, with many of its sections becoming more intuitive and user-friendly.

Business.Online

In 2017, the Bank launched a counterparty screening service that enables individual entrepreneurs and legal entities to promptly obtain information requiring special attention and consideration. According to a survey of online bank users, 41% of respondents use the service.

Moreover, a number of major improvements were made in the functions of the payroll project: electronic submission of documents certifying execution of payroll records, automation of contact information updates, new payment designations and russified statements, new card types, new user roles. As a result, the number of companies using Business.Online to manage payroll almost doubled over the course of 2017.

E-wallets

Starting from year end 2017, Bank customers have been able to use their e-wallets for payment: Apple Pay, Android Pay (Google Pay starting from February 2018), and Garmin Pay. This function can be activated either by SMS or through the call centre.

Chatbot

A chatbot facility was introduced in 2017, covering multiple channels, in particular Mobile.UniCredit, chat on the Bank's website, popular messengers. The new channels contributed to an increase in the number of instances when customers (either individuals or legal entities) contacted the Bank for consultation or support. The Bank started preparations for implementing artificial intelligence in this vehicle in order to address the most frequently asked questions without connecting to a call centre operator.

Call Centre

In 2017, the call centre proved its worth as one of the key customer acquisition channels.

Sales by the call centre as a share of total sales by the Bank reached 42.9% for consumer loans, 48.5% for credit cards, and 18.0% for SME packages.

In 2017, the call centre processed almost 1.6 mln requests, including calls and questions via chat, e-mail, internet bank, mobile application, and social media.

Meanwhile, the following improvements were made for customers over the course of the year. For legal entities: changes to the incoming line operating hours in accordance with regional time zones of our offices; customer support for the easy segment extended until 9:00 pm (instead of 5:45 pm Moscow time).

For individuals: a simplified procedure was introduced for activating a card and generating and modifying a PIN through an operator; the OmniDesk system was launched to promptly respond to customer feedback in social media.

The Bank also held a tender resulting in the Bank's cooperation with four major outsourcing contact centres facilitating more frequent and effective communications with existing customers and the acquisition of new customers. Compared to the beginning of the year, the capacity was doubled.

Throughout all of 2017, Customer Satisfaction Analysis Section employees and analysts were heavily involved in the New Model of Telephone Sales project to enable outbound calling in all Bank branches, analysing calls, generating sales reports, and conducting acceptance testing for improvements under the project.

Service Quality and Customer Satisfaction

In 2017, the Bank maintained consistently high customer satisfaction indicators in both retail and corporate segments. The Bank's net promoter score (NPS) in the retail segment reached +45% at year-end 2017, exceeding market averages. As for customers who interacted with subsidiary offices' and partner channels' employees, this score reached the very high level of +64%.

Thanks to the development of the customer feedback monitoring process ensuring the Bank's prompt response to any dissatisfaction with service quality, the number of requests processed in 2017 tripled (from 20,000 to 62,000 people) due to the expansion of customer feedback management channels and the scope of working with customer feedback. Customer feedback provided the basis for the continuous optimisation of the Bank's processes, products, and services.

High-quality service is among UniCredit Bank's key priorities. The Bank is continuously monitoring customer satisfaction and responding to customer requests through various channels, including social media and designated websites. In 2017, the average response time for customer complaints was six days, while 51% of complaints were processed within three days, and 30% within one day. It is worth noting that the level of customer satisfaction with request management by the Bank increased by 8% in 2017 reaching 81 points.

Risk Management

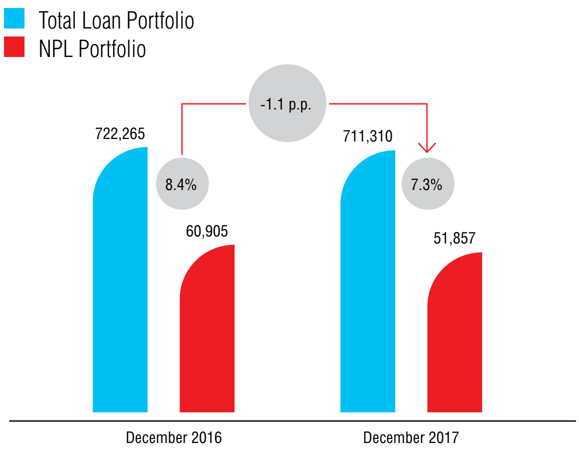
"UniCredit Bank's risk management is an integral part of its corporate culture, organically covering all the Bank's processes to serve the interests of its customers, employees and shareholders."

Svetlana Zolotareva
Member of the Management Board

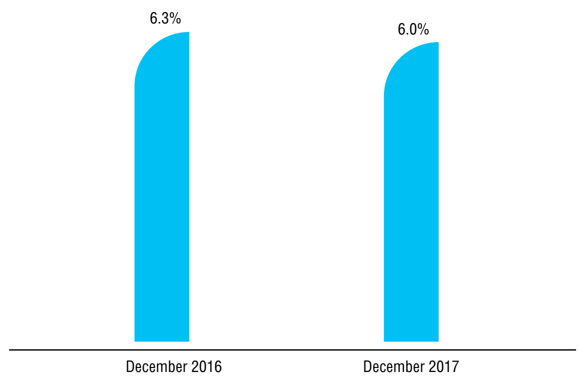
The Bank's successful performance is largely due to a flexible business model that focuses both on the risk-return profile and on the ability to assume extra risk within the risk-appetite assessment framework. An integrated approach to managing risks, the most significant of which include credit, market, operational and liquidity risks, provides the necessary basis for the credit institution's stable, sustainable and competitive business. Over the course of 2017, the Bank was consistently improving its risk and capital management performance. In 2017, the Bank's Internal Capital Adequacy Assessment Process (ICAAP) was brought in full compliance with the requirements of the Central Bank of the Russian Federation (Regulation No. 3624-U), Basel Committee (Basel II, Pillar 2) and UniCredit Group's standards. The Bank carried out a self-assessment of ICAAP implementation quality in accordance with the Regulation of the Central Bank of the Russian Federation No. 3883-U and the results were submitted to the Central Bank of the Russian Federation for consideration. Furthermore, the Bank carried out annual verification of the material risks map and their coverage by economic capital alongside regular stress tests of the regulatory and economic capital adequacy demonstrating the Bank's high stability under stress. Allocation of economic capital to business functions made it possible to use qualitative methods to identify the material risk takers / authorised people taking the risks. As part of the continuous upgrading of its IT infrastructure, the Bank created a new server supporting automation of strategic risk management calculations.

Risk management is an integral part of the Bank's corporate culture, organically covering all the Bank's processes to serve the interests of its customers, employees and shareholders. The Bank's risk management policies and procedures are focused on the identification, adequate assessment, and determination of target, warning, and maximum acceptable risk levels, along with their continuous monitoring. Ongoing validation ensures the independent evaluation of the key models, systems and processes in terms of their performance and further improvement. This comprehensive approach allows corrective measures to be taken on all material risks in a timely manner and correlates

BANK'S NPL PORTFOLIO*,
RUB million



IFRS LOAN PORTFOLIO COVERAGE RATIO IN 2016-2017



the Bank's strategic targets and business plans to the risk-appetite framework that the Bank is willing to assume in order to achieve them.

The Bank is using best practices in its day-to-day activities. The Bank took a set of measures to reduce the volume of existing problem loans and effective management of non-performing loans. In 2017, the Bank's NPL portfolio gross reduction was RUB 22,400 mln and its share in the Bank's term portfolio declined by 1.1 p.p. on the background of Bank's portfolio decreasing (net NPL reduction was about RUB 9,048 mln).

AO UniCredit Bank's Recovery Plan fully conforms to the requirements of the Central Bank of the Russian Federation and of UniCredit Group, as well as to international standards. In 2017, the Bank continued upgrading the Plan by implementing a new system of primary and secondary warning indicators and new assessment methods for critical economic functions and stress scenarios. As regards the principles of effective risk data aggregation and risk reporting, the Bank took the first steps to bring itself in conformity with the corresponding Basel Committee's requirements (BCBS 239).

In 2017, the Bank continued implementing the risk and capital management standards set by the Central Bank of the Russian Federation and the Basel Committee on Banking Supervision. All the Bank's key functions were involved in the implementation of advanced risk management standards. The Bank's risk management policy is continuously reviewed to reflect changes in market conditions, products and services, as well as new and upgraded risk management methods.

As the Bank continued to develop its risk mitigation tools, it revised its Collateral Management Strategy with due regard to its recent experience.

Within the preparation for the new IFRS-9 standard scheduled for 2018, the Bank in 2017 continued the work on the creation of provision calculation methodology designed both for retail and corporate customers, along with the creation of the necessary infrastructure for concurrent calculations.

Creation of a new competent body (the Risk Committee) in 2017 enabled the Bank to establish an official platform for regular coverage of the issues concerning the current risk profile, its correspondence to the risk appetite and risk strategy approved by the Supervisory Board, to make operating decisions aimed at achieving the targets set for the risk profile. The materials discussed during the retail and corporate sessions of the Risk Committee's meetings have made it possible for the Bank's management to respond promptly and make appropriate decisions to improve risk management quality in the Bank within the limits set out by special rules and procedures.

In 2018, the Bank will continue step-by-step development of the loan portfolio quality assessment models as part of the switchover to credit risk and regulatory capital adequacy assessment based on the borrower's internal ratings (IRB approach). In order to improve ICAAP, the work on the implementation of UniCredit Group's new standards will be continued, particularly pertaining to economic capital assessment models for all material risks and stress testing methods for the risk taking capacity. Tasks concerning the upgrading of IT infrastructure remain on the agenda, along with the further improvement of data quality in the Bank's information systems in line with the principles of effective risk data aggregation and risk reporting.

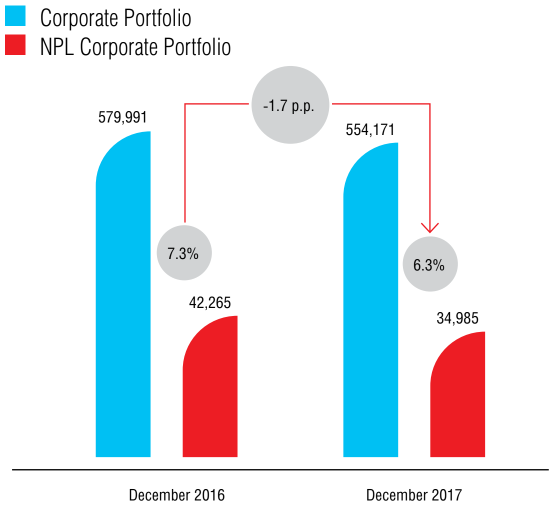
Starting from 2018, the Validation Unit will be separated as an independent function directly subordinate to a member of the Management Board, supervising the CRO Division to carry out independent

* AO UniCredit Bank and its subsidiary – consolidated loan portfolio

Report on the Bank's Activities (Continued)

Risk Management (Continued)

SHARE OF THE NON-PERFORMING CORPORATE PORTFOLIO IN A FIXED-TERM CORPORATE*,
RUB million



assessments of the Bank's various business areas and ensure conformity to European and Russian risk management standards. The range of validation activities scheduled for 2018 will be expanded: the existing validations under the IRB approach will be supplemented with IFRS-9 process and models, market risk, and ICAAP validations providing the Bank with an internal independent quality assessment of the approaches and systems in place.

Corporate Credit Risks

To assess risk in the corporate segment, the Bank carries out a comprehensive analysis of the borrower's financial and qualitative parameters in order to obtain a full picture of the customer's activities and enable competent bodies to make informed decisions. To assess the probability of corporate customers' default, the Bank uses rating models developed for their sub-segments, taking their individual specific features into account. Customers are rated on a quarterly basis using all available information. These rating models and relevant rating processes have been developed in accordance with the requirements of Basel II standards for the calculation of capital requirements based on internal ratings.

In 2017, the Bank upgraded the rating model for corporate borrowers and updated the financial and qualitative indicators affecting the final assessment of the probability of default. The new model ensures a better ranking of borrowers by risk exposure, and therefore, better lending decisions based on a more accurate assessment of the customer's creditworthiness.

To ensure more effective risk management in terms of the corporate loan portfolio, the Bank implemented an industry-specialised risk management model and established units charged with analysing the risks of specific industries or segments. This enables the Bank to analyse changes in individual industries quickly and accurately, adjust the strategy, and make informed decisions. Along with the industry-based approach, effective portfolio management is facilitated by regional risk managers who are able to collect and analyse information on the situation in the key regions of the Bank's activities and effectively manage the loan portfolio both by industry and by region.

Utilising UniCredit Group's common approaches to corporate portfolio management, the Bank adopts industry-specific risk strategies every year that guide lending work in the current year. The goal is to maintain an industry-balanced structure of the loan portfolio with due regard to the macroeconomic forecast, relevant industry/segment development prospects, and assessment of borrowers' creditworthiness (probability of default [PD] and expected loss [EL]).

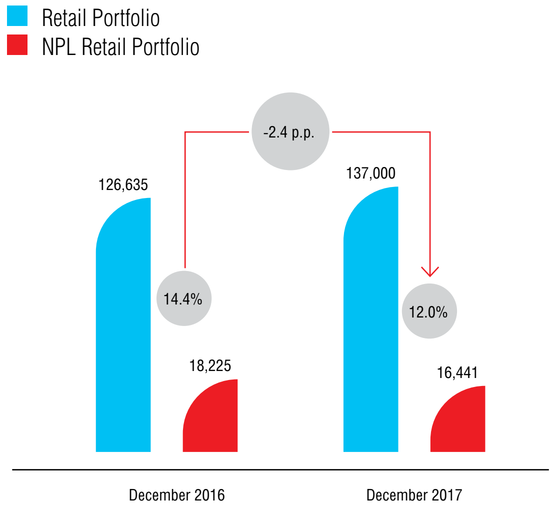
The year 2017 brought a certain alleviation of the economic downturn and the Russian economy demonstrated slight growth. Nonetheless, no sustainable recovery took place and the market positions of many companies were and remain consistently weak. This explains why the borrower selection process in 2017, similar to the previous periods, was rather conservative and loan products were applied to certain borrowers with consideration of industry-specific risks. Starting from 2017, the Bank has been using a new concept aimed at improving its collateral positions as it establishes and reviews the collateral strategy to ensure well-balanced lending decisions, particularly in the segment of medium-sized and regional customers.

To ensure maximum performance, the Bank implemented a decision-making system for corporate segment loan contracts with the levels of the lending decision-making authorized bodies, depending on the requested loan limit and the customer's or customer group's risk level (probability of default). All loan contracts continue to be considered exclusively by collegiate bodies (credit committees).

As mentioned above, 2017 brought certain improvements in the macroeconomic situation compared to previous years. Nonetheless, all the Bank's customers without exception still need to improve the quality of financial planning, optimise working capital, and work hard to drive down costs in order to preserve stability, including by maintaining well-balanced loan portfolios and reducing debt service expenses. One of the outcomes of corporate customers' struggle to optimise their

* Consolidated loan portfolio

SHARE OF THE NON-PERFORMING RETAIL PORTFOLIO IN A FIXED-TERM RETAIL PORTFOLIO,
RUB million



costs is stronger competition in the banking market, resulting in a new round of interest rate cuts. This created problems for banks but enabled corporate customers to improve their financial situation, resulting in a further decrease in the number of defaults on loan obligations in 2017. Economic growth forecasts suggest that the trend providing for a gradual improvement in the quality of corporate borrowers will persist.

Moving beyond the preventive activities of control and early detection of changes in the loan portfolio quality, the Bank is proactively upgrading internal problem borrowers management procedures.

The main task of problem portfolio management is debt collection with minimal losses to the Bank. The approaches to dealing with non-performing loans developed over the years enable the Bank to implement tailored debt collection activities promptly and ensure an adequate provision coverage in compliance with the risk expenditure budget reflecting the expected problem loan recovery rate.

In the context of persistently challenging macroeconomic conditions, the Bank's credit risk monitoring of corporate customers proved its worth. Over the course of 2017, the Monitoring Unit's efforts focused on upgrading the existing processes for monitoring potentially problematic corporate customers and the IT solution (Documentum database [Watch List]) used to record and analyse negative data obtained from various sources, assign statuses to customers based on the severity of problems, identify the operating strategy, and schedule and supervise the implementation of action plans for the customers. Specifically, application of a comprehensive awareness-raising approach helped the Bank to adjust the procedure of tracking the initiation of bankruptcy proceedings by corporate customers and other creditor banks' claims against our customers on an ongoing basis and implement a day-to-day review of business reorganisation and company liquidation data.

Furthermore, the Monitoring Unit initiated a project providing for the creation of a library of settled problem cases within the CRO division in order to recreate the records of customer management, assess the decisions that were adopted and implemented and the leverage tools that were used, assess the outcomes and lessons learnt with respect to the risks identified and the sufficiency of the management tools used by the Bank, and adjust credit risk management in the future.

Retail Credit Risks

Similar to 2016, active growth of retail lending in 2017 was based on a thorough risk assessment of each retail banking initiative and multilevel monitoring of the loan portfolio's subsequent behaviour. An in-depth examination of specific business initiatives from the perspectives of the expected volumes, forecasted risk cost and rate of return, along with a flexible monitoring system for risk indicators, enabled the Bank to successfully achieve the budgeted risk expenditure targets.

Actual figures for the key indicators of the loan portfolio quality are within the limits defined in the Retail Credit Risk Strategy. Real default rates and the probability of default for the loan portfolio in the private individuals and SME segments are being improved. The figures of overdue debt under new loans in 2017 are below the comparable indicators for 2016. Accumulated overdue debt is also declining. Secured loans prevail in the structure of new loans. In 2018, the Bank is planning to work towards automation and optimisation of the credit risk assessment processes, including the activation of new customer data sources (Pension Fund of the Russian Federation, etc.).

In 2017, the Bank developed and approved a collateral strategy for the retail lending segment aimed at improving the sophistication of the collateral management processes, upgrading and automating the partner monitoring processes in the management of secured loans, reducing time to decision for collateral, and increasing the share of secured loans in the Bank's retail loan portfolio in general. The management processes for pledged movable property were improved significantly as part of the collateral strategy implementation.

In 2017, the Bank obtained a number of research reports containing comparative analyses of UniCredit Bank and competitor banks based on key indicators for customer profile, loan portfolio behaviour, quality of new loans, quality of decision-making, and quality of the overdue debt collection processes. UniCredit Bank's loan portfolio risks are lower than its competitors' ones.

Preparations for the transition to IFRS-9 were completed. The necessary statistical models were developed and implemented and the Bank's information systems were refined.

As concerns the private individuals segment, score cards which act as an integral part of existing rating model were updated and a new model for assessment of loss in the case of default was developed.

In order to improve the efficiency of early debt collection, the Bank implemented a new strategy based on a probability model in 2017. Estimating the collection probability for each overdue loan made it possible to segment the portfolio in more detail and manage the intensity of collection measures, and as a result to improve operational effectiveness and make the most of available resources. Furthermore, the Bank carried out portfolio segmentation activities and identified new high-risk segments based on payment behaviour during the first month from the date of the loan. A more conservative recovery strategy was set up for this type of loans. The efficiency of overdue debt recovery improved.

Over the course of 2017, the Monitoring Unit continued its efforts aimed at implementing an extended set of monitoring functions for private individuals under UniCredit Group's project "Golden Standards: Watch List and Retail Customer Monitoring". The set of functions to be developed includes a broad list of red flags signalling potential problems with customers and a full list of rules for assigning various statuses to customers depending on the severity of the problems and credit risk exposure to ensure an objective picture regarding the portfolio and the application of risk management restrictions. The year ended with a full IT development of the functions and supply transfer for the purpose of user testing. Final implementation of the IT solution is expected in mid-1H 2018.

The list of milestone events includes the completion of the pre-project for the generation of requirements and preparation of the architectural solution for the scheduled expansion of the set of functions for the monitoring of potentially defaulting SME customers in mid-2Q 2017. The requirements were generated and verified by the CRO Division and business units, and their implementation evaluation that will serve as the basis of the future project was obtained. Implementation of this project will be an important step forward in the development of an integrated, automated, negative-trend early warning system, created by the Bank using the Group's standards. The project is scheduled to be launched in 2Q 2018.

In 2018, the Bank is planning to further upgrade retail credit risk management processes by improving their sophistication and implementing new statistical methods of risk assessment to ensure the successful development of retail lending with the credit risk appetite kept unchanged.

Market Risks and Liquidity Risks

Over the course of 2017, the Bank continued to improve its market and liquidity risk management systems and approaches. The evolution of the methods used by the Bank to monitor these types of risk is based on the UniCredit Group's best practices and ensures the Bank's stability and reliability during periods of market turmoil.

The Bank monitors market risks arising from both trading operations and from the Bank's operations in general (interest rate and FX risks).

The management of the Trading Book market risk employs both aggregated metrics (VaR, SVaR) and granular metrics reflecting the sensitivity of financial results to changes in specific market variables. IRC limits were set to ensure additional control over the bond Trading Book.

Monitoring of the Banking Book interest rate gap is performed both in terms of interest income sensitivity to the shift of the interest curve on a specific time horizon and in terms of the Banking Book comprehensive economic value sensitivity to various motions of the interest curve (including nonparallel shifts). When assessing the Banking Book interest risk, the Bank applies behavioural models for current accounts, prepayment (for retail portfolio), non-performing portfolio. All the behavioural models are approved by UniCredit Group's dedicated functions.

In 2017, the Bank also started measuring the sensitivity of the Banking Book economic value to the market price of structural liquidity (cross-currency basis spread). These data are taken into account to calculate VaR for the total of the Trading and Banking Books, and therefore, to calculate the economic capital adequacy ratios.

In addition to sensitivity-based analysis, the Bank executes a number of stress tests for market risk and Banking Book interest risk.

The existing system of limits and market risk metrics ensures manageability of the positions assumed by the Bank.

Particular attention is given to maintaining data quality through reconciliation of the Bank's information systems. In addition, the Bank regularly revises the list of risk factors affecting market risk assessments and checks the reliability of the market data used by the Bank. Since 2016, market data reliability monitoring has been carried out within the framework of the Group-wide IPV (Independent Price Verification) process in conformity with the Group's best practices.

The Bank's overall strategy towards market risk and liquidity risk is determined by the Bank's Asset-Liability Management Committee composed of the representatives of the finance, business, and risk management functions. The Committee is promptly notified of all significant issues regarding market and liquidity risk. Any breaches of limits and warning levels of key metrics are also reported to the Bank's Management Board and the Supervisory Board.

In order to effectively manage the asset and liability time structure, the Bank performs regular short-term liquidity stress testing in accordance with the scenarios provided by UniCredit Group and with local methodology adapted to the specifics of the Russian market. The stress tests assess both the aggregate available liquidity and available liquidity in foreign currencies. The results of the short-term liquidity analysis, including data obtained through stress tests, provide the basis for drafting the monthly Funding Plan to be approved by the Asset and Liability Management Committee. Generation of the Plan involves the forecasting of liquidity coverage ratio dynamics and application of the relevant limits.

The bank measures and limits the short-term liquidity coverage ratio (N26).

Over the course of the year, the amount of liquidity available to the Bank remained at quite comfortable level.

In 2017, the Bank switched over to structural liquidity management based on the NSFR approach recommended by the Basel Committee (extended subject to the Group's recommendations to ensure additional monitoring of structural liquidity denominated in different currencies and with differing maturity) in addition to the standard regulatory N28. Moreover, the Bank is carrying out a regular monitoring of the mid-term funding source concentration.

To assess the market risk economic capital component, the Bank uses the Value at Risk (VaR) methodology based on the Trading and Banking Books cumulatively. The Value at Risk for the Trading and Banking Books is also used for internal control purposes.

The derivatives business process for corporate customers is governed by the internal policy compliant with Russian legislation, UniCredit Group's requirements, and the best European practices. The utilization of counterparties' credit limits for derivatives is calculated using the Group's methodology and infrastructure on a daily basis.

Operational Risks

The Bank is continuously working to adapt operational risk management methodologies in accordance with the changes in UniCredit Group's approach to operating capital calculation and application of operational risk management, monitoring, and mitigation tools.

The Operational Risk Committee is heavily involved in the consideration of and decision-making on the operational issues relating to operational risks and their impact on the Bank's operations. Participation of divisional operational risk managers in the Committee's work ensures an ongoing exchange of important and relevant information between functional units (divisions) and individual departments bearing or assuming the risk.

To improve and maintain effective operational risk management by the Bank, a Permanent Workgroup (PWG) is persistently identifying the most substantial operational risks and takes the necessary steps to mitigate exposure to such risks in a timely manner. This is achieved by determining the relevant remedial measures and monitoring their implementation based on the professional experience and expertise of the Workgroup's key members – the Operational Risk Management Unit and the Organisation Department with the involvement of the internal audit function.

Starting from 2017, the value of expected losses on revenue (ELOR) has been annually set along with the limit and warning values within the approved risk appetite. A report on these indicators is submitted to the Bank's Management Board and forwarded to the Group on a quarterly basis.

Under the Group's strategy, the Operational Risk Management Unit pays special attention to cyber risks, cross-credit events, and other risks relating to the Bank's IT programmes in close cooperation with the Bank's competent involved departments.

In 2018, the Bank will ensure further consistent development of the operational risk management and control process, as well as its optimisation in terms of susceptibility to internal and external changes.

Reputational Risks

As part of a leading European Group, the Bank pays particular attention to its reputation as a credit institution. Over the course of 2017, the Bank continued upgrading the reputational risk management system. Reputational risk occurs during lending to the Bank's clients if the funds are not used in compliance with applicable laws and social conventions. In accordance with the current tasks in today's challenging circumstances, the Bank has streamlined and adjusted the monitoring mechanisms for the credit process to identify reputational risk in executing the Bank's individual transactions and the reporting system for this type of risk. The Reputational Risk Committee composed of the members of the Management Board made decisions on individual transactions that required a customised approach to the assumption of reputational risks.

Report on the Bank's Activities (Continued)

Global Banking Services

Information Technology

In 2017, UniCredit Bank continued to upgrade its information systems in accordance with its business priorities and IT strategy. The upgrading is aimed at providing a scalable and efficient IT landscape focused on business support and development.

The stabilisation period following the IT landscape's transformation, associated with migration to a new automated banking system (ABS), was successfully completed, along with replacement and upgrading of the Bank's key IT systems (the Bank's general ledger, treasury systems and CSS). Improvements were made in the availability of the key systems and in the overall reliability of the IT complex. The Bank successfully closed the financial year in a new IT landscape, provided a guaranteed level of customer service, and submitted mandatory statements in a timely manner.

The Bank proactively developed its digital services.
The Business.Online remote customer support system offers a number of popular new services for legal entities, including consolidated statements from different banks and counterparty screening. Customers are being connected to the host-to-host service, ensuring direct interaction of their accounting systems with the Bank's interface. A new e-trading platform was implemented, enabling the Bank's customers to make online one-click FX transactions.

In retail, the Bank improved the features of the current service channels (the Enter.UniCredit web-based solution and the Mobile.UniCredit mobile application) and implemented new channels – messenger chatbots. Chatbots in messengers can help customers find the nearest Bank office and ATM, find out exchange rates and make card-to-card transfers. The Bank is working hard to improve service availability. It implemented the online crediting of accounts (for loan repayments or transfers) when cash is deposited through an ATM or in the case of card-to-card transfers. A service package for online credit product requests was created.

Efforts to raise anti-money laundering standards were a focus, including those relating to a higher automation level of relevant processes. A packaged solution was created to update customers' personal data through different service channels.

In 2018, UniCredit Bank's Information Technology Department will primarily focus on further steps aimed at stabilising and developing the new IT landscape for business support and development, and meeting the requirements of regulatory bodies, including the Central Bank of the Russian Federation and the Rosfinmonitoring (FIU).

Banking Operations

In 2017, the Operations Back Office Department launched large-scale changes to upgrade the key business processes in all areas of operations. This became possible thanks to the implementation of new IT systems in 2016 as a part of the Core Banking Transformation programme.

Throughout the reporting year, the Bank realized a number of optimisation activities for the corporate loan administration process, including centralisation of standard operations, routing of customers' requests and full transition to paperless document flow. These measures resulted in a significant timesaving in executing disbursement and early repayment requests, as well as an extension of the operational hours for corporate customers in all the Bank's locations, including the Eastern regions of the RF located in different time zones.

Due to change of the payment platform, the Bank substantially improved the indicators of the automated processing of customer payments in foreign currency. Growth of straight-through-processing (STP) rate of SWIFT MT103 payment orders allowed increasing the speed and quality of payments execution. This has been confirmed by our main USD correspondent bank – JPMorgan Chase Bank N.A., New York, which has granted the Bank the Elite Quality Recognition Award for extraordinary high STP ratio of 99.77%.

The Bank continued to implement new solutions and improve the existing procedures of business operational support relating to processing of foreign exchange, money market, securities deals and derivatives transactions. In particular, the Bank launched an FX Electronic Trading Platform (ETP) for corporate customers. This improved the quality of customer trading support services offered to large corporate customers and ensured better exchange rates for FX transactions in USD, EUR, RUB traded via ETP. The Bank has also organized its OTC derivatives deals centralized clearing via the Central Counter-Party (CCP) in compliance with the Central Bank of Russia's requirements.

As for currency control, the Bank proceeded with its efforts to improve customer satisfaction. Additional software has been developed for prompt notification of the customers concerning incorrect documents aimed at prevention of any breaches of the currency legislation.
The Bank consistently keeps its leading positions among banks in the area of currency control services, evidenced by the results of satisfaction surveys of corporate and retail customers. In view of the global changes in currency legislation scheduled for 2018, the Bank

conducted large-scale activities and ensured operational support to its clients in terms of adaptation to the regulator's new requirements.

At year end of 2017, a centre of competence for Robotic Process Automation (RPA) was created in the Operations Back Office Department. RPA technology will make a solid platform to ensure the optimisation of business processes and reduce labour input. In 2018, the Operations Back Office Department will continue to work on business-oriented solutions in the area of retail and corporate customer support. The list of major initiatives scheduled for 2018 includes centralisation of customer payment processing for the Bank's regional branches and optimisation of the payments investigation process that will serve as main driver in significant improvement in the quality of customer service.

Card Operations

In 2017, UniCredit Bank continued the expansion of its own network of ATMs and terminals, the number of which reached 804 units by the year end. As previously, by maintaining collaboration with partner banks (Raiffeisenbank, Credit Bank of Moscow, URALSIB, B&N Bank) the Bank provides its customers with the opportunity to withdraw cash on the same terms as with the Bank's own ATMs.

In 2017, UniCredit Bank was heavily involved in projects related to the National Payment Card System (NPCS) and began issuing MIR cards in summer 2017. Withdrawals at cash points were made available to customers of UniCredit Bank and other banks at the same time.

In late 2017, the MIR Accept service (a 3D Secure analogue) was implemented, which significantly expanded Bank customers' opportunities for safe online shopping with MIR cards.

The Bank successfully launched Apple Pay support in November 2017 and Android Pay in December 2017 (Google Pay starting from February 2018). Now the Bank's customers can make payments using their smartphones or smartwatches with NFC in retail locations with contactless payment for the relevant applications. This innovative product almost immediately gained huge popularity among our customers.

At the end of the year, the Bank was among the first in Russia to make Garmin Pay available to its customers in cooperation with the Visa Payment System.

In 4Q2017, the Bank carried out the technical implementation for setting and changing a card's PIN through the Bank's remote interfaces.

The launch of Visa Platinum+ (EXTRA package) cards for the Bank's VIP customers was among the most remarkable projects of 2017 in terms of the Bank's card product line. The card enables customers to receive variable cash-back depending on the volume of card transactions. The cardholder is also offered insurance coverage for international travel, Priority Pass granting access to airport business lounges across the world, preferential cash withdrawal terms, and other privileges.

In 2017, a new package card was added to the Bank's card line, Mastercard Standard+, providing 1% cash-back on purchases and preferential cash withdrawal terms.

In late summer 2017, the Bank updated its existing line of package cards by changing the cash-back management arrangements from a fixed rate to a mark-up rate depending on the volume and type of transactions on the card.

Keeping up traditions, in 2017 UniCredit Bank issued an updated design of the premium World Elite Mastercard® card jointly with the Pushkin State Museum of Fine Arts. The Albertina Museum in Vienna also joined the project. This time, the design of the card is based on "Bucentaur's Return to the Pier by the Palazzo Ducale" by Giovanni Antonio Canal (Canaletto).

For the fourth consecutive year, UniCredit Bank has received the Visa Payment System's Global Service Quality Performance Award. On the basis of 2017 year-end results, UniCredit Bank was recognised as the best Visa participant in the category of "Claims management performance under customer's true transactions".

In mid-2017, the Bank launched a large-scale project providing for the updating of all the Bank's ATMs to the new Windows 7 software in 2018. Implementation of this project will reduce the risks of unauthorised access to the units and improve their performance and stability. The project also includes the replacement of obsolete ATMs with new models.

In 2018, the Bank will also continue its work on the prepaid cards project, plans to implement new card products and technologies of the Visa, Mastercard, and MIR payment systems, to optimise the performance of card services and facilities, and to implement innovative technologies.

Report on the Bank's Activities (Continued)

Global Banking Services (Continued)

Real Estate & Facility Management

In 2017, Real Estate and Facility Management Department fulfilled its scheduled tasks and plans, providing material and technical support for Bank units and maintenance of real estate totaling 81,892,5 square meters of floor space, including the Bank's 107 offices covering 78,215,4 square meters.

The Department completed the following key tasks in the development of the banking network. The new light-format Kamensk-Shakhtinsky operational office was opened; the commercial branch office in Kazan was enlarged; new mortgage centers were established in our scaled-up Bolshaya Gruzinskaya additional office and our Perm branch office; the Magnitogorsky, Chusovoy and Tsiolkovsky operational offices were closed; and the Oktyabrskoye Pole additional office in Moscow was relocated to its new Marshala Zhukova premises. The functionality of a considerable number of the Bank's retail offices was improved through complex space reorganization, enlargement and renovation of customer service areas.

The Department performed a number of organizational and technical support activities. The building control and engineering system was upgraded, server room equipment monitoring was expanded, and the reliability of Bank offices' uninterrupted power supply and fire safety systems was boosted. Lift equipment was replaced, ventilation and air-conditioning systems were renewed, and ongoing renovations to Bank premises were conducted. Restructuring of Bank premises and the organization of employee workplaces was carried out, including implementation of a large project to move the retail units into Nagatino offiice, and redesign of the Butikovsky reception area. More than 230 employees were relocated within Bank offices and over 110 additional workspaces were set up in 2017.

An effective correspondence system (post and electronic) with Bank customers and state institutions was ensured, with the volume of correspondence almost doubling in 2017.

Internal customers' satisfaction level increased (ISQ 81), owing to prompt and high-quality responses to Bank units' requests for service, proper organization of workspaces and the office environment, and fine-tuning of the system to provide Bank units with office equipment and supplies, with 7,650 service requests fulfilled during the year.

In facility management and cost optimization for the rent and maintenance of properties, the following achievements are worthy of note. The commercial terms of lease agreements were improved by lowering lease rates or moving Bank offices to lower-rent properties. Budget savings reached 7.3%. A stable unit cost was maintained for facility management and cleaning services: the 2017 level exceeds that of 2012 by just 4.8%, despite unfavorable market conditions. Our 2017 budget plan for material and technical support was successfully met.

It is worth noting the Department's active participation in implementation of the Group programme to increase the social and environmental level of Bank activities. The Bank participates in the All-Russian Society of Disabled People voluntary certification project, "World Accessible For All", within the framework of the state-run Accessible Environment programme: we took organizational and technical measures to make Bank's offices accessible for physically disabled people. Sixteen Bank offices in Moscow and Moscow region, St. Petersburg, Novorossiysk, Rostov-on-Don, Stavropol and Voronezh were inspected for certification. Thirty Bank's offices took part in the World Wildlife Fund's annual Earth Hour.

In 2018, the Real Estate and Facility Management Department plans active work on optimizing real estate maintenance costs and increasing the efficiency of office premises in accordance with the Group policy, along with implementing Bank network development projects and achieving progress in the environmental and social sustainability programme. The mission to ensure effective material and technical support of the Bank always remains on the agenda.

Sustainability

“UniCredit Bank is a high-performing organization, where competitiveness goes hand in hand with a pleasant, friendly atmosphere. We focus a lot on personnel development and it is a great pleasure to see our talented people growing professionally year after year.”

Gianluca Totaro

Head of Human Resources

Human Capital Management

Here at UniCredit Bank, we are very proud of our people. We have a rare combination of highly qualified and very passionate people, who love their job and do their best every day.

This is a high-performing organization, where competitiveness goes hand in hand with a pleasant, friendly atmosphere.

We focus a lot on personnel development and it is a great pleasure to see our talented people growing professionally year after year.

We leverage global best practices in managing the Bank’s human capital, and our high standards have been certified by the independent Top Employers Institute.

Following this certification, UniCredit Bank was awarded the title of Top Employer Russia “for providing exceptional employee conditions, nurturing and developing talents throughout all levels of the organization and demonstrating its leadership status in the HR environment, always striving to optimize its employment practices and to develop its employees”.

Staff Recruitment and Employer Brand Development

The dynamics of change in the banking market affect not only the results of business, but also the staff. While in recent years we closed about 700-800 vacancies annually, in 2017 the number of vacancies filled reached 855. At the same time, we are pleased that owing to various initiatives, about 40% of vacancies are filled by internal

Improve asset quality.

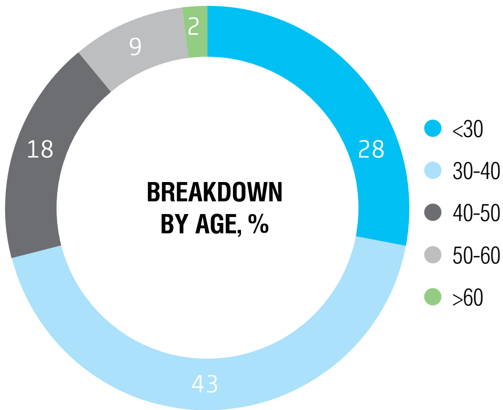
We addressed Italian legacy issues through the sale of a € 17 billion portfolio (FINO) and proactive bad loans management. A more disciplined risk management strategy and underwriting processes are driving significant improvements in all our asset quality metrics.

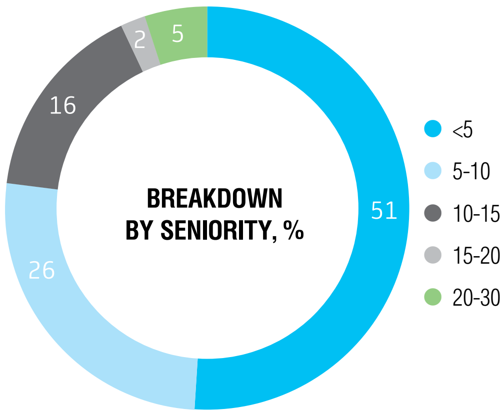
candidates or candidates recommended to us by our employees. The benefit for the organization in this situation is obvious: we get proven staff and develop employees who, thanks to their accumulated knowledge and growing loyalty, contribute to the long-term development of the Bank's business as a whole.

We also remain interested in attracting the best minds from the market and make great efforts to promote the UniCredit Bank HR brand, building trust externally among professionals in the banking industry, as well as among students, working with whom we have the opportunity to develop talent within the organization as early as in their final years of study or immediately after graduation. In this regard, for the second consecutive year, the Bank successfully implemented a six-month internship programme, Let's Start Together, which allows us to receive well-recommended candidates for open positions in the Bank.

While the number of new recruits is ever growing, we strive to automate and simplify our processes in order to function most efficiently. Throughout 2017, together with the Information Technology Department, we improved the system by which recruitment is carried out, enabling each hiring manager to oversee the selection process independently on his or her own page. Pilot testing of the system is under way in a number of divisions of the Bank, and we hope that in 2018 the whole Bank will be able to begin working with it. Also, in line with the current trends in the market, the Bank has started using HR bots in working with candidates, to reduce recruitment time and optimize the recruitment team's workload.

All employees of the Human Resources Department strive to comply with UniCredit Group HR standards, implementing global best practices and approaches in their work. As a result of this ongoing work, for the sixth time the Bank has been certified as the Top Employer in Europe and Russia, which is a significant event in the labor market, positively impacting on the HR brand of UniCredit Bank.





Personnel Development

Expanding the eco-learning environment has been the focus of personnel development, with further digitalization of the learning process, mobilization of the leadership pipeline, experiential learning, expertise accumulation and knowledge management.

The year 2017 was dedicated to the development of continuous learning pathways including e-courses, webinars, classroom training, digital libraries and video materials. The learning environment was enriched with remote learning programmes and platforms involving updated digital libraries, online testing, and additional e-learning courses, among other features.

In 2017, the main focus of leadership learning and development was on the managerial cycle, emotional intelligence, stress management, time management, presentation proficiency, collaboration, and staff motivation. Personal coaching sessions, 360-degree feedback, and feedback sessions conducted by in-house experts added to the development experience.

The Peer2Peer project remains an important step in knowledge management. As part of the project, three different streams were developed, including participation of partners and clients of the Bank, who shared experience and practical advice on a variety of topics.

Sustainability (Continued)

Human Capital Management (Continued)

In 2017 UniCredit Bank, alongside with other banks of UniCredit Group CEE Division, continued promoting Agile approach and SCRUM methodology.

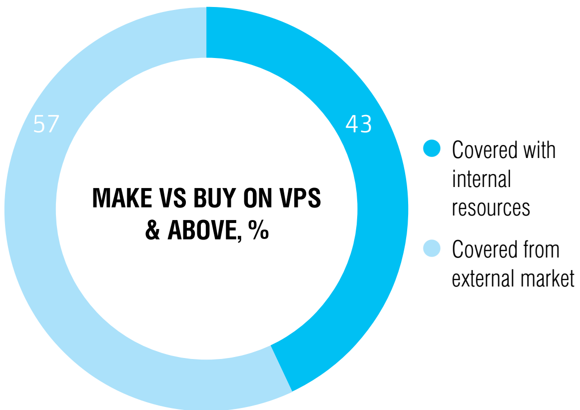
An induction training course on Agile took place with more than 200 employees taking part, and a full-scale Agile project – E-learning Environment – has been launched. Implementation of the project is to continue in 2018. In the development of remote learning, special attention has been paid to further upgrading the platform and the tools.

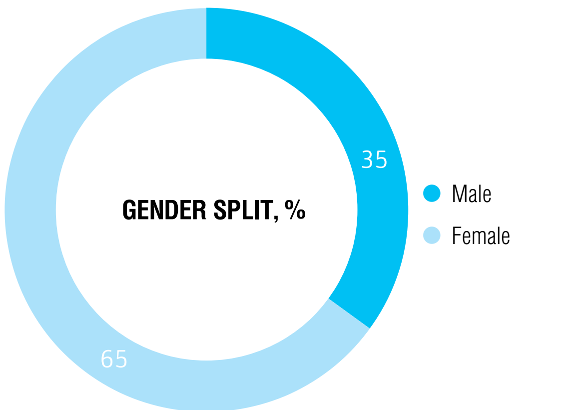
The internal personnel portal design was improved and now combines an enhanced news feed, articles, a user-friendly calendar to sign up for learning events, and much more. The remote-learning catalog was expanded to 189 courses. In-house video courses and micro-learning formats also made progress.

A pilot project on gamification within the framework of retail block personnel training also proved to be a modern and cost-effective format to boost sales activities. In 2018, the project is planned to be scaled up across the entire regional network.

Engagement

The year 2017 was marked by a high indicator in the Engagement Index – 90%, according to the results of the employee survey. A thorough plan of initiatives was developed to support staff motivation and a sense of belonging to our Bank and UniCredit Group. Mobilization, HR4U DAY, an Annual UniCredit Bank Professional competition and Talent Day are just a few examples.





HR4U DAY in Rostov-on-Don

HR4U DAY in Novosibirsk

Mobilization continues to run in the form of a structured brainstorming workshop, this year aimed at developing initiatives to support mainly operational goals up to 2019. In 2017, more than 200 managers of different levels and talents (highly promising and self-motivated employees) were involved in the project.

HR4U DAY is a traditional annual event conducted by the HR Department to raise employee awareness of opportunities in the Bank. In 2017, HR4U DAY took place in a new format comprising workshops, panel discussions, quests and Q&A sessions. In addition to Moscow, the HR team visited Chelyabinsk, Novosibirsk and Rostov-on-Don.

Annual UniCredit Bank Professional competition is an annual internal contest aimed at celebrating team and individual successes in various business areas.

For **Talent Day,** a VUCA-themed digital quest complemented activities to involve key employees and talents in the search for ideas and the development of an innovation culture.

Social Programmes and Staff Benefits, Diversity Management

The Bank always pays great attention to such important aspects for employees as social programmes that support their well-being during their active career. These programmes provide the Bank with an additional advantage in attracting potential candidates to join the team.

Each year the Bank provides its staff with a number of sought-after benefits, such as voluntary medical insurance for employees and their children, accident insurance, international travel insurance, a corporate pension scheme, additional compensatory payments for the period of annual leave, free meals, and additional vacation days. Also, the social package includes providing employees with preferential terms on the Bank's products.

With regard to managing diversity, this has traditionally been a priority at UniCredit Group level, and being a part of the Group, the Bank rigorously adheres to the principle of equal opportunity in the selection and management of its resources, thereby supporting the company's cultural, gender, geographical and religious diversity.

As of the end of 2017, the Bank employed about 4,000 employees. The average age of the Bank's employees was 35 years. The share of employees working in the Bank for three years or more amounted to 63%, due to a fairly low level of staff turnover compared with the average for the banking industry.

The Bank boasts an experienced, highly qualified team of professionals that helps it to develop and change in accordance with demands of the time.

Sustainability (Continued)

Responsible Resource Management

Being a member of UniCredit Group, UniCredit Bank observes all the relevant workflow management standards in the field of environmental protection and energetically supports environmental initiatives.

The Bank implements multiple energy consumption controls at various facilities in order to minimise power use and utilises energy-efficient equipment in its day-to-day operations. It extensively applies state-of-the-art technologies to ensure eco-friendly management of its properties.

In 2017, UniCredit Bank as part of UniCredit Group joined the Earth Hour global initiative coordinated by the World Wildlife Fund (WWF). It is the 10th consecutive year that the Group has supported the campaign. On March 25, 2017, the Group turned off the lights for an hour in more than 70 of its buildings in 12 European countries. This year, the initiative involved over 30 offices of the Bank in various cities of Russia.

Along with observing the environmental standards in its core activities, the Bank holds a variety of responsible care events for its employees on an annual basis. In July 2017, the employees of the Bank's Moscow offices took part in the Volunteer Day eco-event held in the Large Rosarium of Sokolniki Park in Moscow.

This time, the event participants' task was to plant hydrangeas along the sidewalks of the rosarium, which enjoys great popularity among the guests of the park. Furthermore, the Volunteer Day participants were offered a guided tour of the Large Rosarium, which celebrated its 60th anniversary in 2017, and an environmental trivia game.

The annual You Can Help charity projects contest for Bank employees is yet another contribution to environmental protection. Every year, a winner is announced in the contest's environmental category, which welcomes applications both from Bank employees and from followers of its social media communities.

In 2017, the winner in this category was the Russian Carbon Fund project "Closed-Loop Economy Lab – Ecolab", providing for the creation of an eco-centre in Moscow with a facility to convert waste plastic into finished products, a co-working space, and a waste museum, among others.

Meanwhile, the Bank maintains its successful partnership with last year's winner of the You Can Help contest in the environmental category. It is the third year that the Bank has held a Declutter Your Wardrobe campaign co-sponsored by the Charity Shop and Second Breath charity fund. A container was installed in the Bank's Headquarters in Moscow to collect clothes that was subsequently sold in the Charity Shop and sent to social service centres, assisted-care facilities, and homeless shelters to support the indigent through the Second Breath charity fund. Over the course of the campaign, Bank employees donated 225 kg (about 900 items) of clothes to charity.

Corporate Social Responsibility

In its social and charity activities, UniCredit Bank strictly complies with UniCredit Group's principles and policies, acting as part of one international Bank. The key charity policy is the local version of the Group's document and is titled "Approaches, Principles and Guidelines for Sponsorships and Donation Management in AO UniCredit Bank."

The Bank has been cooperating with Russia's leading charity organisations and funds for many years, providing support to orphanages, foster homes, medical and educational institutions, among others. Concurrently, the Bank is implementing a number of projects that involve new partners based on the Bank's annual plans and opportunities in the realm of charity.

Since 2011, people and health have constituted the priority area of the Bank's charitable activities. In 2017, UniCredit Bank implemented 19 projects in various towns and cities within this sphere.

The Bank has been supporting a variety of charitable art therapy programmes for physically challenged children and teenagers over the course of several years. Art therapy involves using various arts for psychotherapeutic and rehabilitative purposes. Art therapy helps children with special needs overcome psychological problems and soothes the challenging treatment process for children battling serious health problems, helps them cope with traumatic experiences and negative emotions, and facilitates recovery.

The Bank's activities in the area of art therapy have involved cooperation with the Sunflower charity foundation supporting children with immune disorders (the Bright World project, Moscow), the Centre for Curative Pedagogics (art therapy for children with mental disorders and special needs, Moscow), the Wings for All foundation (art therapy for children and teenagers, Tula and Vladimir), the When They Need You foundation (art therapy for children with severe health problems under medical treatment in inpatient oncology departments, St. Petersburg), the Child Hospital foundation (art therapy for children in the G.V. Speransky Hospital's Burn Centre, Moscow), the Psychoneurological Hospital for Children with CNS Damage and Mental Disorders (theatrical and circus shows for patients of the hospital, Moscow). A total of RUB 1.89 mln was allocated to these projects.

Along with the art therapy programmes, the Bank supported a number of new charity projects in 2017. These include the Child-Astronauts project of the Noble Cause Foundation aimed at improving the territory of Regional Children's Clinical Hospital No. 2 palliative department (Voronezh). Over the course of the year, the hospice was provided with a convenient parking lot, a garden area for comfortable year-round walking, and a beautifully landscaped area in front of the children's room windows. Yet another new partner of the Bank is the Life as a Miracle charity foundation supporting children with serious

Children supported by the Sunflower Charity Foundation

Blood Donor Day in the Head Office of UniCredit Bank

On the territory of Regional Children's Clinical Hospital No. 2 palliative department, Voronezh

Circus show in the Children's Psychoneurological Hospital, Moscow

Artistic and developmental classes in the immunology department of Russian Children's Clinical Hospital

Strategy and Results in 2017 (Continued)

Corporate Social Responsibility (Continued)

liver disorders. As part of the Help the Hospital programme supported by UniCredit Bank, patients under the foundation's care were provided with financial support for expensive medical tests carried out by the V.I. Kulakov Research Centre of Obstetrics, Gynaecology and Perinatology.

An important area of charity organisations' activities is support for foster families, aimed at helping foster parents in their relations with the children. The Bank has supported the Find a Family charity foundation facilitating family creation and financed the activities of the Foster Family Support Centre in Nizhny Novgorod. This centre has developed, implemented and is continuously improving original methodology for work with foster families, developed with advisory support of leading Russian experts on family matters and foster family support. Work with the families results in the resolution of the most acute problems concerning the child, reversal of plans to return the child (in the case of crisis situations), and maintenance of an atmosphere of cooperation and trust within the family. The Bank allocated a total of RUB 2.55 mln to the projects listed above.

For several years, UniCredit Bank has been supporting a number of veterans' organisations by providing financial assistance, Victory Day and New Year gifts. In 2017, the Bank also assisted the Joy of Old Age Foundation. Bank employees joined the Foundation's New Year campaign and collected 300 gifts for senior citizens living in retirement homes and boarding houses in the Tver and Smolensk regions. A total of RUB 1.3 mln was allocated to these projects.

Charity races represent a simple and affordable type of charity intended to draw attention to social problems and help children with health problems, while at the same time supporting the company's value system and strengthening solidarity. In 2017, Bank employees took part in the Sport Vo Blago charity races supporting children with Down syndrome and their parents, organised by the Downside Up foundation and its partners in Moscow, Volgograd and Stavropol. Bank employees also took part in Race 5275 with the revenue transferred to the Life Line charity foundation. Over 300 employees took part in the marathons. The Bank allocated a total of RUB 1.25 mln to these initiatives.

Blood transfusion is an essential component of treatment for children with oncological and haematological diseases. The Bank has been holding Blood Donor Days jointly with the Gift of Life Foundation for four years now. More than 150 people took part in Blood Donor Days in the Bank's Nagatino and Prechistenskaya Embankment offices in 2017. The donated blood was delivered to the Dmitry Rogachev National Research Centre of Paediatric Haematology, Oncology and Immunology. The Bank also co-sponsored yet another campaign with the Gift of Life Foundation – Trip&Help. The Bank asked its social media subscribers to bring toys and gifts collected during their summer travels for donation to the Foundation's renowned Box of Courage. The toys are intended for children from all across the country under the Foundation's care, undergoing complex and often painful treatments in Moscow clinics. The campaign gathered a large number of gifts to replenish the Box of Courage.

Each April, the Bank traditionally holds its annual Bright Day charity campaign co-sponsored by the Sunflower charity foundation supporting children with immune disorders. On the Bright Day, staff at several of the Bank's offices in Moscow and the regions wear bright clothes at work in order to draw attention to the problem of diagnosing and treating primary immunodeficiency in Russia. In 2017, they also took part in the #юникредитпомогает ("UniCredit helps") social media campaign, writing messages of best wishes which were subsequently used to create an artwork that was given to children receiving medical treatment in the Russian Children's Clinical Hospital immunology department. Subscribers helped raise RUB 98,000 through social media, which was subsequently transferred to the foundation. Another RUB 35,000 was collected by Bank staff in the Prechistenskaya Embankment office, where a donation box was installed to benefit the children under the Sunflower Foundation's care.

It has already become a good tradition to hold holiday charity fairs in UniCredit Bank's Moscow offices, where charitable foundations raise funds by installing donation boxes and selling toys, decorations and gifts created by the children under their care or provided by their partners. In 2017, three fairs were held in the Bank's Nagatino and Prechistenskaya Embankment offices. Life as a Miracle, Sunflower, Downside Up, and the Centre for Curative Pedagogics took part in the fairs, raising a total of RUB 327,000.

In its charity work, UniCredit Bank makes use of the opportunities provided by its branch network. For the past three years, boxes to aid the SOS Children's Villages charity organisation have been installed in the Bank's offices in Moscow. In 2017, more than RUB 300,000 was collected with UniCredit Bank customers' help to support the organisation.

In 2004, the Bank introduced a special in-house charity programme called Your Heart's Personal Contribution to support Bank employees in difficult situations, by attracting donations from their colleagues and doubling the collected amount. The programme also raises funds for individual charitable projects beyond the Bank's charity budget. In 2017, donations amounted to more than RUB 2 mln were made in the frame of the programme, covering a number of charity projects. Among others a medical treatment for three Bank employees' children, the Sofia charity foundation's project aimed at providing audio books to senior citizens with limited mobility in a Kaluga region retirement home, and a programme run by the Development Social Centre in Moscow focusing on the social adaptation of disabled young people and provision of psychological support for their families though the creation of groups for developmental and artistic work.

The Volunteer Day eco-event in the Large Rosarium of Sokolniki Park, Moscow

In 2017, UniCredit Bank held its eighth corporate contest to come up with ideas for the You Can Help project. The best four project ideas secured RUB 2 mln in financing from the Bank's budget.

The contest panel includes expert members of the Bank's Charity Council and leading external experts – managers of reputable charity foundations. In 2017, 33 applications were submitted for the contest, four of which were declared the winners. Two projects were successfully implemented by the end of 2017, while the other two are currently in progress.

In 2017, the winners of the You Can Help contest were:

- the Joy of Old Age Foundation's project for the procurement of special beds for bed-bound patients in retirement homes in Mikhailov and Skopin, Ryazan region;
- a fund-raising project for DNA testing under a programme of Konstantin Khabensky's Targeted Aid charity foundation (UniCredit Bank's donation helped the Foundation cover the costs of testing nine patients in order to determine appropriate tumour treatment strategies);
- Karelin Fund's project for the procurement of equipment and implementation of innovative rehabilitation practices under the auspices of the Municipal Budgetary Institution Olesya Rehabilitation Centre for children with special needs in Novosibirsk and Novosibirsk region;
- the Russian Carbon Fund's environmental project Closed-Loop Economy Lab – Ecolab, providing for the creation of an ecocentre in Moscow with a facility to convert waste plastic into finished products.

Strategy and Results in 2017 (Continued)

Supporting Culture and Arts

While being a remarkable player in the financial services market, UniCredit Bank is also actively involved in the cultural life of the society where it operates.

The Bank's most significant project in this area is the corporate collection of Russian post avant-garde painters' works. The Bank has been systematically creating its collection of paintings and graphics of the 1920s-1930s for over 20 years, turning it into a major contribution to the Russian cultural legacy. The collection comprises real masterpieces of international level whose value is recognised by reputable art experts. The list of artists whose works are presented in the collection includes such talented painters as Daniil Cherkes, Leonid Zusman, Nadezhda Udaltsova, Antonina Sofronova, Leonid Chupyatov, Alexander Drevin, Alexandra Koltsova-Bychkova, Fyodor Semyonov-Amursky, Arseny Shultz and others.

Miklail Alekseev in the Finance Museum of the Financial University under the Government of the Russian Federation

Post avant-garde is among the most fascinating chapters in the history of Russian culture, but it is only now that contemporary art-lovers are becoming aware of some of its names. In order to enable all connoisseurs of art to get to know this movement, UniCredit Bank is delivering lectures devoted to the artists included in the collection on an ongoing basis. Alexander Balashov, art expert and the collection curator, tells attendees about the special role of post avant-garde in Russia, its history and development stages, and the painters' lives and careers. The lectures are delivered to a wide audience free of charge, in the Bank's Headquarters and other locations. In the autumn of 2017, two lectures – "UniCredit Bank's Art Collection: Origins" and "Arseny Shultz's Moscow and Mikhail Bulgakov's Novel" – were delivered in the Multimedia Art Museum, Moscow (MAMM).

The paintings from the Bank's collection decorate its Headquarters on Prechistenskaya Embankment in Moscow and are routinely exhibited in the branches to everybody interested. In 2017, the Bank presented a series of exhibitions devoted to Seasons. Visitors to the Ramenki additional office got to know Vasily Koroteyev's works, which provide the viewer with an opportunity to take a fresh look at the beauty of nature during the awakening of spring. In the Lomonosovsky Prospekt additional office, visitors had a chance to admire the summer exposition of Boris Chernyshyov's works, filled with warm colours and plunging the viewer into a world of fantasy. Three autumn exhibitions simultaneously opened in the Ostozhenka, Pervomayaskaya and Komsomolskaya additional offices to display works by Antonina Sofronova and Boris Smirnov-Rusetsky. The series ended with the winter exposition in the Tverskaya additional office, displaying Alexander Drevin's "Landscape. Winter".

In 2017, UniCredit Bank maintained its long-standing partnership with the Pushkin State Museum of Fine Arts. In cooperation with the Pushkin State Museum of Fine Arts, the Mastercard payment system and the Albertina Museum (Vienna), the Bank presented UniCredit Bank's new World Elite Mastercard® for UniCredit Private Banking customers in Russia, which combines the advantages of a premium card product with the opportunities of the Pushkin Museum's Friends programme and the Albertina Museum's privileges – free visits for cardholders. Cooperation with the Albertina Museum was facilitated by Schoellerbank, one of Austria's oldest banks which, like UniCredit Bank, is part of UniCredit Group. The design of the new card is based on a masterpiece in the collection of the Pushkin State Museum of Fine Arts – "Bucentaur's Return to the Pier by the Palazzo Ducale" (1727-1729) by Giovanni Antonio Canal (Canaletto). This is the museum's only co-branded product with a commercial bank and already the third co-branded card.

As a representative of the Italian UniCredit Group, UniCredit Bank strives to be proactively involved in major cultural events devoted to Italy's culture and art. In September 2017, the Multimedia Art Museum, Moscow (MAMM) – Russia's largest museum of modern art – hosted Mario Giacomelli's exhibition "Landscape Poetry" supported by the Bank. Giacomelli is one of the few Italian photographers to have acquired international recognition as early as in the 1960s. His works are found in major international museums' collections, including the permanent collection of the New York Museum of Modern Art (MoMA). The exhibition was a major event for all connoisseurs of modern art and photography.

In 2017, the Bank maintained its productive partnership with the Russia-Italia Film Festival (RIFF). Designed to strengthen the cultural ties between the two countries, this large-scale festival makes it possible for people in more than 15 of Russia's largest cities to see the most diverse

Mikhail Alekseev at the opening of Mario Giacomelli's exhibition "Landscape Poetry" at MAMM

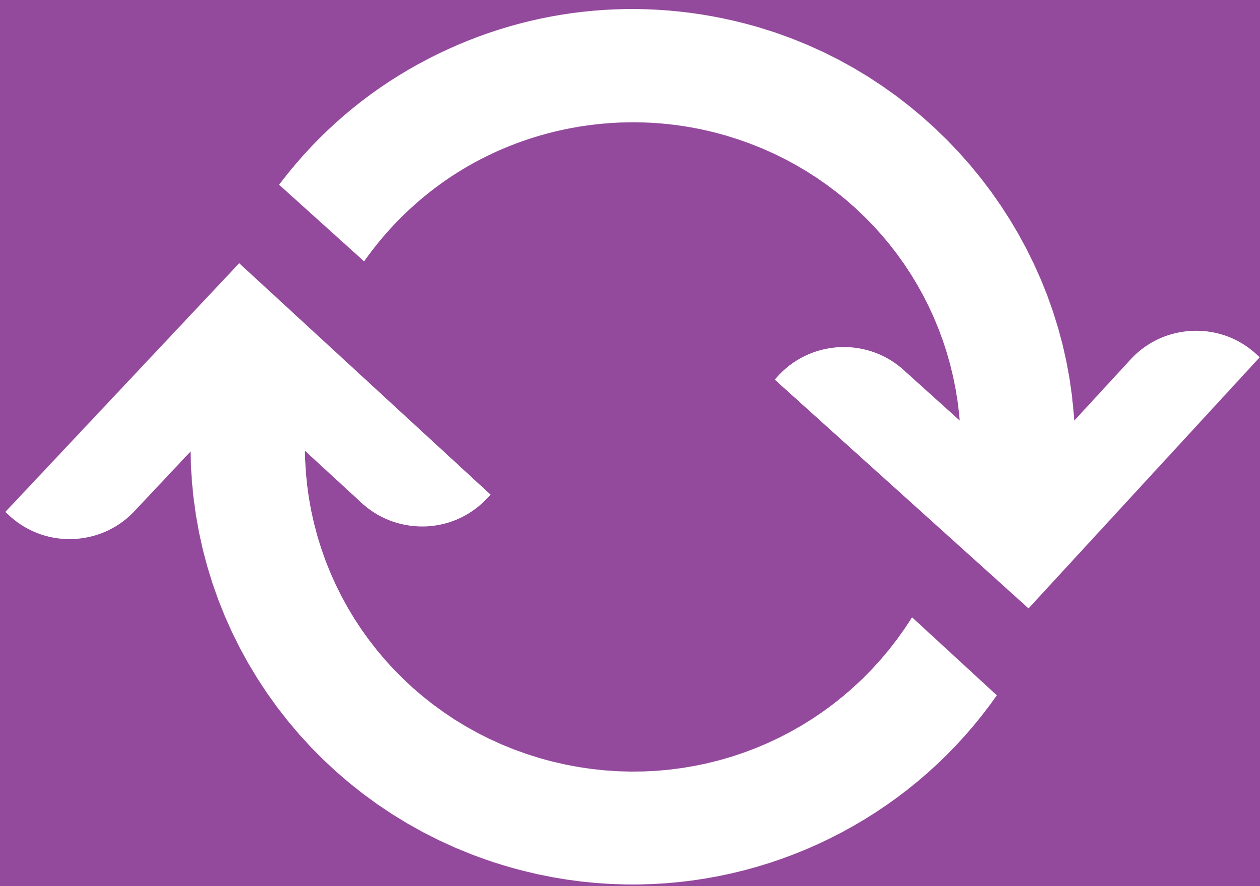
genres of contemporary Italian cinema. The RIFF programme includes feature films, documentaries and animation both by reputable and widely acclaimed directors and by novices.

In May 2017, the Bank supported a celebratory concert for World War II veterans in Crocus City Hall. The concert was presented as part of the Moscow charity festival "This Was Just Recently, This Was a Long Time Ago", held at the best concert venues of the capital annually for over 20 years now. Another charity concert ("Fantasy"), supported by the Bank, was held in the Moscow State P. I. Tchaikovsky Conservatory, a long-standing partner of the Bank. This concert was attended by many of the Bank's customers.

In 2017, the Bank continued its sponsorship of the Finance Museum of the Financial University under the Government of the Russian Federation. The Bank's support enabled the creation of new interactive expositions and implementation of other initiatives aimed at raising citizens' financial awareness and providing students with an opportunity to use the museum materials in their learning activities.

Once again, in December 2017 under the auspices of its cooperation with the Embassy of Italy in Moscow, UniCredit Bank supported the Italian Bazaar – a charity Christmas fair traditionally held in the courtyard of Italian Ambassador's residence. Along with the other Christmas merchandise, the guests had an opportunity to purchase hand-made Christmas toys presented by the Bank. All the funds raised at the event went to the Dmitry Rogachev National Research Centre of Paediatric Haematology, Oncology, and Immunology.

Transform operating model.



The transformation of our operating model is fully on track, including cost discipline and efficiency measures to reduce the cost income ratio. Our FTE and branch reductions are ahead of schedule – as we further improve on customer focus, services and products. The digital and IT transformation is fully on track, investments supporting the business transformation with digitalization as a key enabler.

Sustainability (Continued)

Supporting Sports

Supporting sports events is an important part of UniCredit Bank's brand promotion.

The Group continued its cooperation with UEFA in 2017. The new season of the UEFA Champions League and Europa League had a smooth start. Sponsorship of the UEFA Club Competitions by UniCredit Group makes a significant contribution to our brand visibility and to customers' and employees' engagement.

On May 13, 2017, the Tsitsin Main Moscow Botanical Garden of Academy of Sciences hosted the UniCredit Bank and Sport Vo Blago charity race. Partners and over 600 participants and guests of the race helped raise RUB 2.5 mln to support the work of social and creative development studios for children with Down syndrome. The race was organised by the Syndrome of Love and Downside Up foundations supporting people with Down syndrome, and UniCredit Bank was the general partner of the race. A team of the Bank also took part in the Sport Vo Blago charity race held in Volgograd.

In Stavropol, UniCredit Bank employees took part in a charity race under the slogan "Sports for Children. Love Will Save the World!" The race was devoted to family and children, and coincided with the International Day of Families. The funds raised during the event went towards replenishing the play and athletic equipment of institutions taking care of vulnerable children. The event helped to raise RUB 150,000.

In March the XIX Ski Meeting took place. It is UniCredit Group competitions in mountain skiing, snow board and cross-country skiing where our colleagues persistently show high performance. In 2017 they got third places in team classification in snow board and cross-country skiing. Besides, the Bank organizes the ski open championship in Bitsa park, that is well-regarded by the employees, their families and friends.

UniCredit Bank team at the XIX Ski Meeting, Bressanone

The 5th ski open championship, Alfa Bitza sports club

UniCredit Bank and Sport Vo Blago charity race

Management

Supervisory Board of AO UniCredit Bank (as of January 1, 2018)

Erich Hampel, Chairman of the Supervisory Board

Born in 1951. Erich Hampel graduated from University of Economics and Business Administration in Vienna with master degree in Commerce and Trade in 1974, became doctor of social sciences and economics in 1975. Erich Hampel has worked in banking business for more than 40 years. He started his career at Citibank (Austria) AG in 1975 and then he worked in various Austrian companies. From 2004 to 2009 he was Chairman of the Managing Board of Bank Austria Creditanstalt AG. In 2005 he was appointed Head of CEE Division of UniCredito Italiano S.p.A. From 1997 to 2015 he was Deputy Chairman of the Supervisory Board of Donau Chemie AG, from 19.04.2006 to 29.04.2014 he was Chairman of the Supervisory Board of ÖRAG Österreichische Realitäten AG, from 28.03.2009 to 27.08.2014 he was Chairman of the Supervisory Board of B & C Industrieholding Holding GmbH, from 21.03.2008 to 30.04.2013 he was Chairman of the Supervisory Board of JSC "ATF Bank" Kazakhstan. At the present time Mr. Hampel serves as Member of the Supervisory Boards of the following companies: Österreichische Lotterien GmbH since 19.03.2010, Österreichische Post AG since 22.04.2010, UniCredit Bank Hungary Zrt since 18.11.2009, Österreichische Verkehrsbüro AG since 24.06.1999, BWA Beteiligungs- und Verwaltungs AG since 03.07.1998. He has been Deputy Chairman of the Supervisory Board of Bausparkasse Wüstenrot AG since 12.12.2008. At the present time Mr. Hampel also serves as Chairman of the Supervisory Boards of the following companies: UniCredit Bank Austria AG since 01.10.2009, Österreichische Kontrollbank AG since 15.12.2009, Zagrebačka banka d. d. since 17.04.2007, UniCredit Bank Serbia JSC since 02.03.2007. He is also Member of General Council of Oesterreichische Nationalbank since 27.05.2008. From 20.02.2007 to 20.12.2007 he was Chairman of the Board of Directors of CJSC International Moscow Bank; from 20.12.2007 till now he is Chairman of the Supervisory Board of AO UniCredit Bank (before the end of 2014 – ZAO UniCredit Bank).

Carlo Vivaldi,
Member of the Supervisory Board

Born in 1965. After graduating from the University of Ca' Foscari (Venice), Department of Business Administration, Carlo Vivaldi started his career in 1991 as teller in Cassamarca, which merged into UniCredit in 1998. In 2000 he moved under New Europe Division of UniCredit. In 2002, he pursued the position of CFO and Executive Vice President at KFS and Yapı Kredi, Turkey. In October 2007, he was appointed as Member of the Management Board and Chief Financial Officer at UniCredit Bank Austria AG and started to serve in several other Supervisory Boards in CEE subsidiaries of UniCredit Group. In May 2009, Carlo Vivaldi was appointed Member of the Board of Directors at Yapı Kredi, Turkey, and in January 2011, Deputy Chairman of the Board of Directors, Member of Remuneration Committee at Yapı Kredi. In November 2009, he was appointed Member of the Board of Directors at Koç Financial Services, and on 16.02.2015 he was appointed Deputy Chairman of the Board of Directors at Koç Financial Services, Turkey. He has also served as Deputy Chairman of the Board of Directors in all Yapi Kredi subsidiaries and Allianz Pension Fund company, and Member of the Board of Directors at Yapı Kredi Koray and Yapi Kredi Bank Malta LTD since March 2011 to February 2015. From 22.03.2011 to 12.07.2013 he was Deputy Chairman of the Board of Directors at Yapı Kredi Sigorta A.Ş., from 17.03.2011 to 16.12.2015, he was Deputy Chairman of the Board of Directors at Yapı Kredi Portföy Yönetimi A.Ş. Since February 16, 2015 to September 30, 2016, Vivaldi served as Head of CEE Division of UniCredit and Deputy Chairman of the Management Board of UniCredit Bank Austria, since October 1, 2016, he has served as the Head of Central & Eastern Europe Division at UniCredit S.p.A., Vienna. At the present time Mr. Vivaldi occupies the following positions: Senior Executive Vice President, Member of Executive Management Committee, Head of CEE Division at UniCredit S.p.A. since 16.02.2015, Member of Advisory Board at UniCredit Turn-Around Management CEE GmbH since 23.02.2015, Member of Administrative boards at UniCredit & Universities Knight of Labor Ugo Foscolo Foundation since 11.02.2015 and Member of Administrative boards at UniCredit Foundation (UNIDEA) since 18.03.2016. Since 29.04.2015, he is a Member of the Supervisory Board at AO UniCredit Bank.

Andrea Diamanti,
Member of the Supervisory Board

Born in 1973. Andrea Diamanti graduated from Bocconi University, Italy, Degree in Business Administration in 1998, in 2002 he also received a certificate by CFA Institute. Andrea started his career in 1998 at Commerzbank AG, Milan Branch as Assistant Manager. He joined UniCredit in 2000 as Vice President in Global Acquisition and Leveraged Finance at HVB Milan Branch. Since then he has strongly contributed to the growth of the Financial Sponsor Solutions franchise. From December 2005 to May 2012 he was Managing Director of Financial Sponsor Solutions at UniCredit S.p.A. Then from April 2012 to March 2015 he served as Head of Financial Sponsor Solutions Austria & CEE at UniCredit Bank Austria AG responsible for structured finance business line in the region and the whole large corporate loan book in CEE. Then from April 2015 to September 2016 Mr. Diamanti was Head of Financing CEE at UniCredit Bank Austria AG. Since September 2016, Andrea is head of corporate and investment banking in CEE, with responsibilities for the corporate business in the region. He is a Member of the Supervisory Board, Audit Committee, Risk Committee and Remuneration Committee of UniCredit Bank Hungary Zrt. since 23.02.2017, he is also a Member of the Supervisory Board and Risk Committee of UniCredit Bank Czech Republic and Slovakia, a.s. since 01.03.2017. Since 17.04.2017, he is a Member of the Supervisory Board at AO UniCredit Bank.

Marco Radice,
Member of the Supervisory Board

Born in 1957. Graduate of J.D., Parma Law School, 1980, Accademia Guardia di Finanza, Rome, 1982, New York Law School, New York, 1983. From 1992 up to 2006 Marco Radice occupied position Non executive director, Itas S.p.A., Insurance Company, Trento. From April 1995 to May 2015 he was Member of the Board of Directors of Itas Mutua, Insurance Company. From 1994 up to 2001 he was Chairman of the Board of Statutory Internal Auditors, Cassa di Risparmio di Trento e Rovereto, Member / Chairman of the Board of Statutory Internal Auditors of Industrial and Financial Services Companies (Pioneer Alternative Investments S.g.r.p.a., Milano Innovazione S.g.r.p.a., Vivacity S.p.A., Iniziative Urbane s. p.a., Valore S.I.M. S.p.A., Metalsistem S.p.A. Rovimpex S.p.A. and others). From 1998 up to 2006 he was Professor of Financial Services Regulation Law, University of Trento. From April 2010 to May 2012 Mr. Radice was Member of the Board of Directors of UniCredit Audit S.p.A. Since April 1994, he has been Co-Principal at Radice & Cereda. He was also Member of Audit Committee of Bulbank, Bulgaria from 10.05.2012 to 10.07.2017 and has been its Chairman on 11.07.2017. He has been Chairman of Audit Committee of UniCredit Bank Serbia since 23.06.2008, Chairman of the Board of Directors of Itas Vita S.p.A., Insurance Company since May 2000. Since 27.04.2012, he is a member of the Supervisory Board of AO UniCredit Bank.

Anna Maria Ricco,
Member of the Supervisory Board

Born in 1969. Graduated from Universita degli Studi di Milano, has degree in Computer Science. Anna Maria Ricco started her professional career in 1993 at Origin Italy. After an experience in Andersen Consulting, she worked at McKinsey & Co since 2000 up to 2005. Soon after she joined UniCredit Global Banking Services Division in Organization, covering key positions in several initiatives about integration, including the One4C Project. From October 2007 to January 2011, she was head of staff of UniCredit Chief Operating Officer as well as of Internal Customer Satisfaction Unit. In February 2011 she joined i-Faber with the role of General Manager, then becoming CEO, Member of the Board of Directors. From 2011 to 2013 was the Chairman of the Board of Directors at Joinet Srl, UniCredit. From 03.07.2014 to 29.06.2015 she served as Member of the Board of Directors at SaloneN. 1 S.p.A., UniCredit Group. At the present time she has occupied the following positions: Member of the Board of Directors at Unicredit Subito CaSa S.p.A. since 11.03.2014, Member of the Management Committee of Fondo Andromeda since 31.10.2014, Member of the Management Committee of IDeA Fimit SGR, Fondo Sigma Immobiliare since 31.03.2014, Head of SL Real Estate, Italy, UniCredit Business Integrated Solutions S.C.p.A since 01.01.2014. Since 11.08.2014, she is a member of the Supervisory Board of AO UniCredit Bank.

Giuseppe Scognamiglio,
Member of the Supervisory Board

Born in 1963. Graduated from L'Università degli Studi di Napoli Federico II, Italy, in 1987 with degree in Law. Mr. Scognamiglio also passed the public exam to enter diplomacy in Italian International Organizations Society under the Diplomatic Academy in 1988. Giuseppe Scognamiglio started his career within the Italian Ministry for Foreign Affairs. Before joining UniCredit, he served in the diplomatic service including as chief of staff of the Minister for Foreign Affairs. Since 2003, he has served as Executive Vice President on Institutional & International Affairs at UniCredit S.p.A. (until 31.01.2018). Since 2012 he has occupied position Chairman of Europeye Srl, publishing house (until 22.01.2018), and since 2016 has served as editor of Eastwest magazine. From 31.03.2016, Mr. Scognamiglio has been Member of the Board of Directors at Koç Financial Hizmetler AS and Yapı ve Kredi Bankası A.Ş. At the present moment he occupies the following positions: Presidente Conitato Technico per la Communicazione Istituzionale at Assosiazone Bancaria Italiana (ABI) since 20.07.2016, Membro Del Consiglio Di Amministrazione e Membro Del Comitato Esecutivo ABI since 16.03.2011, Membro Del Consiglio Di Amministrazione at Federazione Delle Banche Delle Assicurazioni e della Finanza since 30.05.2012. Member of the Supervisory Board of AO UniCredit Bank since 28.04.2016.

Ljiljana Cortan,
Member of the Supervisory Board

Born in 1971. Graduated from University of Zagreb, Croatia, in 1995, has degree in Banking and Finance. Ljiljana Cortan served as Head of Credit Risk Underwritnig at Zagrebačka banka from 2007 up to 2009, then from 2009 to 2013, she occupied position Head of Strategic Marketing and Commercial Planing, CEE CIB, at Bank Austria AG. From 2014 up to 2015, she was Global Head of Financial Istitutions, Banks and Sovereigns at UniCredit S. P. A., Co-Head of Group Credit Transactions at CRO Division. From 2016 to December 2017, she was Head of Group Credit Transactions at UniCredit S.p.A., Italy, at CRO Division. Since January 2018, she has served as Member of the Board, responsible for the Risk Management of HypoVereinsbank – UniCredit Bank AG, Munich, Germany. She has also served as Member of the Supervisory Board of HVB Immobilien AG since 01.01.2018, Member of the Supervisory Board of Wealth Management Capital Holding Gmbh since 01.01.2018, Member of the Supervisory Board of WealthCap Kapitalverwaltungsgesellschaft mbH since 01.01.2018. Member of the Supervisory Board of AO UniCredit Bank since 28.04.2016.

In 2017, Enrico Minniti resigned from the Supervisory Board, while Andrea Diamanti was appointed to the Supervisory Board.
No shares of AO UniCredit Bank are held by any member of the Supervisory Board.

Management (Continued)

Management Board of AO UniCredit Bank (as of January 1, 2018)

Mikhail Yurievich Alekseev, Chairman of the Management Board

Born in 1964. Mr. Alekseev graduated from Moscow Finance Institute in 1986. In 1989 he defended a dissertation and received PhD in Economics and in 1992 he defended a dissertation and received PhD (full Doctor) in Economics. Mr. Alekseev started his career in the USSR Ministry of Finance. In 1992 he was elected to the Management Board of Mezhkombank. In 1995, he moved to ONEXIM Bank to the position of the Deputy Chairman of the Management Board. From 1999 to 2006 Mikhail Alekseev held the positions of Senior Vice-President and Deputy Chairman of the Management Board of Rosbank. His next place of employment was Rosprombank (from 2006), where he held the position of President and Chairman of the Board. In July 2008, in accordance with resolution of the Supervisory Board he was appointed Chairman of the Management Board at UniCredit Bank and is responsible for general management of the Bank's operations. At the present time he has served as Chairman of the Board of Directors of RN Bank since 05.09.2013, Non-Executive Director of BARN B. V., Netherlands since 15.04.2013, Member of the Board of Directors of TMK since 28.06.2011, Chairman of the Supervisory Board of OOO "UniCredit Leasing" since 10.03.2011, Member of the Advisory Board of the Association of Banks of Russia since 20.05.2009, Member of the Management Board of the Russian Union of Industrialists and Entrepreneurs since 11.11.2009.

Kirill Zhukov-Emelyanov, Member of the Management Board, Senior Vice President

Born in 1970. Mr. Zhukov-Emelyanov graduated from Moscow State Institute of International Relations (MGIMO-University), International Economic Relations in 1993. He started his career in 1994 with UniCredit Bank (former International Moscow Bank) in the field of corporate finance. From 1999 he managed credit business of Bank Austria Creditanstalt Russia. Following its merger with International Moscow Bank in 2001, he held executive positions at corporate banking division of International Moscow Bank. From 2003, he was responsible for the development of the regional network and corporate business of International Moscow Bank, and then of UniCredit Bank. In December 2008, in accordance with resolution of the Supervisory Board he was appointed Member of the Management Board responsible for corporate banking business and Private Banking of AO UniCredit Bank.

Svetlana Zolotareva, Member of the Management Board, Senior Vice President

Born in 1979. Svetlana Zolotareva graduated from Moscow State University, Economics Faculty in 2002, with honors and holds MBA from London Business School & Columbia Business School (2013). Svetlana has worked at UniCredit Bank (previously International Moscow Bank) since September 2002. For this period, Svetlana got experience in various units of the Bank in the area of risk management and corporate banking business. Since 2009, she occupied the position of Head of Mid-Market/Regions Department. Since 2013 she has also supervised the development of Private Banking business area. Since 11.04.2012, Svetlana has also served as Member of Supervisory Board of OOO "UniCredit Leasing". In July 2016, Svetlana Zolotareva was appointed Member of the Board of AO UniCredit Bank responsible for the Risk Division.

Graziano Cameli, Member of the Management Board, Chief Operating Officer, Executive Vice President

Born in 1967. Graziano Cameli holds a degree in Economics from the University of Trieste (Italian Università degli Studi di Trieste, UNITS), 1992. Graziano Cameli has gained a solid international and professional experience in the finance and banking industry. He started his career path at Assicurazioni Generali and then at McKinsey, joining the Group later in 2005 at Banca di Roma as Head of Planning & Control; further on, he continued his path as Head of Retail & Private Sales. In 2008, Graziano became Head of CEE Retail at Bank Austria. Since 2010 Mr. Cameli held the position of the General Manager and First Deputy Chairman of the Management Board and then from August 2013 the position of CEO at Ukrsotsbank (UniCredit Bank™) in Ukraine. In August 2015 was appointed Chief Operating Officer, Executive Vice President of AO UniCredit Bank, in October 2015 became Member of the Management Board of AO UniCredit Bank.

Ivan Matveev,

Member of the Management Board, Senior Vice President

Born in 1979. Ivan holds a Master Degree in Strategic Management from State University Higher School of economics (Moscow, Russia), received in 2002, and Master of Business Administration from European School of Business (Munich, Germany). From 1999 to 2004, Ivan Matveev had held various positions in OJSC RAO "Unified Energy Systems of Russia", then he held management positions in IT and retail sectors. Mr. Matveev joined UniCredit Bank in January 2011. From 2011 to 2012, he was Director of the Organization Department then, since 2012 he had been Head of Retail Sales Department. In September 2015, Ivan Matveev was appointed Member of the Management Board of AO UniCredit Bank responsible for retail business.

Stefano Santini,

Member of the Management Board, Senior Vice President

Born in 1975. Stefano Santini holds a degree in Economics from Bocconi University, 1999. He joined UniCredit in 2000, in the newly established New Europe Division. After working with growing responsibilities in several banks of the Group located in the CEE region, in 2003 he started to cooperate with Bank Pekao in Poland, becoming, in 2005, Deputy Head of Finance Division. In 2006 – following the merger between UniCredit and HVB – he was appointed as Project Manager of the spin off and merger of Bank BPH and Bank Pekao, the largest Polish M&A banking transaction, contributing to create the highest capitalized company in the local market. In April 2010, Mr. Santini joined the Management Board at UniCredit Bank Hungary as Chief Financial Officer. Three years later, in April 2013, he returned to Bank Pekao as Vice President of the Management Board, supervising the Financial Division (CFO). At the same time, he served as Deputy Chairman of the Supervisory Board at Pekao Investment Banking and Member of the Supervisory Board of Pekao Leasing. On July 4, 2017, Mr. Santini was appointed Senior Vice-President at AO UniCredit Bank. On October 25, 2017, Stefano Santini was appointed Member of the Management Board of AO UniCredit Bank responsible for the Financial Division.

In 2017, Ivaylo Glavchovski resigned from the Management Board (effective from January 9, 2018), while Stefano Santini joined the Management Board. No shares of AO UniCredit Bank are held by any member of the Management Board.

Maximise commercial bank value.

We continue to maximise commercial bank value, with the ongoing transformation resulting in higher productivity. Our activities in Western Europe are benefitting from the revamped network with new service models for retail and SME customers as well as a strong multichannel strategy. We have further strengthened our leadership positions in CEE and CIB, while keeping a strong focus on risk.

Contact Details

Head Office

9, Prechistenskaya Embankment, Moscow, 119034, Russia

Telephone:	+7 (495) 258-7258 Call center
	+7 (495) 258-7200 Enquiries
Fax:	+7 (495) 258-7272
Telex:	412284 IMBA RU, 412285 IMBA RU
SWIFT code:	IMBKRUMM
E-mail:	unicredit@unicreditgroup.ru
URL:	www.unicreditbank.ru

Additional offices

Additional office Aeroport
44, Leningradskiy Prospekt Moscow, 125167, Russia

Additional office Alexeevskaya
97, Prospekt Mira, Moscow, 129085, Russia

Additional office Altufievo
89, Altufievskoe shosse, Moscow, 127576, Russia

Additional office Babushkinskaya
11, Eniseyskaya street, Moscow, 129344, Russia

Additional office Bolshaya Gruzinskaya
58-60, Bolshaya Gruzinskaya Street, Moscow, 123056, Russia

Additional office Dmitrovka
Building 4, 10/2, Bolshaya Dmitrovka Street, Moscow, 103031, Russia

Additional office Kazachy
9/1, Pervyi Kazachy Pereulok, Moscow, 109017, Russia

Additional office Khamovniki
44, Komsomolsky Prospekt, Moscow, 119048, Russia

Additional office Khimki
Building 1, 19, Panfilova Street, Khimki, Moscow region, 141407, Russia

Additional office Komsomolskaya
Building 1, 3-5, Krasnoprudnaya street, Moscow, 107140, Russia

Additional office Kosmodamianskaya
Riverside Business Center 52/2, Kosmodamianskaya Embankment, Moscow, 113054, Russia

Additional office Kutuzovsky Prospekt
Building 1, 22, Kutuzovsky Prospekt, Moscow, 121151, Russia

Additional office Leninsky
Park Place Business Center 113/1 Leninsky Prospekt, Moscow, 117198, Russia

Additional office Lomonosovsky Prospekt
70/11, Leninsky Prospekt, Moscow, 119261, Russia

Additional office Lyublino
Str. 48, Krasnodarskaya str., Moscow, 109386, Russia

Additional office Myasnitskaya
Building 2, 24/7, Myasnitskaya Street, Moscow, 101000, Russia

Additional office Mytishchi
2, Mira street, Mytishchi, Moscow region, 141008, Russia

Additional office Novoslobodskaya
40, Dolgorukovskaya Street, Moscow, 127030, Russia

Additional office Odintsovo
112a, Mozhayskoe Shosse, Odintsovo, Moscow region, 143005, Russia

Additional office Marshala Zhukova
30, Marshala Zhukova Prospekt, Moscow, 123154, Russia

Additional office Ostozhenka
5, Ostozhenka street, Moscow, 119034, Russia

Additional office Pervomayskaya
81, Pervomayskaya, Moscow, 105007, Russia

Additional office Podolsk
64/105, Revolutsionny prospekt, Podolsk, Moscow region, 142100, Russia

Additional office Prospekt Mira
Building 1, 26, Mira Prospekt, Moscow, 129090, Russia

Additional office Prospekt Vernadskogo
33, Prospekt Vernadskogo, Moscow, 119331, Russia

Additional office Pyatnitskaya
14/1, Pyatnitskaya Street, Moscow, 115035, Russia

Additional office Ramenki
34, Michurinsky Prospekt, Moscow, 119192, Russia

Additional office Rechnoy Vokzal
94, Leningradskoe Shosse, Moscow, 125565, Russia

Additional office Rogozhskaya zastava
8, Rogozhskaya Zastava street, Moscow, 105120, Russia

Additional office Taganskaya
Building 1, 1, Marksistskaya Street, Moscow, 109147, Russia

Additional office Tulskaya
2, Bolshaya Tulskaya, Moscow, 115191, Russia

Additional office Tverskaya
Building 1, 28, First Tverskaya Yamskaya Street, Moscow, 125445, Russia

Additional office Yartsevskaya
Building 1, 22, Yartsevskaya Street, Moscow, 121351, Russia

Additional office Zemlyanoy Val
Building 1, 25, Zemlyanoy Val, Moscow, 105064, Russia

Additional office Zubovsky Boulevard
29, Zubovsky Boulevard, Moscow, 119021, Russia

Additional office Zvenigorodsky
3A/1, Zvenigorodskoe shosse, Moscow, 123022, Russia

Contact Details (Continued)

Regional Branches

St. Petersburg Branch
48/2 Fontanka Embankment, St. Petersburg, 191025, Russia
Telephone: +7 (812) 346-8410, 8 (800) 700-1020
Fax: +7 (812) 346-8420
SWIFT code: IMBKRUMMPET

Additional offices

Additional office Akademicheskaya
19/2, Nauki prospekt, St. Petersburg, 195220, Russia

Additional office Chernaya rechka
15 lit. A, Savushkina Street, St. Petersburg, 197183, Russia

Additional office Kirochnaya
11A Kirochnaya Street, St. Petersburg, 191104, Russia

Additional office Komendantskiy prospekt
11, Komendantskiy prospekt, St. Petersburg, 197227, Russia

Additional office Leninsky prospekt
8, lit. A, Novatorov boulevard, St. Petersburg, 196191, Russia

Additional office Moskovskaya
193, Moskovsky prospekt, St. Petersburg, 196066, Russia

Additional office Park Pobedy
192-194, lit. A, Moskovsky Prospekt, St. Petersburg, 196070, Russia

Additional office Petrogradskaya Storona
48, Bolshoi Prospekt, P.S., St. Petersburg, 197198, Russia

Additional office Prospekt Bolshevikov
3, building 1, Bolshevikov Prospekt, St. Petersburg, 193231, Russia

Additional office Prospekt Prosvescheniya
34, Prospekt Prosvescheniya, St.Petersburg, 194358, Russia

Additional office Prospekt Slavy
52/1, Prospekt Slavy, St. Petersburg, 192241, Russia

Additional office Sennaya Ploshchad
4A, Efimov Street, St. Petersburg, 190031, Russia

Additional office Vasilevsky Ostrov
49, Sredny Prospekt, St. Petersburg, 199178, Russia

Additional office Zanevskaya ploschad
43/17, lit. A,Novocherkassky prospekt, St. Petersburg, 195196, Russia

Chelyabinsk branch
38, Karl Marx Street, Chelyabinsk, 454091, Russia
Telephone: +7 (351) 247-9170
Fax: +7 (351) 247-9108

Additional office Severo-Zapad
31, 40 Let Pobedy Street, Chelyabinsk, 454021, Russia

Ekaterinburg Branch
4, Nikonov Street, Ekaterinburg, 620027, Russia
Telephone: +7 (343) 356-5997
Fax: +7 (343) 370-0095

Additional office Palladium
10, Khokhryakova Street, Palladium office center, Ekaterinburg, 620014, Russia

Krasnodar Branch
41, Stavropolskaya Street, Krasnodar, 350033, Russia
Telephone: +7 (861) 210-1040
Fax: +7 (861) 210-1045

Additional office Pokrovsky
64/1, Krasnoarmeyskaya Street, Krasnodar, 350000, Russia

Additional office Novorossiysky
39, Leitenanta Shmidta Street, Novorossiysk, Krasnodar Krai, 353905, Russia

Additional office Sochinsky
26, Maksima Gorkogo Street, Sochi,
Krasnodar Territory, 354000, Russia

Nizhniy Novgorod Branch
20, Kostina Street, Nizhniy Novgorod, 603134, Russia
Telephone: +7 (831) 275-8080
Fax: +7 (831) 421-6009

Additional office Avtozavodskiy
603016, Nizhniy Novgorod city, Vedenyapina street, 1A, Nizhniy Novgorod

Novosibirsk Branch
27 Sovetskaya/53 Gorkogo Street, Novosibirsk, 630099, Russia
Telephone: +7 (383) 230-0163
Fax: +7 (383) 230-0169

Additional office Ulitsa Vatutina
630078, Russia, Novosibirsk, Vatutina str., 26

Perm Branch
41, Monastyrskaya Street, Perm, 614045, Russia
Telephone: +7 (342) 218-3850
Fax: +7 (342) 218-3857

Additional office Stroganovsky
59, Lenina Street, Perm, 614068, Russia

Rostov-on-Don Branch
58/51, Socialisticheskaya Street, Rostov-on-Don, 344002, Russia
Telephone: +7 (863) 263-0900
Fax: +7 (863) 263-0905

Additional office Bolshaya Sadovaya
113, Bolshaya Sadovaya Street, Rostov-on-Don, 344002, Russia

Additional office Ulitsa Tekucheva
139/94 Tekucheva Street, Rostov-on-Don, 344018, Russia

Samara Branch
178/12, Chapaevskaya/Krasnoarmeyskaya Street, Samara, 443010, Russia
Telephone: +7 (846) 267-3350
Fax: +7 (846) 267-3360

Additional office Ulitsa Pobedi
93, Pobedy Street, Samara, 443058, Russia

Stavropol Branch
38a, Dovatortsev Street, Stavropol, 355037, Russia
Telephone: +7 (8652) 95-1125
Fax: +7 (8652) 95-1126

Ufa Branch
27, Kirova Street, Ufa, Bashkortostan Republic, 450000, Russia
Telephone: +7 (347) 292-0840
Fax: +7 (347) 292-0842

Additional office Prospekt Oktyabrya
37, Prospekt Oktyabrya, Ufa, Bashkortostan Republic, 450058, Russia

Volgograd Branch
11, Novorossiyskaya Street, Volgograd, 400131, Russia
Telephone: +7 (8442) 96-8268
Fax: +7 (8442) 96-8271

Voronezh Branch
13, Komissarzhevskaya Street, Voronezh, 394036, Russia
Telephone: +7 (473) 220-5364
Fax: +7 (473) 235-5929

Operational Offices

Arkhangelsky
104, Voskresenskaya Street, Arkhangelsk, 163060, Russia

Barnaulsky
28, Prospekt Lenina, Barnaul, Altai Krai, 656056, Russia

Belgorodsky
45 A, Prospekt Slavy, Belgorod, 308000, Russia

Kaluzhsky
1/20 Pushkina Street, Kaluga, 248000, Russia

Kamensk-Shakhtinskiy
2, Voroshilova Street, Kamensk-Shakhtinskiy, 347809, Russia

Kazanskiy
58, Ibragimova prospekt, Kazan, 420080, Tatarstan, Russia

Kemerovskiy
2B, Oktiabrskiy prospekt, Kemerovo, 650066, Russia

Krasnoyarsky
36, Prospekt Mira, Krasnoyarsk, 660049, Russia

Lipetsky
5, Voroshilova Street, Lipetsk, 398001, Russia

Novodvinskiy
26, 50-letiya Oktiabrya Street, Novodvinsk, 164900, Russia

Omsky
17, Karl Marx Prospekt, Omsk, 644010, Russia

Saratovsky
52, Chapaeva Street, Saratov, 410056, Russia

Solikamskiy
(TC Evropa) 55, Severnaya Street, Solikamsk, Perm region, 618553, Russia

Tyumensky
155/2, Respubliki Street, Tyumen, 625026, Russia

Representative Offices

Arkhangelsk
Office 411, 5, Pomorskaya Street/38, Troitskiy prospekt, Arkhangelsk, 163000, Russia
Telephone: +7(8182) 65-77-55
Fax: +7(8182) 42-12-47

Barnaul
91, Proletarskaya Street/45, Sotsialisticheskiy prospekt, Barnaul, Altai Krai, 656049, Russia
Telephone: +7(3852) 63-7181
Fax: +7(3852) 63-6975

Belgorod
45a, Prospect Slavy, Belgorod, 308000, Russia
Telephone: +7 (4722) 58-6048
Fax: +7 (4722) 58-6047

Irkutsk
Office 22, 49, Partizanskaya street, Irkutsk, 664007, Russia
Telephone: +7 (3952) 78-0088
Fax: +7 (3952) 78-0089

Kazan
11a, Dzerzhinskogo Street, Kazan, 420111, Tatarstan, Russia
Telephone: +7 (843) 292-1501
Fax: +7 (843) 292-5889

Kemerovo
Office 804, Building B, 2, Oktyabrsky prospect, Kemerovo, 650066, Russia
Telephone: +7 (3842) 49-6750
Fax: +7 (3842) 49-6752

Krasnoyarsk
room 27, 3a, Vesny Street, Krasnoyarsk, 660135, Russia
Telephone: +7 (3912) 777-224
Fax: +7 (3912) 777-226

Minsk
Office 227, 10, Tolstogo street, Minsk, 220007, Republic Balarus
Telephone: +375 (17) 200-0554
Fax: +375 (17) 200-0552

Omsk
Building 1 65, Gertsen Street, Omsk, 644007, Russia
Telephone: +7 (3812) 22-0282
Fax: +7 (3812) 23-48-91

Orenburg
10A, Raskovoy Street, Orenburg, 460036, Russia
Telephone: +7 (3532) 34-1811
Fax: +7 (3532) 34-1808

Saratov
Office 618, 239, Bolshaya Sadovaya, Saratov, 410005, Russia
Telephone: +7 (8452) 44-55-50, 48-48-63
Fax: +7 (8452) 48-48-63

Tyumen
155/2, Respubliki Street, Tyumen, 625026, Russia
Telephone: +7 (3452) 38-9508
Fax: +7 (3452) 38-9511

Adopt lean but steering center.

We have created a lean but steering center to drive Group-wide performance and ensure accountability. Through leaner support functions and transparent cost allocation, we focus on efficiency and simplification. We are positioned as best in class in terms of European corporate governance.

Consolidated Financial Statements

and Independent Auditor's Report for the Year Ended 31 December 2017

Statement of Management's Responsibilities for the Preparation and Approval of the Consolidated Financial Statements for the Year Ended 31 December 2017

Management of AO UniCredit Bank is responsible for the preparation of the consolidated financial statements that present fairly the financial position of AO UniCredit Bank and its subsidiary (collectively – the "Group") as at 31 December 2017, and the related consolidated statements of comprehensive income for the year then ended, changes in equity and cash flows for the year then ended, and of significant accounting policies and notes to the consolidated financial statements (the "consolidated financial statements") in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance; and
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Russian Federation;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements for the year ended 31 December 2017 were approved by the Supervisory Board of AO UniCredit Bank on 16 March 2018 based on the decision of Board of Management of AO UniCredit Bank dated 14 March 2018.

M. Alekseev
Chairman of the Board of Management

16 March 2018

G. Chernysheva
Chief Accountant

Independent Auditor's Report

Deloitte.

To the Shareholder and Supervisory Board of AO UniCredit Bank

Opinion

We have audited the consolidated financial statements of AO UniCredit Bank and its subsidiary (collectively – the "Group"), which comprise the consolidated statement of financial position as at December 31, 2017 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the 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.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Impairment of loans to customers We focused on this area because the management makes complex and subjective judgements over both the timing of recognition of impairment and the estimation of the amount of such impairment. Impairment for certain part of loan portfolio to corporate customers is calculated on an individual basis. The remaining part of the corporate loan portfolio is assessed on an internal rating model basis, and the loan portfolio to retail customers is impaired on a collective basis.	We assessed the design and implementation, and tested the operating effectiveness of relevant controls over management's processes for establishing and monitoring the levels of both specific and collective provisions, impairment data and calculations. These controls included those over the identification of which loans to customers were impaired and the calculation of the impairment provisions. In addition, we examined a sample of loans, which had not been identified by management as potentially impaired and formed our own judgement as to whether that was appropriate including using external evidence in respect of the relevant counterparties.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
In particular we focused on: • the principal assumptions underlying the calculation of impairment for portfolios of loans, the integrity of the models to make those calculations and the application of adjustments to the results produced by those models; • the principal assumptions underlying the calculation of discounted cash flows for loans for which impairment is identified on an individual basis; • how impairment events that have not yet resulted in a payment default are identified and measured. See Note 9 to the consolidated financial statements on pages 39-46 respectively.	Where impairment was individually calculated, we tested a sample of loans to ascertain whether the loss event (that is the point at which impairment is recognized) had been identified in a timely manner including, where relevant, how forbearance had been considered. Where impairment had been identified, we examined the forecasts of future cash flows prepared by management to support the calculation of the impairment, challenging the assumptions and comparing estimates to external evidence where available. Where impairment was calculated on a modelled basis, we tested the integrity of those models and the data and assumptions used. Our work included the following: • we compared the principal assumptions made with our own knowledge of industry practices and actual experience; • we tested the integrity of the models used to calculate the impairment including, in some cases, rebuilding those models independently and comparing the results; • we considered the potential effect on impairment of events which were not captured by management's models, and evaluated how management had responded to these by making further adjustments where appropriate. In the certain cases, we formed a different view on impairment provisions from that of management, but in our view, the differences were within a reasonable range of outcomes in the context of the overall loans and advances and the uncertainties are disclosed in the consolidated financial statements.
Valuation of derivative financial instruments and hedge accounting The Group has a portfolio of derivative financial instruments, which are used for trading and hedging purposes, many of which are designated in hedge accounting relationships. We focused on this area because of the complexity of derivatives valuation and hedge accounting application. The application of hedge accounting under IAS 39 "Financial Instruments: Recognition and Measurement" ("IAS 39") requires that the Group values hedged items for hedged risks only and then accurately identifies all sources of hedge accounting ineffectiveness that arise. In particular, we focused on: • key relevant controls over derivative valuation and hedge accounting application; • the model for valuation of derivative instruments; • the assessment of hedge documentation, hedge relationship and hedge designation for compliance with the requirements of IAS 39; • the assessment and measurement of hedge accounting effectiveness. See Note 8 to the consolidated financial statements on pages 37-39.	We assessed the design and implementation, and tested the operating effectiveness of relevant controls over the valuation of derivative financial instruments and hedge accounting application. We critically analysed the hedge documentation and compliance with the conditions for hedge accounting. We assessed the methodologies and models used in derivatives valuation, key judgements and assumptions made. For selected significant financial instruments, we made our own valuations using independent source of information and compared the results to that of the Group. We tested the Group's hedge accounting application, assessment of hedge effectiveness to determine whether there were any hedge relationships that should be discontinued as well as measurement of hedge ineffectiveness recognized in the income statement. Overall, in our view, in the context of the inherent uncertainties, these valuations were within a reasonable range of outcomes and the hedge accounting requirements are met and appropriately reflected in the consolidated financial statements.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Information Technology systems and controls We focused on this area because the Group's financial accounting and reporting systems are heavily dependent on complex information technology (the "IT") systems and the appropriate design and operating effectiveness of automated accounting procedures and technology-dependent manual controls. We also focused on post-migration processes, which were implemented by the Bank to assess and eliminate the deficiencies identified due to migration to the new IT systems in 2016.	We assessed and tested the design and operating effectiveness of the controls over the continued integrity of the IT systems that are relevant to financial accounting and reporting process. We examined the Group's IT system's governance and change management environment, in particular the controls over program development and changes, access rights to programs and data and IT operations, including compensating controls where required. We tested the post-migration process implemented for identifying and eliminating the deficiencies that occurred as a result of migration to the new IT systems in 2016. Where necessary we also carried out direct tests of certain aspects of the security of the Group's IT systems including access management and segregation of duties. The combination of the tests of the controls and the direct tests that we carried out gave us sufficient evidence to enable us to rely on the Group's IT systems for the purposes of our audit.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual report, but does not include the consolidated financial statements and our auditor's report thereon. The Annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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 IFRSs, 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.

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

(Continued)

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

- Identify and assess the risks of material misstatement of the 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 auditor's 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 auditor's 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 to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters.

Report on procedures performed in accordance with the Federal Law No. 395-1 "On Banks and Banking Activities" dated 2 December 1990

Management of the Group is responsible for compliance with the obligatory ratios established by the Bank of Russia (the "obligatory ratios"), as well as for compliance of the Group's internal control and risk management systems with the Bank of Russia (the "CBRF") requirements.

According to Article 42 of the Federal Law No. 395-1 "On Banks and Banking Activities" (the "Federal Law") in the course of our audit of the Group's annual financial statements for 2017 we performed procedures with respect to the Group's compliance with the obligatory ratios as at January 1, 2018 and compliance of its internal control and risk management systems with the CBRF requirements.

We have selected and performed procedures based on our judgment, including inquiries, analysis and review of documentation, comparison of the Group's policies, procedures and methodologies with the CBRF requirements, as well as recalculations, comparisons and reconciliations of numeric values and other information.

We report our findings below:

1. with respect to the Group's compliance with the obligatory ratios: the obligatory ratios as at January 1, 2018 were within the limits established by the CBRF.

   We have not performed any procedures with respect to the Group's financial information other than those we considered necessary to express our opinion on whether the annual financial statements of the Group present fairly, in all material respects, the financial position of the Group as at December 31, 2017, its financial performance and its cash flows for 2017 in accordance with International Financial Reporting Standards.

2. with respect to compliance of the Group's internal control and risk management systems with the CBRF requirements:

(a) in accordance with the CBRF requirements and recommendations as at December 31, 2017 the Group's internal audit department was subordinated and accountable to the Group's Supervisory Board and the Group's risk management departments were not subordinated or accountable to the departments undertaking the respective risks, the heads of the Bank's risk management and internal audit departments comply with qualification requirements established by the CBRF;

(b) as at December 31, 2017, the Group had duly approved in accordance with the CBRF requirements and recommendations the internal policies regarding identification and management of significant risks, including credit, operating, market, interest rate, legal, liquidity, and reputational risks, as well as regarding performance of stress-testing;

(c) as at December 31, 2017, the Group had a reporting system with regard to the Group's significant credit, operating, market, interest rate, legal, liquidity and reputational risks, and with regard to the Group's capital;

(d) frequency and sequential order of reports prepared by the Group's risk management and internal audit departments in 2017 on management of credit, operating, market, interest rate, legal, liquidity and reputational risks were in compliance with the Group's internal policies; these reports included results of monitoring by the Group's risk management and internal audit departments of effectiveness of the Group's respective methodologies and improvement recommendations;

(e) as at December 31, 2017, the authority of the Group's Supervisory Board and the Group's executive bodies included control over compliance with the risk limits and capital adequacy ratios established by the Group. In order to control effectiveness and consistency of application of the Group's risk management policies, during 2017 the Group's Supervisory Board and the Group's executive bodies have regularly discussed reports prepared by the risk management and internal audit departments and have considered proposed corrective measures.

We have carried out the procedures with respect to the Group's internal control and risk management systems solely to report on the findings related to compliance of the Group's internal control and risk management systems with the CBRF requirements.

Neklyudov Sergei Vyacheslavovich
Engagement partner

19 March 2018

Audited entity: AO UniCredit Bank

Licensed by the Central Bank of the Russian Federation on 22 December 2014, License #1.

Primary State Registration Number: 1027739082106

Certificate of registration in the Unified State Register series 77 #. 007773325 of 19.08.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39

9, Prechistenskaya emb., Moscow, Russia 119034.

Audit Firm: ZAO "Deloitte & Touche CIS"

Certificate of state registration # 018.482, issued by the Moscow Registration Chamber on 30.10.1992.

Primary State Registration Number: 1027700425444

Certificate of registration in the Unified State Register series 77 No. 004840299 of 13.11.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation # 39.

Member of Self-regulated organization of auditors "Russian Union of auditors" (Association), ORNZ 11603080484.

Consolidated Statement of Financial Position

as at 31 December 2017
(in thousands of Russian Roubles)

	Notes	31 December 2017	31 December 2016
ASSETS			
Cash and cash balances	5	30 202 650	58 588 565
Trading securities	6		
- held by the Group		20 064 838	1 154 603
- pledged under repurchase agreements		804 699	1 251 058
Amounts due from credit institutions	7	292 420 614	269 500 170
Derivative financial assets	8	37 985 906	41 257 596
Derivative financial assets designated for hedging	8	7 860 608	12 738 828
Changes in fair value of portfolio hedged items	8	2 661 127	1 695 189
Loans to customers	9	668 523 180	677 010 924
Investment securities:	10		
- available-for-sale			
- held by the Group		76 211 952	40 921 909
- pledged under repurchase agreements		1 254 314	19 704 611
- held-to-maturity			
- held by the Group		29 937 423	30 704 604
- pledged under repurchase agreements		-	212 666
Fixed assets	12	4 909 170	5 207 034
Intangible assets	13	7 452 804	6 510 549
Current income tax assets		-	14 113
Other assets	15	5 852 338	5 777 354
TOTAL ASSETS		**1 186 141 623**	**1 172 249 773**
LIABILITIES			
Amounts due to credit institutions	16,19	85 426 996	152 108 660
Financial liabilities held for trading	7,9	26 399 813	4 344 152
Derivative financial liabilities	8	15 658 296	16 857 167
Derivative financial liabilities designated for hedging	8	10 649 841	12 338 707
Changes in fair value of portfolio hedged items	8	(1 140 107)	(146 303)
Amounts due to customers	17	827 103 325	779 101 902
Debt securities issued	18	6 509 793	6 507 846
Deferred income tax liabilities	14	4 497 677	7 573 053
Current income tax liabilities		152 459	1 624 170
Other liabilities	15	10 650 121	10 265 514
TOTAL LIABILITIES		**985 908 214**	**990 574 868**

	Notes	31 December 2017	31 December 2016
EQUITY			
Share capital	20	41 787 806	41 787 806
Share premium		437 281	437 281
Cash flow hedge reserve		(268 860)	15 759
Revaluation reserve for available-for-sale securities		226 583	(559 841)
Retained earnings		158 050 599	139 993 900
TOTAL EQUITY		**200 233 409**	**181 674 905**
TOTAL LIABILITIES AND EQUITY		**1 186 141 623**	**1 172 249 773**

M. Alekseev
Chairman of the Board of Management

16 March 2018

G. Chernysheva
Chief Accountant

The accompanying notes on pages 86 to 139 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

for the Year Ended 31 December 2017
(in thousands of Russian Roubles)

	Notes	2017	2016
Interest income and similar revenues			
Loans to customers		58 529 921	67 969 146
Derivative financial instruments		26 950 793	22 888 291
Amounts due from credit institutions		9 862 610	11 634 977
Margin from derivative financial instruments designated for hedging	8	4 567 881	7 965 385
Trading and investment securities		6 308 158	6 996 042
		106 219 363	**117 453 841**
Interest expense and similar charges			
Amounts due to customers		(33 346 504)	(39 291 263)
Derivative financial instruments		(23 899 945)	(20 958 490)
Amounts due to credit institutions		(7 000 865)	(10 175 531)
Debt securities issued		(712 421)	(1 928 718)
		(64 959 735)	**(72 354 002)**
Net interest income		**41 259 628**	**45 099 839**
Fee and commission income	23	10 006 243	9 944 134
Fee and commission expense	23	(3 003 777)	(3 967 626)
Net fee and commission income		**7 002 466**	**5 976 508**
Dividend income		2	4
Gains on financial assets and liabilities held for trading	22	1 633 637	2 147 321
Fair value adjustments in portfolio hedge accounting	8	(85 982)	(369 734)
Gains on disposal of:			
- loans		650 708	99 294
- available-for-sale financial assets		1 206 050	233 863
OPERATING INCOME		**51 666 509**	**53 187 095**
Impairment on:			
- loans	9	(10 075 626)	(17 218 380)
- other financial transactions		(1 088 098)	(369 951)
NET INCOME FROM FINANCIAL ACTIVITIES		**40 502 785**	**35 598 764**
Personnel expenses	24	(8 849 268)	(8 747 579)
Other administrative expenses	24	(6 567 260)	(6 433 723)
Depreciation of fixed assets	12	(743 689)	(637 604)
Impaiment of fixed assets	12	(94 592)	-
Amortization of intangible assets	13	(1 340 754)	(1 223 895)
Other provisions		15 008	(622 547)
Net other operating expenses		(207 777)	(343 056)
Operating costs		**(17 788 332)**	**(18 008 404)**
(Losses)/gains on disposal of fixed assets		(689)	11 686
PROFIT BEFORE INCOME TAX EXPENSE		**22 713 764**	**17 602 046**
Income tax expense	14	(4 657 065)	(3 578 795)
PROFIT FOR THE YEAR		**18 056 699**	**14 023 251**

	Notes	2017	2016
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit and loss			
Cash flow hedge reserve – effective portion of changes in fair value, net of tax:			
- fair value changes	14	(290 251)	751 708
- reclassification adjustment relating to financial assets and liabilities designated for hedging disposed of in the year	14	5 632	29 591
Revaluation reserve for available-for-sale securities, net of tax:			
- fair value changes	14	586 917	2 051 958
- reclassification adjustment relating to available-for-sale financial assets disposed of in the year	14	199 507	291 134
Other comprehensive income for the year, net of tax		**501 805**	**3 124 391**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**18 558 504**	**17 147 642**

M. Alekseev
Chairman of the Board of Management

16 March 2018

G. Chernysheva
Chief Accountant

The accompanying notes on pages 86 to 139 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

for the Year Ended 31 December 2017
(in thousands of Russian Roubles)

	Share capital	Share premium	Cash flow hedge reserve	Revaluation reserve for available-for-sale securities	Retained earnings	Total equity
1 January 2016	**41 787 806**	**437 281**	**(765 540)**	**(2 902 933)**	**125 970 649**	**164 527 263**
Total comprehensive income						
Profit for the year	-	-	-	-	14 023 251	14 023 251
Other comprehensive income						
Change in cash flow hedge reserve, net of tax (Note 14)	-	-	781 299	-	-	781 299
Net change in revaluation reserve for available-for-sale securities, net of tax (Note 14)	-	-	-	2 343 092	-	2 343 092
Total other comprehensive income	**-**	**-**	**781 299**	**2 343 092**	**-**	**3 124 391**
TOTAL COMPREHENSIVE INCOME	**-**	**-**	**781 299**	**2 343 092**	**14 023 251**	**17 147 642**
31 December 2016	**41 787 806**	**437 281**	**15 759**	**(559 841)**	**139 993 900**	**181 674 905**
1 January 2017	**41 787 806**	**437 281**	**15 759**	**(559 841)**	**139 993 900**	**181 674 905**
Total comprehensive income						
Profit for the year	-	-	-	-	18 056 699	18 056 699
Other comprehensive income						
Change in cash flow hedge reserve, net of tax (Note 14)	-	-	(284 619)			(284 619)
Net change in revaluation reserve for available-for-sale securities, net of tax (Note 14)	-	-	-	786 424		786 424
Total other comprehensive income	**-**	**-**	**(284 619)**	**786 424**	**-**	**501 805**
TOTAL COMPREHENSIVE INCOME	**-**	**-**	**(284 619)**	**786 424**	**18 056 699**	**18 558 504**
31 December 2017	**41 787 806**	**437 281**	**(268 860)**	**226 583**	**158 050 599**	**200 233 409**

M. Alekseev
Chairman of the Board of Management

16 March 2018

G. Chernysheva
Chief Accountant

The accompanying notes on pages 86 to 139 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

for the Year Ended 31 December 2017
(in thousands of Russian Roubles)

	Notes	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		114 392 817	116 243 579
Interest paid		(82 693 914)	(81 879 165)
Fees and commissions received		10 239 523	10 347 433
Fees and commissions paid		(2 941 535)	(4 091 289)
Net receipts from trading securities		(165 783)	8 492
Net payments from derivatives and dealing in foreign currencies		(5 985 933)	(17 446 453)
Salaries and benefits paid		(7 393 810)	(7 301 010)
Other operating expenses paid		(6 160 109)	(5 352 150)
Cash flows from operating activities before changes in operating assets and liabilities		**19 291 256**	**10 529 437**
Net (increase) / decrease in operating assets			
Obligatory reserve with the CBR		(2 810 220)	(2 407 050)
Trading securities		(17 951 463)	1 233 616
Amounts due from credit institutions		(15 588 388)	14 812 462
Loans to customers		(19 004 594)	99 920 590
Other assets		151 740	(2 737 183)
Net (decrease) / increase in operating liabilities			
Amounts due to credit institutions		(63 557 748)	(8 456 708)
Financial liabilities held for trading	7,9	22 055 661	4 344 152
Amounts due to customers		73 851 121	(33 527 471)
Other liabilities		2 575 426	3 667 077
Net cash (used in)/from operating activities before income tax		**(987 209)**	**87 378 922**
Income tax paid		(9 315 490)	(708 469)
Net cash from operating activities		**(10 302 699)**	**86 670 453**
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividends received		2	4
Purchase of available-for-sale investment securities		(68 808 390)	(8 625 544)
Proceeds from redemption and sale of available-for-sale investment securities		53 129 877	17 739 270
Purchases of held-to-maturity investment securities		-	(16 258 912)
Proceeds from sale of fixed and intangible assets		1 939	6 815
Purchase of fixed and intangible assets		(2 500 219)	(2 323 413)
Net cash used in investing activities		**(18 176 791)**	**(9 461 780)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Redemption of bonds issued on maturity		-	(15 205 218)
Redemption of bonds issued under put option		-	(10 711 307)
Redemption of subordinated debt		-	(14 233 680)
Net cash used in financing activities		**-**	**(40 150 205)**
Effect of exchange rates changes on cash and cash balances		93 575	(1 200 716)
Net (decrease)/increase in cash and cash balances		**(28 385 915)**	**35 857 752**
CASH AND CASH BALANCES, beginning of the year	**5**	**58 588 565**	**22 730 813**
CASH AND CASH BALANCES, ending of the year	**5**	**30 202 650**	**58 588 565**

M. Alekseev
Chairman of the Board of Management

16 March 2018

G. Chernysheva
Chief Accountant

The accompanying notes on pages 86 to 139 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

(in thousands of Russian Roubles)

1. Principal activities

These consolidated financial statements include the financial statements of AO UniCredit Bank (hereinafter – the “Bank”) and its subsidiary. AO UniCredit Bank and its subsidiary are hereinafter collectively referred to as the “Group”.

The Bank (the former International Moscow Bank) was established in 1989 as a closed joint-stock company under the laws of the Russian Federation. The Bank operates under General Banking License of the Central Bank of Russia (hereinafter – the “CBR”) for banking operations as well as the license of the CBR for operations with precious metals, both issued on 22 December 2014 for No.1. The Bank also possesses licences of the professional securities market participant for dealing, brokerage and depository activities issued by the Federal Securities Commission on 25 April 2003, as well as authorized to speak to the customs authorities as a guarantor. The Bank is a member of the state deposit insurance system in the Russian Federation.

As at 31 December 2017 the Group comprises the Bank, the leading operating entity of the Group, and LLC UniCredit Leasing, a leasing company as its subsidiary. LLC UniCredit Leasing owns 100% of the shares in ZAO Locat Leasing Russia. Both companies operate in the financial leasing industry on the local market.

The consolidated financial statements include the following subsidiary:

	Ownership, %			
Entities	**2017**	**2016**	**Country**	**Industry**
LLC UniCredit Leasing	100%	100%	Russia	Finance

As at 31 December 2017 the sole shareholder of the Group is UniCredit S.p.A.

The primary activities of the Group are deposit taking, lending, providing payments and settlement services, transactions with foreign currencies and securities and providing finance leases.

As at 31 December 2017 and 31 December 2016 the Bank has 13 branches and 11 representative offices throughout the Russian Federation and one representative office in the Republic of Belarus.

The Bank’s registered legal address is 9, Prechistenskaya Embankment, Moscow, Russian Federation, 119034.

2. Significant accounting policies

Statement of compliance. These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (hereinafter – “IFRS”).

Going concern. These consolidated financial statements have been prepared on the going concern basis. The Group has no intention or need to reduce substantially its business operations.

The management and shareholder have the intention to further develop the business of the Group in the Russian Federation both in corporate and retail segments. The management believes that the going concern assumption is appropriate for the Group due to its sufficient capital adequacy ratio and based on historical experience that short term obligations will be refinanced in the normal course of business.

Basis of measurement. These consolidated financial statements are prepared on the historical cost basis except that financial instruments held for trading, available-for-sale assets and derivative financial instruments are stated at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:
- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Accounting standards. The Bank and its consolidated companies, registered in the Russian Federation, maintain their accounting records in accordance with Russian Accounting Standards (hereinafter – “RAS”). These consolidated financial statements have been prepared from the statutory accounting records and have been adjusted to conform to IFRS.

Presentation currency. These consolidated financial statements are presented in Russian Roubles ("RUB"). Amounts in Russian Roubles are rounded to the nearest thousand.

Principles of consolidation. These consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank. Control is achieved when the Bank:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Bank has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:

- the size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Bank, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.
- Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control over the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Bank and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries and associates to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in subsidiaries. Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. 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 owners of the Bank.

When the Group loses control over the subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under International Accounting Standard ("IAS") 39, or when applicable, as the cost on initial recognition of an investment in an associate or a joint venture.

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated using the equity method of accounting. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

Unrealised gains resulting from transactions with associates are eliminated against the investment in the associates. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

Financial assets

Initial recognition. Financial assets in the scope of International Accounting Standard 39 Financial Instruments: Recognition and Measurement are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets upon initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loan and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the entity has an intention and ability to hold it for the foreseeable future or until maturity. Other financial instruments may be reclassified out of fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

The Group recognises financial assets and liabilities on its consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets and liabilities are recognised at the settlement date.

Financial instruments at fair value through profit or loss. 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;
- Derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments); or,
- Upon initial recognition, designated by the Group as at fair value through 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.

Gains or losses on financial assets held for trading are recognised in profit or loss.

Held-to-maturity investments. Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity. Held to maturity investments are measured at amortised cost using the effective interest method less any impairment.

If the Group was to sell or reclassify more than an insignificant amount of held to maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Group would be prohibited from classifying any financial asset as held to maturity during the current financial year and following two financial years.

Loans and receivables. 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;
- Upon initial recognition designates as at fair value through profit or loss;
- Upon initial recognition designates as available-for-sale; or,
- May not recover substantially all of its initial investment, other than because of credit deterioration.

Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

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

Available-for-sale assets are subsequently measured at fair value. Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

Determination of fair value. 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, regardless of whether that price is directly observable or estimated using another valuation technique. The fair value for financial instruments traded in an active market at the reporting date is based on their quoted market price or dealer price quotations. If a quoted market price is not available, the fair value of the instrument is estimated using valuation techniques with a maximum use of market inputs. Such valuation techniques include reference to recent arm's length market transactions, current market prices of substantially similar instruments, discounted cash flow and option pricing models and other techniques commonly used by market participants to price the instrument.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the reporting date.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Group would receive or pay to terminate the contract at the reporting date taking into account current market conditions and the current creditworthiness of the counterparties.

Offsetting. Financial assets and financial liabilities are offset and the net amount is 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 to realise the asset and settle the liability simultaneously. Income and expense is not offset in the consolidated statement of comprehensive income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

Cash and cash balances. The Group considers cash and nostro accounts with the CBR to be cash and cash balances. The obligatory reserve deposit with the CBR is not considered to be in this category due to restrictions on its availability.

Obligatory reserve with the CBR. Obligatory reserve with the CBR represent obligatory reserve deposits with the CBR, which are not available to finance the Group's day-to-day operations.

Derivative financial instruments. In the normal course of business, the Group enters into various derivative financial instruments including futures, forwards, interest rate swaps and cross-currency interest rate swaps. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments, except for derivatives designated for hedging, are included in profit or loss as gains or losses on financial assets and liabilities held for trading.

The Group books the credit risk of the counterparty as a fair value adjustment for those over-the-counter derivative trades, where master netting agreement exist. Credit risk expressed in the form of credit value adjustment (hereinafter – "CVA") and debit value adjustment (hereinafter – "DVA") is determined on a portfolio basis with the counterparty. Determining CVA/DVA on a net portfolio basis has resulted in adjustments booked individually for derivative financial assets and derivative financial liabilities held for trading (see Note 8 for details).

Hedge accounting. In hedge accounting, the Group distinguishes between cash flow hedges and fair value hedges. 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 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.

Fair value hedge is defined as a hedge of the exposure to changes in fair value of a recognised asset or liability that is attributable to a particular risk and could affect profit or loss. In a fair value hedge assets or liabilities are hedged against future fair value changes, if those changes affect the Group's results and are caused by a determinable risk. The hedging instrument is stated at its fair value, and any gains or losses on the hedging instrument are recognised in profit or loss as fair value adjustments in portfolio hedge accounting. Gains and losses which are attributable to the hedged risk adjust the carrying value of the hedged item. Changes in the fair value of portfolio hedged items are presented separately in the consolidated statement of financial position and recognized in the consolidated statement of comprehensive income as fair value adjustments in portfolio hedge accounting.

Credit risk expressed in the form of CVA and DVA is also incorporated in the calculation of the fair value of derivative financial assets and derivative financial liabilities designated for hedging (see Note 8 for details).

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

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

Securities purchased under agreements to resell ("reverse repo") and then sold under repurchase agreements are not recorded in the consolidated statement of financial position.

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

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 recognised in profit or loss.

Leases

Finance lease. Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

When the Group enters into finance lease as a lessor the present value of lease payments are recognised as loans to customers at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Operating lease. Where the Group is the lessee in a lease agreement where the lessor does not transfer substantially all of the risks and rewards incidental to ownership of the asset, the arrangement is accounted for as an operating lease. The leased asset is not recognised in the consolidated financial statements, and lease payments are recognised in profit or loss on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

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

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

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

The Group estimates impairment for loans to corporate customers based on the following approach:

- For exposures for which no identifications of impairement has been identified on an individual basis, the calculation is based on portfolio (statistical) assessment which takes into account historical loss experience, probability of default and loss given default.
- For impaired exposures the calculation is done on individual assessment and is based on the analysis of discounted future cash flows.

The Group estimates impairement for loans to retails customers based on portfolio (statistical) assessment which takes into account historical loss experience for each type of loans, probability of default and loss given default.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral. For purposes of impairment calculation the Group takes into account liquid collateral, reduced by haircut for certain type of collateral.

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

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

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

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.

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

Renegotiated loans. Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an impairment assessment, calculated using the loan's original effective interest rate.

Write off of loans and advances. Loans and advances are written off against the allowance for impairment losses when deemed uncollectible. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Group and after the Group has sold all available collateral. Subsequent recoveries of amounts previously written off are reflected as an offset to the charge for impairment of financial assets in the consolidated statement of comprehensive income for the period of recovery.

Repossessed assets. In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. Repossessed assets are measured at the lower of carrying amount and fair value less costs to sell.

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 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.

Derecognition of financial assets and liabilities

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

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

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

Financial liabilities. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

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

Taxation. Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognised directly in equity, in which case it is recognised within other comprehensive income or directly within equity.

The current income tax expense is calculated in accordance with the regulations of the Russian Federation and of the regions in which the Group has offices, or where its branches, subsidiaries and associates are located. Current tax expense 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 income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefits will be realised.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

There are various operating taxes in the Russian Federation that are assessed on the Group's activities. These taxes are included as a component of other administrative expenses in the consolidated statement of comprehensive income.

Fixed assets. Fixed assets are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	20-30
Furniture and fixtures	3-5
Computer equipment	3
Leasehold improvements	lesser of the useful life of the asset and period of lease
Other fixed assets	3-5

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

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets. Intangible assets include licenses and computer software. Licenses are stated at historical cost net of accumulated amortisation and any accumulated impairment losses. Amortisation is provided so as to write down the cost of an asset on a straight-line basis over its estimated useful economic life. The useful life is currently assessed as not more than 10 years. In case of license obtaining with actual usage for a period of more than 10 years, the useful life is considered till the date, fixed in the contract.

Software development costs (relating to the design and testing of new or substantially improved software) are recognised as intangible assets only when the Group can demonstrate the technical feasibility of completing the software so that it will be available for use or sale, its intention to complete and its ability to use the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during the development. Other software development costs are recognised as an expense as incurred. Computer software development costs recognised as intangible assets, as well as acquired computer software, are initially recorded at historical cost and are subsequently amortised using the straight-line method over their useful lives, but not exceeding a period of ten years.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Credit related commitments. In the normal course of business, the Group enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require 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. Impairment for credit-related commitments is recognized on exposures with customers, for which the probability of default is within the range from 50% to 100%.

Financial guarantee liabilities and provisions for other credit related commitment are included in other liabilities.

Fiduciary activities. The Group also provides depositary services to its customers which include transactions with securities on their depositary accounts. Assets accepted and liabilities incurred under the fiduciary activities are not included in the Group's financial statements. The Group accepts the operational risk on these activities, but the Group's customers bear the credit and market risks associated with such operations.

Collateral. The Group obtains collateral in respect of customer liabilities where this is considered appropriate.

The collateral normally takes the form of a lien over the customer's assets and gives the Group a claim on these assets for both existing and future customer liabilities.

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

Retirement and other employee benefit obligations. The Group makes contributions to the State Pension System of the Russian Federation, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned.

The Group also provides defined contribution pension coverage for employees. The coverage provided does not represent contributions into a separate legal entity, nor are its assets and liabilities segregated from the assets and liabilities of the Group. Contributions accrued by the Group during the period are included in profit or loss as personnel expenses, and related liabilities to employees are recorded within other liabilities.

Share capital. Ordinary shares are classified as equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as share premium.

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

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 relating 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.

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

Recognition of income and expenses. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

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

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

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

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

<u>Fee income from providing transaction services.</u> Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Dividend income. Dividend income is recognised in profit or loss on the date when the dividend is declared.

Foreign currency translation. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Management determined the functional currency for all Group entities to be the RUB as it reflects the economic substance of the underlying events and circumstances of the Group. Transactions in foreign currencies are translated to the functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in profit or loss as gains or losses on financial assets and liabilities held for trading. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Differences between the contractual exchange rate of a transaction in a foreign currency and the CBR exchange rate on the date of the transaction are included in gains or losses on financial assets and liabilities held for trading.

The exchange rates used by the Group in the preparation of the consolidated financial statements as at year-end are as follows:

	31 December 2017	31 December 2016
RUB/1 US Dollar	57.6002	60.6569
RUB/1 Euro	68.8668	63.8111

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

Amendments to IAS 7 Disclosure Initiative. The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

A reconciliation between the opening and closing balances of liabilities arising from financing activities is provided in note 18 and 28. Apart from the disclosure in note 18 and 28, the application of these amendments has had no impact on the Group's consolidated financial statements. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior period.

Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses. The Group has applied these amendments for the first time in the current year. The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilize a deductible temporary difference.

The application of these amendments has had no impact on the Group's consolidated financial statements as the Group already assesses the sufficiency of future taxable profits in a way that is consistent with these amendments.

Annual Improvements to IFRSs – 2014-2016 Cycle. The Group has applied the amendments to IFRS 12 included in the Annual Improvements to IFRSs 2014-2016 Cycle for the first time in the current year. The other amendments included in this package are not yet mandatorily effective and they have not been early adopted by the Group.

IFRS 12 states that an entity need not provide summarised financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of IFRS 12 for such interests.

The application of these amendments has had no effect on the Group's consolidated financial statements as none of the Group's interests in these entities are classified, or included in a disposal group that is classified, as held for sale.

New and revised IFRSs in issue but not yet effective. The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 9	Financial Instruments[1]
IFRS 15	Revenue from Contracts with Customers (and the related Clarifications)[1]
IFRS 16	Leases[2]
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 40	Transfers of Investment Property[1]
Amendments to IFRSs	Annual Improvements to IFRS Standards 2014-2016 Cycle[1]
IFRIC 22	Foreign Currency Transactions and Advance Consideration[1]

IFRS 9 "Financial Instruments" highlights the following:

introduces significant changes, compared to IAS 39, to classification and measurement of loans and debt instruments based on the "business model" and on the characteristics of the cash flows of the financial instrument (criteria SPPI - Solely Payments of Principal and Interests, hereinafter – "SPPI");

- requires the classification of the equity instruments at fair value either through profit or loss or through other comprehensive income. In this second case, unlike previous requirements for available for sale assets set by IAS 39, IFRS 9 has eliminated the request to recognize impairment losses and provide for, in case of disposal of the instruments, the gain or losses from disposal shall be recycled to other equity reserve and not to profit and loss accounts;
- introduces a new accounting model for impairment, based on (i) expected losses approach substituting the current approach based on the incurred losses, and (ii) will introduce the concept of "lifetime" expected losses, and consequently an anticipation and a structural increase of the provisioning with particular reference to credit losses;
- works on the hedge accounting model rewriting the rules for the designation of a hedge accounting relationship and for the verification of its effectiveness in order to achieve a stronger alignment between the hedge accounting treatment and the underlying risk management logic. It should be noted that the principle allows the entity to make use of the possibility to continue to apply IAS39 hedge accounting rules until the IASB has completed the project on definition of macro-hedging rules; and
- changes the accounting treatment of "own credit risk", in other words changes in the fair value of issued debt liabilities that are designated at fair value not attributable to changes of the own credit price. The new accounting standard requires these changes shall be recognized in a specific equity reserve, rather than to the income statement, as requested under IAS39, therefore removing a volatility source from the economic results.

Mirroring the main changes required by IFRS 9, the Group wide project has been organized through work-streams specifically:

- Classification and Measurement work-stream, aimed at reviewing the classification of the financial instruments according to new IFRS 9 criteria,
- Impairment work-stream, aimed at developing and implementing models and methodologies for impairment calculation.

The whole project is being developed with the involvement of all the relevant departments of the Bank and with an active involvement of Board of Management.

With reference to "Classification and Measurement" work-stream, the Group has:

- identified the criteria, based on the new business model and on the features of the associated contractual cash flows, for the classification of financial instruments in the new categories foreseen by the accounting standard;
- applied the criteria identified for the classification of the existing portfolio.

The analysis of the business model has been performed by mapping the business areas composing the Group and by attributing them a specific business model.

In this regard, a "held to collect" or "held to collect and sell" business model has been attributed to the business areas composing the banking portfolio of the Group in relation to the reasons why the instrument has been acquired or originated and to the expected turnover of financial instruments.

In this context, possible sales of financial instruments are considered as compliant with a "held to collect" business model in case of (i) securitization transactions that do not achieve the derecognition of the underlying loans, (ii) sales determined by adverse change in the credit risk of the counterparty, (iii) sales that are infrequent or not significant to be evaluated case by base.

A business model "other" has been assigned to the business areas composing the trading portfolio of the Group so to reflect the trading intent.

For the classification of financial assets in the new IFRS 9 categories, the analysis of the business model is complemented by the analysis of the contractual cash flows ("SPPI Test").

1 Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

2 Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.

3 Effective for annual periods beginning on or after a date to be determined.

Notes to Consolidated Financial Statements (Continued)

2. Significant accounting policies (Continued)

In this regard, the Group has developed processes and systems aimed at analyzing the portfolio of securities and loans so to assess whether the features of their contractual cash flows allows their measurement at amortized cost ("held to collect" portfolio) or at fair value through comprehensive income ("held to collect and sell" portfolio).

This analysis is performed either contract by contract or by clusters, defined on the basis of the features of the asset, and using a specific tool internally developed in order to analyze the feature of the contracts in comparison with IFRS 9 requirements.

In this context the result of the SPPI test is not affected by prepayment features with negative compensation embedded in the contract.

Equity instruments will be measured at fair value through profit or loss or comprehensive income depending on their features and the reasons for which they have been acquired.

Furthermore, specific adjustments have been developed on Probability of Default (hereinafter – "PD"), Loss Given Default (hereinafter – "LGD") and Exposure At Default (hereinafter – "EAD") parameters to compound the Expected Credit Loss (hereinafter – "ECL"), and a new model has been developed to assess the Stage Allocation on unimpaired assets, at transaction level, between Stage 1 and Stage 2.

The main difference between the two stages is referred to the time horizon which the ECL is expected to be calculated on. As a matter of fact, for Stage 1 transactions a "1 year" ECL is required, while on Stage 2 transactions a "Lifetime" ECL applies.

On PD, LGD and EAD specific adjustments are applied to parameters already calculated by exsisting models. The main adjustments are such to:
- introduce a "point in time" adjustment;
- include forward-looking information;
- extend the credit risk parameters in a multiyear perspective.

As for what concerns the lifetime PDs, the through-the-cycle PD curves, obtained by fitting the observed cumulated default rates, have been calibrated to reflect a point in time and forward-looking expectation about the portfolio default rates.

Recovery rate embedded in the through the cycle LGD have been adjusted to reflect the most recent recovery rate trend as well as expectation about future trend and discounted at the effective interest rate or its best approximation.

The lifetime EAD has been obtained by extending the 1 year managerial model and including expectation about future drawing levels.

The Expected Credit Loss derived from such adjusted parameters has been compounded also taking into consideration macroeconomic forecasts and applying multiple scenarios to the forward looking component so to offset the partial non linearity naturally embedded in the correlation between macroeconomic changes and the key components of the ECL.

Specifically, the non-linearity effect has been incorporated by estimating an overlay factor to be directly applied to the portfolio ECL.

The process set up to include such macroeconomic multiple scenario is fully consistent with macroeconomic forecasts processes used in Unicredit Group for other risk relevant.

A key aspect deriving from the new model in compounding the final Expected Credit Loss is represented by the Stage allocation model, aimed to allocate credit transactions between Stage 1 and Stage 2 (Stage 3 being equivalent to Impaired assets), whereas Stage 1 mainly includes (i) newly originated exposures, (iii) exposures with "no significant deterioration in credit quality since initial recognition" or (iii) "low credit risk" exposures at the reporting date.

The stage allocation assessment includes a combination of relative and absolute triggers. Main triggers include:
- the relative comparison, at transaction level, between the PD at origination and the PD at each reporting date, both calculated through internal models, with thresholds set in such a way to consider all the key variables of each transaction that could affect expectation about PD changes over time (e.g. age, maturity, level of PD at origination).
- absolute triggers such as backstops required by the regulation (i.e. 30 days past due)
- other internal relevant triggers (e.g. new classifications to Forborne).

Also impairment calculated on impaired assets has been adjusted as required by the new regulation, in order to include (i) adjustments on both collectively and individually assessed transactions and (ii) multiple scenarios applicable to this class of assets.

In this evaluation, also expected disposal scenarios are considered as far as Group non-performing assets strategy foresees the recovery of defaulted assets also through their transfer. For this purpose the recoverable amount of credit exposures will be determined at portfolio level by calculating a weighted average of the recoveries expected through the internal work-out process and the expected sale prices; both scenarios are weighted in accordance with the level of sales anticipated for the specific portfolio by the Non-Performing Asset strategy.

With reference to hedge accounting the Group opted to keep applying the existing hedge accounting requirements in IAS 39 for all hedge accounting until the IASB will complete its project on accounting for macro hedging.

With reference to the implementation of the methodological framework and tools described above in the daily operations the Group, in line with the project timeline, has designed the final IT architecture, and is finalizing the development of the organizational processes and procedures.

The Group plans to use the transitional relief allowed by the standard and will not publish comparatives figures in the 2018 financial reports.

At the date of first time application, the main impacts of IFRS 9 are expected to come from the application of the new model for impairment based on an expected losses approach, which is expected to cause an increase of write-downs made on financial assets (especially loans to customers), as well as the application of the new transfer logic between the different Stages provided for by the new standard. In particular, a greater volatility is expected to be generated in the financial results between different reporting periods due to the dynamic changes between different "Stages" of the financial assets recognized in the financial statements (especially between "Stage1", which will include the new positions originated as well as all performing loans, and "Stage2" which will include positions in financial instruments that have suffered a significant credit risk deterioration since initial recognition).

The effects arising from IFRS 9 adoption in term of impairment on Tier I capital can be preliminarily estimated up to 10% on amount of Tier I capital gross of tax effect. This effect is mostly driven by the introduction of lifetime ECL on credit exposures allocated in Stage 1 and 2.

With reference to "Classification and Measurement", no significant reclassifications of loans at fair value through profit or loss due to the characteristics of the cash flows (SPPI criterion) are expected. On the basis of actual business behavior debt securities category recognized as financial instruments measured at amortised costs was reestimated as having business model "held to collect and sell" on the date of the first time adoption of IFRS 9. The effect on Tier I capital can be preliminarily estimated as not significant.

IFRS 15 Revenue from Contracts with Customers. IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise 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. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts;
- Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises revenue when or as a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In April 2017, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

IFRS 16 Leases. IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions. The amendments clarify the following:

1. In estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments.
2. Where tax law or regulation requires an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employee's tax liability which is then remitted to the tax authority, i.e. the share-based payment arrangement has a 'net settlement feature', such an arrangement should be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature.
3. A modification of a share-based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows:
   (a) the original liability is derecognised;
   (b) the equity-settled share-based payment is recognised at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date; and

(c) any difference between the carrying amount of the liability at the modification date and the amount recognised in equity should be recognised in profit or loss immediately.

The amendments are effective for annual reporting periods beginning on or after 1 January 2018 with earlier application permitted. Specific transition provisions apply. The management of the Group does not anticipate that the application of the amendments in the future will have a significant impact on the Group's consolidated financial statements.

Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture. The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted. The management of the Group anticipates that the application of these amendments may have an impact on the Group's consolidated financial statements in future periods should such transactions arise.

Amendments to IAS 40 Transfers of Investment Property. The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred. The amendments further clarify that situations other than the ones listed in IAS 40 may evidence a change in use, and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties).

The amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. Entities can apply the amendments either retrospectively (if this is possible without the use of hindsight) or prospectively. Specific transition provisions apply.

The management of the Group anticipate that the application of these amendments may have an impact on the Group's consolidated financial statements in future periods should there be a change in use of any of its properties.

IFRIC 22 Foreign Currency Transactions and Advance Consideration addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (e.g. a non-refundable deposit or deferred revenue).

The Interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

The Interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. Entities can apply the Interpretation either retrospectively or prospectively. Specific transition provisions apply to prospective application.

The management of the Group do not anticipate that the application of the amendments in the future will have an impact on the Group's consolidated financial statements. This is because the Group already accounts for transactions involving the payment or receipt of advance consideration in a foreign currency in a way that is consistent with the amendments.

Annual Improvements to IFRSs 2014-2016 Cycle include amendments to IFRS 1 and IAS 28 which are not yet mandatorily effective for the Group.

The amendments to IAS 28 clarify that the option for a venture capital organization and other similar entities to measure investments in associates and joint ventures at FVTPL is available separately for each associate or joint venture, and that election should be made at initial recognition of the associate or joint venture. In respect of the option for an entity that is not an investment entity (IE) to retain the fair value measurement applied by its associates and joint ventures that are IEs when applying the equity method, the amendments make a similar clarification that this choice is available for each IE associate or IE joint venture. The amendments apply retrospectively with earlier application permitted.

Both the amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018. The management of the Group do not anticipate that the application of the amendments in the future will have any impact on the Group's consolidated financial statements as the Group is neither a first-time adopter of IFRS nor a venture capital organization. Furthermore, the Group does not have any associate or joint venture that is an investment entity.

3. Significant accounting judgements and estimates

Under the IFRS, management must make judgments, estimates and assumptions that affect the application of accounting principles and the amounts of assets and liabilities and income and expenses reported in the accounts, as well as the disclosure concerning potential assets and liabilities. Estimates and related assumptions are based on previous experience and other factors considered reasonable under the circumstances and have been used to estimate the carrying values of assets and liabilities not readily available from other sources.

Estimated figures have been used for the recognition of some of the largest value-based items in the consolidated financial statements as at 31 December 2017, as required by the accounting policies and regulations. The processes adopted confirm the carrying values as at 31 December 2017. Valuation is particularly difficult because of the uncertainty in the macroeconomic and market environment.
The parameters and information used to check the above-mentioned values were therefore significantly affected by such factors, which could change rapidly in ways that are currently unforeseeable, such that further effects on future carrying values cannot be ruled out.

Uncertainty affecting estimates is generally inherent in the measurement of:
- fair value of financial instruments not listed in active markets;
- loans and receivables, investments and, in general, any other financial assets/liabilities;
- provisions for risks and charges;
- deferred tax assets and liabilities;
- useful life of intangible assets.

These assessments may significantly change over time according to the trend in: domestic and international socioeconomic conditions and subsequent impact on the Group's profitability and customers' creditworthiness; financial markets which affect changes in interest rates and prices; real estate market affecting the value of property received as collateral.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

4. Operating segments

For the management purposes, the Group has four reporting business segments:

Corporate and Investment banking (hereinafter – "CIB") includes corporate lending, project and commodity and corporate structured finance, corporate sight and term deposit services, securities, foreign currency and derivatives trading and custody services.

Retail banking comprises banking services to private individuals and Small and Medium Entities (hereinafter – "SME"), credit and debit card services, retail sight and term deposit services, lending to SME and retail lending (consumer loans, car loans and mortgages).

Leasing **–** represents the leasing activities of the Group.

Other **–** represents the Group's funding activities and other unallocated items.

Information about each segment is measured on the same basis as the information used for decision making purposes for allocating resources to segments and assessing segment performance and is prepared on the same basis as the consolidated financial statements.

Transactions between the business segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between segments, resulting in funding cost transfers included in segment revenue. Interest charged for these funds is based on the Group's funds transfer pricing policy.

Notes to Consolidated Financial Statements (Continued)

4. Operating segments (Continued)

Segment breakdown of assets and liabilities is set out below:

	31 December 2017	31 December 2016
Assets		
CIB	896 130 421	795 402 685
Retail banking	123 712 238	112 704 869
Leasing	21 339 598	17 240 438
Other	144 959 366	246 901 781
Total assets	**1 186 141 623**	**1 172 249 773**
Liabilities		
CIB	672 598 151	718 941 087
Retail banking	263 701 533	213 138 287
Leasing	17 614 994	14 095 700
Other	31 993 536	44 399 794
Total liabilities	**985 908 214**	**990 574 868**

Due to the reclassification of transactions designated for hedging from the segment "Other" to CIB, the comparative information about the lines "Net interest income from external customers" and "Inter-segment (expense)/income" for the year ended 31 December 2016 were presented according to the new classification.

Segment information for the operating segments for the year ended 31 December 2017 is set out below:

	CIB	Retail Banking	Leasing	Other	Total
Net interest income from external customers	31 128 227	8 374 884	1 267 733	488 784	41 259 628
Inter-segment (expense)/ income	(6 905 190)	1 464 136	-	5 441 054	-
Net interest income	**24 223 037**	**9 839 020**	**1 267 733**	**5 929 838**	**41 259 628**
Net fee and commission income from external customers	2 910 097	4 081 981	10 388	-	7 002 466
Dividend income	-	-	-	2	2
Gains /(losses) on financial assets and liabilities held for trading from external customers	382 430	1 254 427	470	(3 690)	1 633 637
Fair value adjustments in portfolio hedge accounting	-	-	-	(85 982)	(85 982)
Gains on disposals of financial assets	1 816 007	40 751	-	-	1 856 758
Operating income	**29 331 571**	**15 216 179**	**1 278 591**	**5 840 168**	**51 666 509**
Impairment on loans and other financial transactions	(7 372 939)	(3 630 762)	(160 023)	-	(11 163 724)
Net income from financial activities	**21 958 632**	**11 585 417**	**1 118 568**	**5 840 168**	**40 502 785**
Operating costs including:	(6 622 859)	(10 062 661)	(349 446)	(753 366)	(17 788 332)
depreciation of fixed assets and amortization of intangible assets	(773 777)	(1 305 684)	(4 982)	-	(2 084 443)
impairment of fixed assets	(22 387)	(72 205)	-	-	(94 592)
Losses on disposal of fixed assets	-	-	-	(689)	(689)
Profit before income tax expense	**15 335 773**	**1 522 756**	**769 122**	**5 086 113**	**22 713 764**
Income tax expense					(4 657 065)
Profit for the year					**18 056 699**
Cash flow hedge reserve					(284 619)
Revaluation reserve for available-for-sale securities					786 424
Total comprehensive income					**18 558 504**

Segment information for the operating segments for the year ended 31 December 2016 is set out below:

	CIB	Retail Banking	Leasing	Other	Total
Net interest income /(expense) from external customers	38 167 925	7 675 323	1 048 145	(1 791 554)	45 099 839
Inter-segment (expense)/ income	(7 169 222)	1 523 157	-	5 646 065	-
Net interest income	**30 998 703**	**9 198 480**	**1 048 145**	**3 854 511**	**45 099 839**
Net fee and commission income from external customers	2 174 562	3 787 059	14 887	-	5 976 508
Dividend income	-	-	-	4	4
Gains on financial assets and liabilities held for trading from external customers	739 408	1 141 348	3 408	263 157	2 147 321
Fair value adjustments in portfolio hedge accounting	-	-	-	(369 734)	(369 734)
Gains on disposals of financial assets	290 233	42 924	-	-	333 157
Operating income	**34 202 906**	**14 169 811**	**1 066 440**	**3 747 938**	**53 187 095**
Impairment on loans and other financial transactions	(13 371 855)	(4 033 539)	(178 813)	(4 124)	(17 588 331)
Net income from financial activities	**20 831 051**	**10 136 272**	**887 627**	**3 743 814**	**35 598 764**
Operating costs including:	(6 397 716)	(9 867 285)	(453 259)	(1 290 144)	(18 008 404)
depreciation of fixed assets and amortization of intangible assets	(675 145)	(1 180 908)	(5 446)	-	(1 861 499)
Gains on disposal of fixed assets	-	-	-	11 686	11 686
Profit before income tax expense	**14 433 335**	**268 987**	**434 368**	**2 465 356**	**17 602 046**
Income tax expense					(3 578 795)
Profit for the year					**14 023 251**
Cash flow hedge reserve					781 299
Revaluation reserve for available-for-sale securities					2 343 092
Total comprehensive income					**17 147 642**

Information about major customers and geographical areas. The Group operates in the Russian Federation and foreign countries. In presenting geographical information the allocation of net interest income is based on the geographical location of customers and assets.

Geographical information on net interest income and assets for 2017 is presented below:

	Net interest income	Assets
Russian Federation	28 049 383	925 493 838
OECD countries	10 820 885	226 989 436
Non-OECD countries	2 389 360	33 658 349
Total	**41 259 628**	**1 186 141 623**

Geographical information on net interest income and assets for 2016 is presented below:

	Net interest income	Assets
Russian Federation	30 323 526	904 100 002
OECD countries	12 759 583	222 259 677
Non-OECD countries	2 016 730	45 890 094
Total	**45 099 839**	**1 172 249 773**

5. Cash and cash balances

Cash and cash balances comprise:

	31 December 2017	31 December 2016
Cash on hand	11 771 673	12 507 671
Current accounts with the CBR	18 430 977	46 080 894
Cash and cash balances	**30 202 650**	**58 588 565**

Included in cash and cash balances as at 31 December 2017 RUB 2 452 807 thousand
(31 December 2016: RUB 2 050 000 thousand) was pledged as collateral for mortgage-backed bonds issued by the Group in September 2015 (see Note 18 for details).

6. Trading securities

Trading securities comprise:

	31 December 2017	31 December 2016
USD denominated		
Russian Government Eurobonds	2 383 299	1 006
RUB denominated		
Russian Government Bonds	18 455 671	2 086 987
Corporate and bank bonds	30 567	317 668
Trading securities	**20 869 537**	**2 405 661**

As at 31 December 2017 approximately 89% of trading securities held by the Group were rated no lower than “BBB-” (31 December 2016: 88%).

As at 31 December 2017 included in trading securities are Russian Government Bonds sold under repurchase agreements in the amount of RUB 804 699 thousand (31 December 2016: RUB 1 251 058 thousand) (see Notes 11, 16 and 17 for details).

Nominal interest rates and maturities of trading securities are as follows:

	31 December 2017		31 December 2016	
	%	**Maturity**	**%**	**Maturity**
Russian Government Bonds	7.05-7.75%	2026, 2028, 2033	7.75-8.5%	2026, 2031
Russian Government Eurobonds	4.75-7.5%	2026, 2030	11%	2018
Corporate and bank bonds	8.9%	2027	8.4%	2018

7. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	31 December 2017	31 December 2016
Current accounts with credit institutions	44 375 824	63 506 296
Time deposits	187 161 615	152 597 280
Reverse repurchase agreements with credit institutions	51 791 048	47 114 687
Obligatory reserve with the CBR	9 092 127	6 281 907
Amounts due from credit institutions	**292 420 614**	**269 500 170**

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

As at 31 December 2017 there are two counterparties with balances that individually exceeded 10% of the Group's equity. As at 31 December 2017, the aggregate amount of these balances is RUB 193 202 731 thousand (31 December 2016: four counterparties with aggregate amount of RUB 209 676 322 thousand).

As at 31 December 2017 and 31 December 2016 the Group entered into reverse repurchase agreements with a number of Russian banks. The carrying value of loans and related fair value of assets pledged under these agreements as at 31 December 2017 and 31 December 2016 comprise:

	31 December 2017		31 December 2016	
	Carrying value of loans	**Fair value of collateral**	**Carrying value of loans**	**Fair value of collateral**
Government bonds	35 879 910	38 290 623	41 073 594	44 595 843
Corporate bonds	11 949 616	13 136 468	4 737 859	5 230 273
Bank bonds	3 961 522	4 243 719	1 303 234	1 394 843
Total	**51 791 048**	**55 670 810**	**47 114 687**	**51 220 959**

As at 31 December 2017 included in government bonds are securities with the amount of RUB 26 399 813 thousand (31 December 2016: RUB 4 121 288 thousand) which were sold out of collateral pledged under reverse repurchase agreements with credit institutions and disclosed as financial liabilities held for trading in the consolidated statement of financial position. The Group has the obligation to return these securities at the maturity of the related reverse repurchase agreements.

As at 31 December 2017 included in government bonds are securities in the amount of RUB 4 383 393 thousand (31 December 2016: none) which were repledged under repurchase agreements with credit institutions (see Note 16 for details). The Group has the obligation to return these securities at the maturity of the related reverse repurchase agreements.

As at 31 December 2017 approximately 76% (31 December 2016: 75%) of amounts due from credit institutions were placed with banks rated not lower than "BBB-".

As at 31 December 2017 the Group had no term placements with the CBR (31 December 2016: RUB 2 000 492 thousand).

8. Derivative financial instruments

The Group enters into derivative financial instruments principally for trading and hedging purposes.
The tables below show the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset or notional amount to which reference rate or index is applied and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year-end and are indicative of neither the market risk nor the credit risk.

The Group values the derivative financial instruments using widely accepted valuation techniques, which are based on market interest rates and forward currency rates. Significant changes in these variables could cause the fair value of the derivatives to change materially.

The table below shows the fair value of derivative instruments held for trading, recorded as assets or liabilities, together with their notional amounts.

	31 December 2017			31 December 2016		
		Fair value			Fair value	
	Notional principal	**Asset**	**Liability**	**Notional principal**	**Asset**	**Liability**
Cross-currency interest rate swaps	269 447 898	28 163 370	7 875 459	153 530 305	32 134 361	9 703 950
Interest rate swaps and options	307 937 745	7 338 194	6 107 424	289 931 675	5 185 775	5 367 478
Foreign exchange forwards, swaps and options	139 320 810	2 484 342	1 675 413	63 876 941	3 937 460	1 785 739
Total derivative financial assets/ liabilities		**37 985 906**	**15 658 296**		**41 257 596**	**16 857 167**

Notes to Consolidated Financial Statements (Continued)

8. Derivative financial instruments (Continued)

The change in fair value of the trading derivative financial instruments attributable to changes in the counterparty credit risk amounts to a gain of RUB 525 805 thousand for the year ended 31 December 2017 (31 December 2016: gain of RUB 1 578 393 thousand). The change in fair value attributable to changes in credit risk has been calculated by incorporating the current observable credit spreads into the valuation techniques used to value derivative financial instruments by the Group.

The table below shows the fair values of financial instruments designated for hedging, recorded as assets or liabilities, together with their notional amounts.

	31 December 2017			31 December 2016		
	Notional principal	Fair value Asset	Fair value Liability	Notional principal	Fair value Asset	Fair value Liability
Cash flow hedge						
Interest rate swaps	254 378 234	862 119	1 132 581	175 505 135	641 415	442 417
Cross-currency interest rate swaps	122 585 668	6 143 932	2 198 665	122 032 005	9 786 243	3 589 904
Total cash flow hedge		**7 006 051**	**3 331 246**		**10 427 658**	**4 032 321**
Fair value hedge						
Interest rate swaps	440 281 313	854 557	7 318 595	552 263 450	2 311 170	8 306 386
Total fair value hedge		**854 557**	**7 318 595**		**2 311 170**	**8 306 386**
Total derivative financial assets/ liabilities designated for hedging		**7 860 608**	**10 649 841**		**12 738 828**	**12 338 707**

Portfolio Fair Value Hedge Accounting (hereinafter – the "PFVHA") is a part of interest rate risk hedging strategy of the Group that helps to avoid discrepancies between the economic substance of deals concluded for hedging purposes and their accounting treatment. PFVHA allows managing interest rate risks associated with a portfolio of financial assets or financial liabilities designated as hedged items.
The Group designates interest rate swaps as hedging instruments. The hedging instruments are stated at their fair value and changes in fair value are recognized in the consolidated statement of comprehensive income.

The hedging instruments to hedge variability of fair value are measured at fair value with negative changes in fair value of RUB 3 801 234 thousand recognised in portfolio hedge accounting as at 31 December 2017 (31 December 2016: RUB 1 841 363 thousand), presented as a loss of RUB 1 959 743 thousand in fair value adjustments in portfolio hedge accounting in the consolidated statement of comprehensive income for the period ended 31 December 2017 (31 December 2016: presented as loss of RUB 1 246 909 thousand).

The positive changes in the fair value of hedged items (portfolio of financial assets and financial liabilities) that are attributable to the hedged risk are recognised as RUB 3 801 941 thousand as at 31 December 2017 (31 December 2016: positive changes in the amount of RUB 1 841 491 thousand), presented as gain of RUB 1 959 743 thousand in fair value adjustments in portfolio hedge accounting in the consolidated statement of comprehensive income for the period ended 31 December 2017 (31 December 2016: presented as a gain of RUB 1 247 038 thousand).

Along with PFVHA the Group uses Portfolio Cash Flow hedging. The Group designates certain interest rate swaps and cross-currency interest rate swaps as hedging instruments to hedge variability in cash flows and fair value resulting from interest rate mismatch of the banking book position. The hedged cash flows are expected to occur and to affect the statement of comprehensive income until 2027 for interest rate swaps and cross-currency interest rate swaps. As at 31 December 2017, the negative effective portion of changes in the fair value of derivative financial instruments designated as hedging instruments recognised in equity was RUB 268 860 thousand (31 December 2016: positive RUB 15 759 thousand), net of tax RUB 67 215 thousand (31 December 2016: RUB 3 940 thousand).

Fair value adjustments in portfolio hedge accounting amounted to a loss of RUB 85 982 thousand for the year ended 31 December 2017 (31 December 2016: loss of RUB 369 734 thousand) and consists of a difference between a negative change in fair value of financial instruments designated for hedging purposes and a negative change in fair value of hedged items in the amount of RUB 379 thousand (31 December 2016: positive change of RUB 128 thousand) and a negative change in counterparty credit risk attributable to derivative financial instruments designated for hedging purposes in the amount of RUB 85 603 thousand for the year ended 31 December 2017 (31 December 2016: negative change of RUB 369 863 thousand). The change in fair value attributable to changes in credit risk has been calculated by incorporating the current observable credit spreads into the valuation techniques used to value derivative financial instruments by the Group.

Margin from derivative financial instruments designated for hedging amounted to RUB 4 567 881 thousand for the year ended 31 December 2017 (31 December 2016: RUB 7 965 385 thousand) and consists of interest income from derivative financial instruments designated for hedging in the amount of RUB 25 077 188 thousand (31 December 2016: RUB 30 345 948 thousand) and interest expenses from derivative financial instruments designated for hedging in the amount of RUB 20 509 307 thousand (31 December 2016: RUB 22 380 563 thousand).

9. Loans to customers

Loans to customers comprise:

	31 December 2017	31 December 2016
Corporate customers	532 641 491	568 915 558
Retail customers, including SME	137 636 984	126 628 456
Lease receivables	19 739 478	15 639 280
Reverse repurchase agreements with companies	21 292 270	11 082 381
Gross loans to customers	**711 310 223**	**722 265 675**
Less: allowance for loan impairment	(42 787 043)	(45 254 751)
Total loans to customers	**668 523 180**	**677 010 924**

A reconciliation of the provisions for impairment by classes of loans to customers for the year ended 31 December 2017 is as follows:

	Corporate customers	Retail customers	Lease receivables	Total
At 1 January 2017	**31 118 351**	**13 923 587**	**212 813**	**45 254 751**
Charge for the year	6 303 941	3 611 662	160 023	10 075 626
Loans sold or recovered through acceptance of collateral during the year	(5 769 786)	(183 677)	-	(5 953 463)
Loans written-off during the year	(2 901 474)	(3 328 519)	(33 969)	(6 263 962)
Effect of exchange rate changes	(227 602)	(98 307)	-	(325 909)
At 31 December 2017	**28 523 430**	**13 924 746**	**338 867**	**42 787 043**

A reconciliation of the provisions for impairment by classes of loans to customers for the year ended 31 December 2016 is as follows:

	Corporate customers	Retail customers	Lease receivables	Total
At 1 January 2016	**21 354 170**	**11 974 110**	**120 512**	**33 448 792**
Charge for the year	13 009 847	4 029 720	178 813	17 218 380
Loans sold or recovered through acceptance of collateral during the year	(377 172)	(50 897)	-	(428 069)
Loans written-off during the year	(1 750 463)	(1 434 641)	(86 512)	(3 271 616)
Effect of exchange rate changes	(1 118 031)	(594 705)	-	(1 712 736)
At 31 December 2016	**31 118 351**	**13 923 587**	**212 813**	**45 254 751**

Notes to Consolidated Financial Statements (Continued)

9. Loans to customers (Continued)

The following table shows gross loans and related impairment as at 31 December 2017:

	Gross loans	Impairment	Net loans
Corporate customers			
Loans for which no indications of impairment have been identified on an individual basis, not past due	497 171 089	(1 663 263)	495 507 826
Loans for which no specific impairment is identified on an individual basis, past due			
- Past due less than 31 days	16 197	(138)	16 059
Impaired loans			
- Not past due	7 232 084	(3 116 168)	4 115 916
- Past due less than 31 days	68 219	(14 374)	53 845
- Past due 31-90 days	2 782 999	(1 900 703)	882 296
- Past due 91-180 days	322 792	(217 187)	105 605
- Past due over 180 days	25 048 111	(21 611 597)	3 436 514
Total loans to corporate customers	**532 641 491**	**(28 523 430)**	**504 118 061**
Retail customers			
Not impaired loans, not past due	118 955 750	(1 059 955)	117 895 795
Not impaired loans, past due			
- Past due less than 31 days	1 653 541	(125 075)	1 528 466
- Past due 31-90 days	836 704	(155 241)	681 463
- Past due 91-180 days	206 464	(93 128)	113 336
- Past due over 180 days	12 399	(7 482)	4 917
Impaired loans			
- Not past due	347 429	(2 130)	345 299
- Past due less than 31 days	56 326	(4 833)	51 493
- Past due 31-90 days	99 565	(17 789)	81 776
- Past due 91-180 days	661 491	(293 929)	367 562
- Past due over 180 days	14 807 315	(12 165 184)	2 642 131
Total loans to retail customers	**137 636 984**	**(13 924 746)**	**123 712 238**
Lease receivables			
Loans for which no indications of impairment have been identified on an individual basis, not past due	19 091 526	(77 650)	19 013 876
Loans for which no specific impairment is identified on an individual basis, past due			
- Past due less than 31 days	147 460	(1 316)	146 144
- Past due 31-90 days	69 518	(589)	68 929
Impaired loans			
- Not past due	39 229	(7 185)	32 044
- Past due less than 31 days	27 205	(12 385)	14 820
- Past due 31-90 days	111 265	(53 992)	57 273
- Past due 91-180 days	159 761	(118 078)	41 683
- Past due over 180 days	93 514	(67 672)	25 842
Total lease receivables	**19 739 478**	**(338 867)**	**19 400 611**
Reverse repurchase agreements with companies			
Loans for which no indications of impairment have been identified on an individual basis, not past due	21 292 270	-	21 292 270
Total loans to customers	**711 310 223**	**(42 787 043)**	**668 523 180**

The following table shows gross loans and related impairment as at 31 December 2016:

	Gross loans	Impairment	Net loans
Corporate customers			
Loans for which no indications of impairment have been identified on an individual basis, not past due	524 723 492	(2 776 029)	521 947 463
Loans for which no specific impairment is identified on an individual basis, past due			
- Past due less than 31 days	1 810 846	(18 099)	1 792 747
- Past due 31-90 days	80 814	(1 977)	78 837
Impaired loans			
- Not past due	7 284 766	(3 118 533)	4 166 233
- Past due less than 31 days	376 244	(137 373)	238 871
- Past due 31-90 days	5 284 198	(3 079 368)	2 204 830
- Past due 91-180 days	1 232 930	(764 893)	468 037
- Past due over 180 days	28 122 268	(21 222 079)	6 900 189
Total loans to corporate customers	**568 915 558**	**(31 118 351)**	**537 797 207**
Retail customers			
Not impaired loans, not past due	105 185 541	(556 411)	104 629 130
Not impaired loans, past due			
- Past due less than 31 days	2 174 386	(113 278)	2 061 108
- Past due 31-90 days	826 285	(155 658)	670 627
- Past due 91-180 days	220 223	(89 094)	131 129
- Past due over 180 days	32 589	(6 837)	25 752
Impaired loans			
- Not past due	113 737	(965)	112 772
- Past due less than 31 days	54 908	(3 380)	51 528
- Past due 31-90 days	111 549	(18 907)	92 642
- Past due 91-180 days	663 787	(279 869)	383 918
- Past due over 180 days	17 245 451	(12 699 188)	4 546 263
Total loans to retail customers	**126 628 456**	**(13 923 587)**	**112 704 869**
Lease receivables			
Loans for which no indications of impairment have been identified on an individual basis, not past due	14 916 921	(55 287)	14 861 634
Loans for which no specific impairment is identified on an individual basis, past due			
- Past due less than 31 days	112 494	(832)	111 662
- Past due 31-90 days	195 957	(2 563)	193 394
Impaired loans			
- Not past due	33 358	(9 442)	23 916
- Past due less than 31 days	77 223	(15 335)	61 888
- Past due 31-90 days	124 451	(33 431)	91 020
- Past due 91-180 days	146 577	(71 730)	74 847
- Past due over 180 days	32 299	(24 193)	8 106
Total lease receivables	**15 639 280**	**(212 813)**	**15 426 467**
Reverse repurchase agreements with companies			
Loans for which no indications of impairment have been identified on an individual basis, not past due	11 082 381	-	11 082 381
Total loans to customers	**722 265 675**	**(45 254 751)**	**677 010 924**

9. Loans to customers (Continued)

The following table provides analysis of minimum lease payments as at 31 December 2017:

	Minimum payments	Present value of minimum payments
Amounts receivable under finance leases		
Up to 12 months	10 685 884	8 476 845
From 1 to 5 years	11 475 532	9 212 459
Over 5 years	2 244 108	1 711 307
	24 405 524	**19 400 611**
Less unearned finance income	(5 004 913)	-
Present value of minimum lease payments receivable (net investment in the lease)	**19 400 611**	**19 400 611**

The following table provides analysis of minimum lease payments as at 31 December 2016:

	Minimum payments	Present value of minimum payments
Amounts receivable under finance leases		
Up to 12 months	8 747 400	7 013 300
From 1 to 5 years	9 193 453	7 501 034
Over 5 years	1 211 510	912 133
	19 152 363	**15 426 467**
Less unearned finance income	(3 725 896)	-
Present value of minimum lease payments receivable (net investment in the lease)	**15 426 467**	**15 426 467**

Impaired loans. Interest income on impaired loans for the year ended 31 December 2017 amounted to RUB 829 505 thousand (year ended 31 December 2016: RUB 1 686 561 thousand).

Renegotiated loans. As at 31 December 2017 and 31 December 2016 loans to customers included loans totaling RUB 20 895 028 thousand and RUB 35 199 934 thousand, respectively, whose terms were renegotiated. Otherwise these loans would be past due or impaired.

Write-off and sale of loans. The decision to write-off the loan is taken by the authorized body of the Group. Loans are written-off after receiving all necessary documentation from the authorized state bodies, as well as under the conditions where further debt collection is not possible.

The decisions to sell the loans is taken individually for each case, for both corporate and retail loans. The decision is taken by the authorized body of the Group based on the analysis of all possible alternative strategies for debt collection, the main criterion for the adoption of which is to minimize the losses of the Group's troubled assets.

During the year ended 31 December 2017, the Group sold under the cession agreement corporate and retail loans in the gross amount of RUB 10 444 932 thousand (31 December 2016: RUB 922 892 thousand). Part of these loans in the gross amount of RUB 3 444 130 thousand (31 December 2016: 348 887 thousand) have been sold to a related party, the rest has been sold to third parties (see Note 28 for details).

Collateral and other credit enhancements. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty as well as on the nature of the transaction. Guidelines regarding the acceptability of types of collateral taking into account valuation parameters of borrower risk level are implemented.

The main types of collateral obtained are as follows:
- For reverse repurchase transactions, securities;
- For commercial lending to corporate customers, pledge over real estate properties, equipment, inventories and trade receivables, guarantee of a legal entity with rating not lower than "BBB";
- For retail lending, mortgages over residential properties and motor vehicles;
- For lease receivables, pledge over real estate properties, motor vehicles and equipment.

The primary purpose of collateral arrangements is to reduce the potential credit loss in case of a workout of the credit exposure. Estimates of value are based on the value of collateral assessed at the time of borrowing and regularly reassessed.

The following table summarizes the carrying value of loans, net of impairment, to corporate customers by types of collateral as at 31 December 2017 and 31 December 2016:

	31 December 2017	31 December 2016
Loans to corporate customers		
Real estate	44 060 209	44 972 709
Guarantees	50 290 699	52 657 771
Other collateral	26 868	-
No collateral or other credit enhancement	409 740 285	440 166 727
Total loans to corporate customers	**504 118 061**	**537 797 207**

The following table summarizes the carrying value of loans, net of impairment, to retail customers by types of collateral as at 31 December 2017 and 31 December 2016:

	31 December 2017	31 December 2016
Loans to retail customers		
Real estate	28 316 161	29 453 775
Motor vehicles	41 310 135	34 867 772
Other collateral	168 364	-
No collateral or other credit enhancement	53 917 578	48 383 322
Total loans to retail customers	**123 712 238**	**112 704 869**

The following table summarizes the carrying value of lease receivables, net of impairment, by types of collateral as at 31 December 2017 and 31 December 2016:

	31 December 2017	31 December 2016
Lease receivables		
Real estate	549 178	579 311
Motor vehicles	5 651 075	4 382 137
Other collateral	13 200 358	10 465 019
Total lease receivables	**19 400 611**	**15 426 467**

The amounts shown in the tables above represent the carrying value of the loans, and do not necessarily represent the fair value of the collateral.

When lending to legal entities belonging to one economic group, the Group normally also obtains guarantees from other group members.

Included in retail loans as at 31 December 2017 are mortgage loans with gross amount of RUB 1 865 735 thousand (31 December 2016: RUB 2 178 317 thousand) pledged as collateral for mortgage-backed bonds issued by the Group in September 2015 (see Note 18 for details).

Repossessed collateral. As at 31 December 2017 and 31 December 2016, the Group obtained certain assets by taking control of collateral obtained for derecognized loans to customers. As at 31 December 2017, the repossessed collateral is comprised of real estate, motor vehicles and other assets with carrying amount of RUB 453 468 thousand (31 December 2016: RUB 568 017 thousand). The Group’s policy is to sell these assets as soon as it is practicable.

9. Loans to customers (Continued)

Reverse repurchase agreements. As at 31 December 2017 and 31 December 2016 the Group entered into reverse repurchase agreements with a number of Russian companies. The carrying value of loans and related fair value of assets pledged under these agreements as at 31 December 2017 and 31 December 2016 comprise:

	31 December 2017		31 December 2016	
	Carrying value of loans	Fair value of collateral	Carrying value of loans	Fair value of collateral
Government bonds	20 658 146	22 027 770	7 903 169	8 343 317
Corporate bonds	361 036	399 199	2 800 386	3 065 012
Bank bonds	273 088	305 626	378 826	404 960
Total	**21 292 270**	**22 732 595**	**11 082 381**	**11 813 289**

As at 31 December 2017 no securities were sold out of collateral pledged under reverse repurchase agreements with customers and disclosed as financial liabilities held for trading in the consolidated statement of financial position (31 December 2016: Russian government bonds with the total fair value of RUB 222 864 thousand).

Concentration of loans to customers. As at 31 December 2017, the Group had RUB 178 361 295 thousand due from the ten largest borrowers (25% of gross loan portfolio) (31 December 2016: RUB 178 362 658 thousand or 25%). As at 31 December 2017, an allowance of RUB 98 324 thousand was recognised against these loans (31 December 2016: RUB 158 765 thousand).

As at 31 December 2017, the Group had three borrowers or a group of borrowers with aggregate loan amounts that individually exceeded 10% of equity (31 December 2016: three borrowers or a group of borrowers). As at 31 December 2017, the aggregate amount of these loans is RUB 102 064 854 thousand (31 December 2016: RUB 103 353 608 thousand).

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

	31 December 2017	31 December 2016
Mining and metallurgy	119 496 045	126 133 633
Trade	104 631 720	94 202 725
Energy	73 374 745	91 748 944
Chemicals	58 085 056	61 995 351
Other manufacturing	49 496 435	41 777 942
Timber processing	33 849 881	36 115 547
Finance	32 185 175	15 822 282
Real estate and construction	31 189 569	37 173 614
Agriculture and food	26 695 322	27 047 480
Machinery construction	17 058 227	32 204 443
Telecommunications	15 792 302	15 416 957
Transportation	8 871 798	10 437 881
Other	5 919 219	8 691 627
Gross loans to corporate customers	**576 645 494**	**598 768 426**
Gross loans to individuals	**134 664 729**	**123 497 249**
Gross loans to customers	**711 310 223**	**722 265 675**

Loans to individuals are divided by products as follows:

	31 December 2017	31 December 2016
Car loans	50 820 802	43 882 280
Consumer loans	44 142 492	39 223 666
Mortgages loans	31 089 722	31 408 890
Other loans	8 611 713	8 982 413
Gross loans to individuals	**134 664 729**	**123 497 249**

10. Investment securities

Available-for-sale investment securities comprise:

	31 December 2017	31 December 2016
Debt and other fixed income investments available-for-sale		
USD denominated		
Russian Government Eurobonds	12 051 460	16 248 295
RUB denominated		
Cental bank bonds	30 467 380	-
Russian Government Bonds	30 309 317	34 972 838
Corporate and bank bonds	4 518 457	9 285 735
Total debt and other fixed income investments available-for-sale	**77 346 614**	**60 506 868**
Equity investments available-for-sale		
RUB denominated		
Equity investments in financial institutions	116 945	116 945
EUR denominated		
Equity investments in financial institutions	2 707	2 707
Total equity investments available-for-sale	**119 652**	**119 652**
Total available-for-sale securities	**77 466 266**	**60 626 520**

As at 31 December 2017 included in Russian Government bonds available-for-sale are securities sold under repurchase agreements in the amount of RUB 1 254 314 thousand (31 December 2016: Russian Government bonds in the amount of RUB 19 704 611 thousand) (see Notes 11, 16 and 17 for details).

Nominal interest rates and maturities of these securities are as follows:

	31 December 2017		31 December 2016	
	%	Maturity	%	Maturity
Russian Government Eurobonds	4.25-7.5%	2023-2030	4.5-4.88%	2022-2026
Central bank bonds	7.75%	2018	-	-
Russian Government Bonds	6.2-7.75%	2018-2033	6.2-8.15%	2017-2027
Corporate and bank bonds	7.5-11.1%	2018-2050	7.5-11.1%	2017-2027

As at 31 December 2017 included in available-for-sale securities are Russian goverments bonds blocked as collateral for “overnight” loans with the CBR in amount of RUB 703 552 thousand (31 December 2016: no securities). As at 31 December 2017 and 31 December 2016 the Group has no “overnight” loans with the CBR.

As at 31 December 2017, held-to-maturity securities comprise:

	31 December 2017		31 December 2016	
	Nominal value	Carrying value	Nominal value	Carrying value
Russian government bonds, RUB denominated	15 000 000	15 814 468	15 000 000	15 935 005
Russian government eurobonds, USD denominated	13 455 407	14 122 955	14 169 452	14 982 265
Held-to-maturity securities	**28 455 407**	**29 937 423**	**29 169 452**	**30 917 270**

Nominal interest rates and maturities of these securities are as follows:

	31 December 2017		31 December 2016	
	%	Maturity	%	Maturity
Russian government bonds, RUB denominated	10.4–10.6%	2020, 2025	11.7%–11.9%	2020, 2025
Russian government eurobonds, USD denominated	4.5-4.88%	2022, 2023	4.5%-4.88%	2022, 2023

As at 31 December 2017 there are no held-to-maturity investments sold under repurchase agreements in the (31 December 2016: Russian government bonds in the amount RUB 212 666 thousand) (see Notes 11, 16 and 17 for details).

As at 31 December 2017 included in held-to-maturity securities are Russian government bonds blocked as collateral in order to receive "overnight" loans from the CBR in the amount of RUB 686 722 thousand (31 December 2016: RUB 1 058 015 thousand). As at 31 December 2017 and 31 December 2016 the Group has no "overnight" loans due to the CBR.

As at 31 December 2017 approximately 33% of debt and other fixed income investments available-for-sale and held-to-maturity were rated no lower than "BBB-" (31 December 2016: 48%).

11. Transfers of financial assets

The Group has transactions to sell securities classified as trading, available-for-sale and held-to-maturity under agreements to repurchase (see Notes 6, 10, 16 and 17 for details).

The securities sold under agreements to repurchase are transferred to a third party and the Group receives cash in exchange. These financial assets may be repledged or resold by counterparties in the absence of default by the Group, but the counterparty has an obligation to return the securities at the maturity of the contract. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. These securities are presented as "pledged under repurchase agreements" in Notes 6 and 10. In addition, the Group recognises a financial liability for cash received as collateral included in deposits and balances due to credit institutions and customers (see Notes 16 and 17 for details).

These transactions are conducted under terms that are usual and customary to standard lending, as well as requirements determined by exchanges.

As at 31 December 2017 and 31 December 2016 the breakdown by portfolio of transferred financial assets that are not derecognized in their entirety is as follows:

	31 December 2017		31 December 2016	
	Carrying amount of assets	Carrying amount of associated liabilities	Carrying amount of assets	Carrying amount of associated liabilities
Available-for-sale securities	1 254 314	1 190 460	19 704 611	18 325 881
Trading securities	804 699	749 433	1 251 058	1 139 562
Held to maturity	-	-	212 666	209 798
Total	**2 059 013**	**1 939 893**	**21 168 335**	**19 675 241**

As at 31 December 2017 and 31 December 2016 the breakdown by issuer of transferred financial assets that are not derecognized in their entirety is as follows:

	31 December 2017		31 December 2016	
	Carrying amount of assets	Carrying amount of associated liabilities	Carrying amount of assets	Carrying amount of associated liabilities
Government bonds	2 059 013	1 939 893	21 168 335	19 675 241
Total	**2 059 013**	**1 939 893**	**21 168 335**	**19 675 241**

12. Fixed assets

The movements in fixed assets were as follows:

	Buildings	Computers and equipment	Other fixed assets	Total
Cost				
1 January 2017	**6 577 320**	**4 230 654**	**536 432**	**11 344 406**
Additions	-	526 844	15 524	542 368
Disposals	-	(82 677)	(19 834)	(102 511)
31 December 2017	**6 577 320**	**4 674 821**	**532 122**	**11 784 263**
Accumulated depreciation				
1 January 2017	**(2 040 861)**	**(3 627 795)**	**(468 716)**	**(6 137 372)**
Depreciation charge	(222 479)	(492 640)	(28 570)	(743 689)
Impaiment	(94 592)	-	-	(94 592)
Disposals	-	81 334	19 226	100 560
31 December 2017	**(2 357 932)**	**(4 039 101)**	**(478 060)**	**(6 875 093)**
Net book value				
As at 31 December 2017	**4 219 388**	**635 720**	**54 062**	**4 909 170**

	Buildings	Computers and equipment	Other fixed assets	Total
Cost				
1 January 2016	**6 577 320**	**4 355 754**	**617 913**	**11 550 987**
Additions	-	230 510	39 574	270 084
Disposals	-	(355 610)	(121 055)	(476 665)
31 December 2016	**6 577 320**	**4 230 654**	**536 432**	**11 344 406**
Accumulated depreciation				
1 January 2016	**(1 815 779)**	**(3 592 598)**	**(530 370)**	**(5 938 747)**
Depreciation charge	(225 082)	(388 755)	(23 767)	(637 604)
Disposals	-	353 558	85 421	438 979
31 December 2016	**(2 040 861)**	**(3 627 795)**	**(468 716)**	**(6 137 372)**
Net book value				
As at 31 December 2016	**4 536 459**	**602 859**	**67 716**	**5 207 034**

13. Intangible assets

The movements in intangible assets were as follows:

	2017	2016
Cost of intangible assets		
1 January	**10 702 396**	**9 249 353**
Additions of intangible assets	2 284 057	2 465 672
Disposals of intangible assets	(4 725)	(1 012 629)
31 December	**12 981 728**	**10 702 396**
Accumulated amortisation of intangible assets		
1 January	**(4 191 847)**	**(3 898 716)**
Amortisation charge of intangible assets	(1 340 754)	(1 223 895)
Disposals of intangible assets	3 677	930 764
31 December	**(5 528 924)**	**(4 191 847)**
Net book value of intangible assets		
As at 31 December	**7 452 804**	**6 510 549**

14. Taxation

The corporate income tax expense comprises:

	2017	2016
Current tax charge	7 857 892	4 177 456
Deferred tax charge – (reversal) / origination of temporary differences	(3 200 827)	(598 661)
Income tax expense	**4 657 065**	**3 578 795**

Russian legal entities must file individual tax declarations. The tax rate for banks and companies for profits other than on state securities was 20% for 2017 and 2016. The tax rate for interest income on state securities was 15% for 2017 and 2016.

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the effective income tax rate and the statutory income tax rate is as follows:

	2017	2016
Profit before tax	**22 713 764**	**17 602 046**
Statutory tax rate	20%	20%
Theoretical income tax expense at the statutory rate	**4 542 753**	**3 520 409**
Effect of income taxed at lower tax rates	(230 992)	(230 456)
Non-deductible costs and other	345 304	288 842
Income tax expense	**4 657 065**	**3 578 795**

Deferred tax assets and liabilities as at 31 December 2017 and 31 December 2016 comprise:

	Assets		Liabilities		Net	
	2017	2016	2017	2016	2017	2016
Fixed and intangible assets	1 433 865	1 122 074	(2 842 513)	(2 419 143)	(1 408 648)	(1 297 069)
Trading securities and derivatives	5 261 627	5 839 175	(7 675 904)	(8 891 100)	(2 414 277)	(3 051 925)
Available-for-sale and held-to-maturity securities	67 215	-	(538 454)	(127 246)	(471 239)	(127 246)
Loan impairment and credit related commitments	1 450 633	1 707 823	(2 949 442)	(6 118 459)	(1 498 809)	(4 410 636)
Other items	1 382 708	1 313 823	(87 412)	-	1 295 296	1 313 823
Total deferred tax assets/(liabilities)	**9 596 048**	**9 982 895**	**(14 093 725)**	**(17 555 948)**	**(4 497 677)**	**(7 573 053)**

Movement in deferred tax assets and liabilities during the year ended 31 December 2017 is presented in the table below:

	1 January 2017	Recognised in profit or loss	Recognised in other comprehen-sive income	31 December 2017
Fixed and intangible assets	(1 297 069)	(111 579)	-	(1 408 648)
Trading securities and derivatives	(3 051 925)	566 493	71 155	(2 414 277)
Available-for-sale and held-to-maturity securities	(127 246)	(147 387)	(196 606)	(471 239)
Loan impairment and credit related commitments	(4 410 636)	2 911 827	-	(1 498 809)
Other items	1 313 823	(18 527)	-	1 295 296
	(7 573 053)	**3 200 827**	**(125 451)**	**(4 497 677)**

Movement in deferred tax assets and liabilities during the year ended 31 December 2016 is presented in the table below:

	1 January 2016	Recognised in profit or loss	Recognised in other comprehen-sive income	31 December 2016
Fixed and intangible assets	(1 428 915)	131 846	-	(1 297 069)
Trading securities and derivatives	(3 814 524)	957 924	(195 325)	(3 051 925)
Available-for-sale and held-to-maturity securities	624 303	(165 776)	(585 773)	(127 246)
Loan impairment and credit related commitments	(5 091 821)	681 185	-	(4 410 636)
Tax losses carried forward	1 436 353	(1 436 353)	-	-
Other items	883 988	429 835	-	1 313 823
	(7 390 616)	**598 661**	**(781 098)**	**(7 573 053)**

Tax effect relating to components of other comprehensive income comprises:

	2017			2016		
	Amount before tax	Tax expense	Amount net-of-tax	Amount before tax	Tax expense	Amount net-of-tax
Cash flow hedge reserve	(355 774)	71 155	(284 619)	976 624	(195 325)	781 299
Revaluation reserve for available-for-sale securities	983 030	(196 606)	786 424	2 928 865	(585 773)	2 343 092
Other comprehensive income	**627 256**	**(125 451)**	**501 805**	**3 905 489**	**(781 098)**	**3 124 391**

15. Other assets and liabilities

Other assets comprise:

	31 December 2017	31 December 2016
Advances, prepayments and deferred expenses	2 528 643	2 962 751
Accrued income other than income capitalised in related financial assets	1 136 189	667 856
Repossessed collateral	440 251	568 017
VAT receivables on leases	87 304	303 408
Other	1 659 951	1 275 322
Other assets	**5 852 338**	**5 777 354**

Other liabilities comprise:

	31 December 2017	31 December 2016
Accrued compensation expense	3 850 155	3 423 037
Accounts payable	2 048 937	3 070 680
Other provisions	1 881 176	808 386
Liability arising on initial designation of fair value macro hedge	559 793	690 083
Transit accounts	461 019	560 315
Deferred income	432 414	442 712
Taxes payables	383 112	316 688
Other	1 033 515	953 613
Other liabilities	**10 650 121**	**10 265 514**

16. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	31 December 2017	31 December 2016
Current accounts	8 602 207	13 000 015
Time deposits and loans	43 007 455	90 394 448
Repurchase agreements with credit institutions (Note 11)	6 099 280	19 536 126
Subordinated debt (Note 19)	27 718 054	29 178 071
Amounts due to credit institutions	**85 426 996**	**152 108 660**

As at 31 December 2017, the ten largest deposits, excluding subordinated debt, represented 71% of total amounts due to credit institutions (31 December 2016: 81%).

As at 31 December 2017, the Group has no counterpartiy with aggregate balances that individually exceeded 10% of equity (31 December 2016: one counterparty with the aggregate amount of these balances RUB 26 532 542 thousand).

As at 31 December 2017 fair value of securities pledged under repurchase agreements with credit institutions is RUB 2 059 013 thousand (31 December 2016: RUB 21 025 074 thousand) (see Notes 6, 10, 11 and 27 for details).

As at 31 December 2017 included in repurchase agreements with credit institutions are agreements in the amount of RUB 4 159 387 thousand (31 December 2016: none) which are secured by Russian government bonds with fair value of RUB 4 383 393 thousand obtained under reverse repurchase agreements with credit institutions (see Note 7 for details).

17. Amounts due to customers

The amounts due to customers include the following:

	31 December 2017	31 December 2016
Current accounts	215 024 971	170 163 667
Time deposits	612 078 354	608 799 120
Repurchase agreements with customers (Note 11)	-	139 115
Amounts due to customers	**827 103 325**	**779 101 902**

As at 31 December 2017, approximately 44% of total amounts due to customers was placed with the Group by its ten largest customers (31 December 2016: 51%).

Analysis of customer accounts by type of customers is as follows:

	31 December 2017	31 December 2016
Corporate		
Current accounts	102 333 257	74 155 567
Time deposits	461 068 535	491 668 933
Repurchase agreements with customers (Note 11)	-	139 115
Total corporate accounts	**563 401 792**	**565 963 615**
Retail		
Current accounts	112 691 714	96 008 100
Time deposits	151 009 819	117 130 187
Total retail accounts	**263 701 533**	**213 138 287**
Amounts due to customers	**827 103 325**	**779 101 902**

Included in retail time deposits are deposits of individuals in the amount of RUB 133 536 325 thousand (31 December 2016: RUB 100 940 451 thousand). In accordance with the Russian Civil Code, the Group is obliged to repay such deposits upon demand of the depositor. In case a term deposit is repaid upon demand of the depositor prior to maturity, the related interest rate on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the contract. The remaining part of retail time deposits in the amount of RUB 17 473 494 thousand (31 December 2016: RUB 16 189 736 thousand) is represented by deposits placed by SME.

As at 31 December 2017 there was no securities pledged under repurchase agreements with customers (31 December 2016: RUB 154 514 thousand) (see Notes 6, 10, 11 and 27 for details).

18. Debt securities issued

Debt securities issued consisted of the following bonds:

Issue	Date of issue	Maturity date	Currency	Coupon rate, %	Carrying value at 31 December 2017	Carrying value at 31 December 2016
UniCredit Bank, 02-IP	23.09.2015	16.09.2020	RUB	12.35	4 138 040	4 136 680
UniCredit Bank, BO-10	26.11.2013	20.11.2018	RUB	9.20	2 324 211	2 323 635
UniCredit Bank, BO-22	12.08.2014	06.08.2019	RUB	9.00	46 721	46 710
UniCredit Bank, BO-21	23.05.2014	17.05.2019	RUB	9.00	818	818
UniCredit Bank, BO-11	26.11.2014	20.11.2019	RUB	9.10	3	3
Debt securities issued					**6 509 793**	**6 507 846**

During the year ended 31 December 2017 the changes in carrying value of debt securities issued were due to interest accruals and payments.

As at 31 December 2017 mortgage-backed bonds (UniCredit Bank, 02-IP) with the carrying value of RUB 4 138 040 thousand (31 December 2016: RUB 4 136 680 thousand) are secured by a pool of mortgage loans with the carrying value of RUB 1 865 735 thousand (31 December 2016: RUB 2 178 317 thousand) and by cash in the amount of RUB 2 452 807 thousand (31 December 2016: RUB 2 050 000 thousand) (see Notes 5 and 9 for details).

19. Subordinated debt

	31 December 2017	31 December 2016
UniCredit S.p.A		
USD 480 900 thousand, quarterly interest payment, maturing March 2025	27 718 054	29 178 071
Subordinated Debt	**27 718 054**	**29 178 071**

In the event of bankruptcy or liquidation of the Group, repayment of this debt is subordinate to the repayments of the Group's liabilities to all other creditors.

20. Shareholder's equity

As at 31 December 2017 and 31 December 2016, the authorised, issued and paid share capital comprises 2 404 181 ordinary shares with a par value of RUB 16 820 each.

21. Commitments and contingencies

Credit related commitments and contingencies

	31 December 2017	31 December 2016
Guarantees issued	140 404 906	119 536 553
Undrawn loan commitments	75 414 793	85 116 393
Undrawn commitments to issue documentary instruments	39 329 152	80 833 286
Letters of credit	35 299 023	34 295 027
Gross credit related commitments and contingencies	**290 447 874**	**319 781 259**
Provisions for credit related commitments and contingencies	(1 458 050)	(369 951)
Total credit related commitments and contingencies	**288 989 824**	**319 411 308**

The Group issues guarantees and letters of credit for its customers. These instruments bear a credit risk similar to that of loans issued. With respect to the documentary instruments shown above, as at 31 December 2017, collateral deposits of RUB 11 816 217 thousand were held by the Group (31 December 2016: RUB 8 019 170 thousand).

Operating lease commitments

	31 December 2017	31 December 2016
Not later than 1 year	780 762	829 381
Later than 1 year but not later than 5 years	2 818 476	2 443 105
Later than 5 years	95 213	76 611
	3 694 451	**3 349 097**

Operating environment. Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment. Because Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market.

Following high volatility in natural resources prices, the ruble exchange rate and interest rates in 2016 and 2017 have been relatively stable. The Russian economy continued to be negatively impacted by ongoing political tension in the region and continuing international sanctions imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies. The above mentioned events have led to reduced access of the Russian businesses to international capital markets, increased inflation, economic recession and other negative economic consequences. The impact of further economic developments on future operations and financial position of the Group is at this stage difficult to determine.

There has continued to be increased economic challenges to the Russian consumers and corporates, which have led to higher defaults in the retail and commercial banking sector. This operating environment has a significant impact on the Group's operations and financial position. Management is taking necessary measures to ensure sustainability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could significantly differ from actual results.

Taxation. Laws and regulations affecting business in the Russian Federation continue to change rapidly. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. Recent events suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. Fiscal periods generally remain open to tax audit by the authorities in respect of taxes for three calendar years proceeding the year of tax audit. Under certain circumstances reviews may cover longer periods. Management believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation. However, the relevant authorities may have differing interpretations, and the effects on the financial statements could be significant.

Fiduciary activities. The Group also provides depositary services to its customers. As at 31 December 2017 and 31 December 2016, the Group had customer securities totaling 36 119 600 986 items and 94 119 620 907 items, respectively, in its nominal holder accounts.

Legal proceedings. From time to time and in the normal course of business, claims against the Group are received from customers and counterparties. As at 31 December 2017 the provision for legal proceedings in the amount of RUB 423 126 thousand (31 December 2016: RUB 438 435 thousand) was recognized in other liabilities in the consolidated statement of financial position.

22. Gains on financial assets and liabilities held for trading

Gains on financial assets and liabilities held for trading comprise:

	2017	2016
Net (losses)/gains from trading securities	(767 718)	22 056
Net gains from foreign exchange, interest based derivatives and translation of other foreign currency assets and liabilities	2 401 355	2 125 265
Gains on financial assets and liabilities held for trading	**1 633 637**	**2 147 321**

23. Fee and commission income and expense

Fee and commission income comprises:

	2017	2016
Retail services	2 966 160	2 639 438
Agent insurance fee	2 532 788	2 022 533
Documentary business	2 428 068	2 783 736
Customer accounts handling and settlements	2 054 748	2 401 395
Other	24 479	97 032
Fee and commission income	**10 006 243**	**9 944 134**

Fee and commission expense comprises:

	2017	2016
Accounts handling and settlements	(1 094 383)	(783 892)
Retail services	(1 015 988)	(1 021 588)
Documentary business	(794 188)	(2 051 475)
Other	(99 218)	(110 671)
Fee and commission expense	**(3 003 777)**	**(3 967 626)**

24. Personnel and other administrative expenses

Personnel and other administrative expenses comprise:

	2017	2016
Salaries and bonuses	6 782 297	6 540 902
Social security costs	426 942	412 973
Other compensation expenses	95 152	177 227
Other employment taxes	1 544 877	1 616 477
Personnel expenses	**8 849 268**	**8 747 579**
Communication and information services	1 858 531	2 013 064
Rent, repairs and maintenance	1 497 435	1 388 422
Advertising and marketing	635 475	640 351
Security expenses	369 960	347 434
Insurance	188 673	186 342
Legal, audit and other professional services	160 362	151 643
Other taxes	134 691	115 607
Other	1 722 133	1 590 860
Other administrative expenses	**6 567 260**	**6 433 723**

25. Capital management

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of capital is monitored using, among other measures, principles and approaches established by Basel II and Basel III, Regulation and Directive of the European Parliament and the Council (CRD IV), the CBR regulation.

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

Capital and capital adequacy ratio under the CBR requirements. The CBR requires banks to maintain a capital adequacy ratio of 8% of risk-weighted assets, computed using amounts in statutory financial statements prepared in accordance with Russian banking legislation and regulation of the CBR.

Capital (own funds) under the requirements of the CBR regulation No. 395-P "Calculation of own funds (Basel III) by credit institutions" as at 31 December 2017 and 31 December 2016 was as follows:

	31 December 2017	31 December 2016
Core equity Tier I capital	166 498 541	138 363 187
Tier I capital	166 498 541	138 363 187
Additional capital	34 894 231	35 741 342
Total capital	**201 392 772**	**174 104 529**

Core equity Tier I and Tier I comprise share capital, share premium, reserve fund and retained earnings including current year profit. Additional capital includes subordinated debt, current year profit not included in the main capital and revaluation reserves.

The capital adequacy ratios, computed in accordance with the CBR Regulation No. 180-I "Obligatory banking ratios", as at 31 December 2017 and 31 December 2016 were as follows:

	31 December 2017	31 December 2016
Total capital adequacy ratio H1.0 (minimum 8%)	18.2%	16.2%
Core equity Tier I capital adequacy ratio H1.1 (minimum 4.5%)	15.2%	13.0%
Tier 1 capital adequacy ratio H1.2 (minimum 6%)	15.2%	13.0%

Capital and capital adequacy ratio under Basel III and Basel II requirements (unaudited). Starting from the reporting period 1 January 2009 the Group calculates risk weighted assets under Basel II requirements following UniCredit Group internal policies.

Starting from 2016, the Group calculates risk weighted assets in accordance with the requirements of CRD IV. Subordinated loans, received by the Group might be considered as loss absorbtion capacity of the Bank and as a result can be included in Tier II capital.

The capital and capital adequacy ratios computed in accordance with the Basel III and Basel II requirements as at 31 December 2017 and 31 December 2016 were as follows (unaudited):

	31 December 2017	31 December 2016
Core equity Tier 1 capital	176 427 360	161 937 692
Tier II capital	28 906 602	30 329 651
Total capital	**205 333 962**	**192 267 343**
Risk weighted assets	**1 027 062 779**	**998 461 998**
Core equity Tier 1 capital ratio	17.2%	16.2%
Total capital ratio	**20.0%**	**19.3%**

26. Risk management

Management of risk is fundamental to the banking business and is an essential element of the Group's operations. The Group has exposure to risks, which include credit, market, foreign exchange, liquidity and operational risks. The Group's aim is to maintain an appropriate balance between risks and return and to minimise potential adverse effect on the Group's financial performance.

Risk management structure. The Group's risk management policies aim to identify, analyse, measure and manage the risks taken by the Group, to establish appropriate risk limits and methods of monitoring, and to continuously monitor risk levels and compliance with the established limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice in risk management.

The operational risk management functions are aimed at developing and ensuring proper functioning of internal processes and procedures that minimise the Group's exposure to internal and external risk factors.

The Supervisory Board has the overall responsibility for the oversight of the risk management framework, supervising the management of key risks. It also approves internal documentation for strategic areas of activity, including those concerning management of capital and risk.

The Board of Management has the overall responsibility for monitoring and implementation of risk mitigation measures and making sure that the Group operates within the established risk parameters.

The Chief Risk Officer (hereinafter – "CRO") is responsible for the overall risk management function, ensuring the implementation of common principles and methods for identifying, underwriting, measuring, managing and risk reporting for both financial and non-financial risks. The CRO is a Member of the Board of Management.

Credit, market and liquidity risks, both at portfolio and transactional levels, are managed through a system of Credit Approval Authorities as well as an Asset and Liability Management Committee. In order to facilitate efficient decision-making, the Group has established a hierarchy of Credit Approval Authorities, which includes four credit committees, including Credit Committee, Small Credit Committee, Special Credit Committee and Retail Business Credit Committee as well as several levels of joint and single personal approval authority, depending on the amount of exposure, risk type and risk associated with a customer (internal ratings).

The main objective of the risk-committee is to analyze and discuss the current risk profile, its compliance with risk appetite and risk strategy approved by the Supervisory Board, also for making operational decisions aimed at achieving the targets set for the risk profile, as well as other issues of risk management quality improvement in the Bank within the framework defined by special rules and procedures.

Credit risk policies and underwriting guidelines are under the CRO's responsibility. Internal local policies, rules, guidelines and operational instructions for lending to individuals and to the Small and Medium Enterprises (hereinafter – "SME") are in line with UniCredit Group Credit Policies, agreed with the CRO and approved by the Board of Management/Supervisory Board according to the rules of development, agreement and approval of internal documents of the Bank.

The four-eyes principle is applied for the credit decision-making process. Credit approval authority is exercised through the submission and approval of a credit application. For standardized products in the lending process to individuals decision-making is done by the Operations Function, to which the CRO Function delegates authority through respective underwriting guidelines and rules and/or implementation of credit scoring. For standardized products in the lending process to SMEs decision-making is done by the Business Function, to which the CRO Function delegates authority through respective guidelines, rules and decision matrix for applications. All deviations/exceptions from standardized products have to be approved by the CRO.

26. Risk management (Continued)

The Group's risk underwriting, assessment, reporting and control procedures vary by risk type, but share a common principle to be concentrated under the supervision of the CRO.

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 and arises principally from the Group's loans to customers and credit institutions and other credit exposures.

For risk management purposes, credit risk arising from positions in trading securities is managed and reported on a daily basis.

Credit risk governance. Credit risk management policies, procedures and manuals are approved by the Board of Management/Supervisory Board according to the procedure of Group rules.

The following credit committees are responsible for approving corporate and retail credit risk exposures:

- The Credit Committee reviews and approves all loan/credit applications from customers and issuers above RUB 750 million or equivalent in other currencies depending on the rating of the borrower. It is chaired by the President of the Board of Management or the CRO and meets on a weekly basis.
- The Small Credit Committee reviews and approves all loan/credit applications from corporate customers in the amount up to RUB 2 billion or equivalent in other currencies depending on the rating of the borrower. It is chaired by the Head of Credit Underwriting Department and meets on a weekly basis.
- The Retail Business Credit Committee is responsible for making decisions on loan applications of SME in the amount up to 73 million RUB (including) and also for making decisions on loan applications of Private Individual clients in the amount up to 100 million RUB (including) or equivalent in other currencies. The Retail Business Credit Committee meets in regular full-time sessions that are held in cases of necessity, but not less than twice a month in working order.
- The Special Credit Committee for Troubled Assets and Credit Restructuring takes decisions on issues related to work with problematic assets and restructuring of loans within the limits of delegated authority.

All corporate credit applications are considered by collegial bodies (credit committees) except low risk products. There is also a system of personal credit approval authorities with the four-eyes principle in place. For SME and private individuals lending process proposal is done by business function and approval is done by competent authority body according to decision matrix for applications.

All credit exposures above EUR 50 million or equivalent in other currencies as well as restructuring/refinancing applications above EUR 25 million have to be approved by authorized bodies of UniCredit Group.[1]

The Group limits concentrations of exposure to individual customers, counterparties and issuers (for securities), as well as groups of related customers. Exposure to credit risk is managed through regular analysis of the borrower's creditworthiness and by changing/adjusting lending limits where appropriate.

The Group's credit policies and product guidelines establish:

- Procedures and standards for approval and review of loan/credit applications;
- Methodology for the credit assessment of borrowers (corporate, retail);
- Methodology for the credit assessment of counterparties, issuers and insurance companies;
- Methodology for the evaluation of collateral;
- Credit documentation requirements;
- Procedures for the ongoing monitoring of loans and other credit exposures.

The relevant relationship managers and Corporate Lending Department or Financing Department originate corporate loan/credit applications jointly. The application could be solely prepared by relationship managers, depending on the respective authority granted to a given relationship manager.

The credit applications consist of a structured complex analysis focusing on the customer's business, financial performance and risks. The loan/credit applications are then independently reviewed by the Credit Underwriting Department and a second opinion in respect of risks is given accompanied by a check that credit policy requirements have been met. The relevant Approval Authority reviews the loan/credit application accompanied by the Credit Underwriting opinion.

In order to provide better assessment of customers' creditworthiness, separate units specialising on analysis of different industries were created within the Credit Underwriting Department. This business model allows the Group to quickly and thoroughly analyse changes in various industries, adjust strategies and take adequate decisions. Along with the industry divisioning there is also a set of regional risk managers that monitor the situation in the main regions of Group's operations. This allows the Group to manage its credit portfolio both on industry and regional levels.

Credit portfolio diversification by client types (large corporate clients, SME, individual clients) and industries allows to maintain high credit portfolio quality. In order to provide an adequate risk assessment, the Group uses various internal rating models which take into account specifics of different client segments, provides effective differentiation of clients by credit risk level and precise assessment of their probability of default in accordance with Basel II principles. Internal ratings are used in credit decision-making, pricing, capital allocation and risk management processes.

All existing credit deals/approved limits for corporate clients are subject to annual review procedures.

1 The criteria are presented in accordance with the current "General credit policy of AO UniCredit Bank".

The Group continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Group. As the result of the review, the borrower's internal credit rating may be changed. The Group monitors concentrations of credit risk by industry/sector and by the exposure to top borrowers.

Retail loan applications are approved according to internal local policies, rules, guidelines and operational instructions for lending to individuals and SME. Information is obtained on every customer. The extent of the information required and frequency of its update depend on the regulatory requirements, the customer category, creditworthiness of the customer and type of a transaction. The business unit obtains and analyzes the information from different sources (information from the customer, on-site visits, internal/external sources).

In order to reduce the risk of potential losses in the Group's credit transactions a Monitoring Unit was established which implements procedures for systematic identification and assessment of negative signals, analysis and situation monitoring as well as strategies and action plans for potentially troubled corporate borrowers.

Property risk. Due to the nature of leasing activity, in case of default events, the Group is exposed to property risk which is the risk that it will be impossible to sell property repossessed from defaulted clients or selling price won't cover credit exposure of the client.

The Group minimizes this risk by analyzing the leasing objects as well as lessees before entering into a leasing transaction, in case of increased risk additional collateral is demanded, other measures to handle credit risk are also used.

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

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

The table below shows the maximum exposure to credit risk for the components of the statement of financial position, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Notes	Maximum gross exposure as at 31 December 2017	Maximum gross exposure as at 31 December 2016
Cash and cash balances (excluding cash on hand)	5	18 430 977	46 080 894
Trading securities:	6		
- held by the Group		20 064 838	1 154 603
- pledged under repurchase agreements		804 699	1 251 058
Amounts due from credit institutions	7	292 420 614	269 500 170
Derivative financial assets	8	37 985 906	41 257 596
Derivative financial assets designated for hedging	8	7 860 608	12 738 828
Loans to customers	9	668 523 180	677 010 924
Investment securities:	10		
- available-for-sale			
- held by the Group		76 211 952	40 921 909
- pledged under repurchase agreements		1 254 314	19 704 611
-held to maturity			
- held by the Group		29 937 423	30 704 604
- pledged under repurchase agreements		-	212 666
Total		**1 153 494 511**	**1 140 537 863**
Financial commitments and contingencies	21	288 989 824	319 411 308
Total credit risk exposure		**1 442 484 335**	**1 459 949 171**

26. Risk management (Continued)

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

The following tables provide the analysis of assets based on credit quality of respective counterparts as at 31 December 2017.

		Neither past due nor impaired			
	Notes	High grade	Standard	Past due or impaired	Total
Cash and cash balances (excluding cash on hand)	5	18 430 977	-	-	18 430 977
Trading securities:	6				
- held by the Group		20 034 271	30 567	-	20 064 838
- pledged under repurchase agreement		804 699	-	-	804 699
Amounts due from credit institutions	7	215 170 478	77 250 136	-	292 420 614
Derivative financial assets	8	34 814 818	3 171 088	-	37 985 906
Derivative financial assets designated for hedging	8	7 860 608	-	-	7 860 608
Loans to customers	9	316 124 006	337 585 761	14 813 413	668 523 180
Investment securities:	10				
- available for sale					
- held by the Group		75 866 036	345 916	-	76 211 952
- pledged under repurchase agreement		1 254 314	-	-	1 254 314
- held-to-maturity					
- held by the Group		29 937 423	-	-	29 937 423
Total		**720 297 630**	**418 383 468**	**14 813 413**	**1 153 494 511**

The following tables provide the analysis of assets based on credit quality of respective counterparts as at 31 December 2016.

		Neither past due nor impaired			
	Notes	High grade	Standard	Past due or impaired	Total
Cash and cash balances (excluding cash on hand)	5	46 080 894	-	-	46 080 894
Trading securities:	6				
- held by the Group		1 154 603	-	-	1 154 603
- pledged under repurchase agreement		1 251 058	-	-	1 251 058
Amounts due from credit institutions	7	212 124 320	57 375 850	-	269 500 170
Derivative financial assets	8	23 765 802	17 491 794	-	41 257 596
Derivative financial assets designated for hedging	8	12 678 831	59 997	-	12 738 828
Loans to customers	9	271 524 001	380 996 607	24 490 316	677 010 924
Investment securities:	10				
- available for sale					
- held by the Group		39 950 394	971 515	-	40 921 909
- pledged under repurchase agreement		19 704 611	-	-	19 704 611
- held-to-maturity					
- held by the Group		30 704 604	-	-	30 704 604
- pledged under repurchase agreement		212 666	-	-	212 666
Total		**659 151 784**	**456 895 763**	**24 490 316**	**1 140 537 863**

The Standard grade category includes exposures with probability of default from 0.5% to 99%. The High grade category includes exposures with probability of default up to 0.5% (so-called “Investment grade” in accordance with the UniCredit Group methodology).

As at 31 December 2017, 46% of exposures included in the tables above are rated as AAA/AA/A/BBB/BB/B by external rating agencies (Moody’s, S&P, Fitch) (31 December 2016: 46%). As at 31 December 2017, 54% of the exposures (31 December 2016: 54%) are not rated due to the fact that small entities and private inidviduals are not externally rated.

Geographical concentration. Asset and Liability Management Committee exercises control over the risk in the legislation and regulatory area and assesses its influence on the Group's activity. This approach allows the Group to minimize potential losses from the investment climate fluctuations in the Russian Federation.

As at 31 December 2017 and 31 December 2016 assets and liabilities of the Group are concentrated mainly in the Russian Federation except for the amounts due from credit institutions and derivative financial assets and liabilities (including those designated for hedging) which are mainly concentrated in OECD countries.

Liquidity risk and funding management. Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of financial institutions. It is unusual for financial institutions ever to be completely matched since a lot of business transactions are of uncertain term and different types. An unmatched position could potentially enhance profitability, but also could increase the risk of failure to meet obligations.

The approach to liquidity management is to ensure, as far as possible, that the Group always has sufficient liquidity to meet its obligations, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group reputation.

Assets and Liabilities Committee (hereinafter – "ALCO") is responsible for management of liquidity risk. ALCO delegates to the Finance Department and Markets Department the responsibility to monitor and maintain the liquidity profile within limits on a daily basis. At the same time Market Risk Unit controls compliance with liquidity limits and informs ALCO in case of limit breaches. Both Finance Department and Market Risk Unit report to local and to the UniCredit Group ALCO on a weekly basis.

According to the liquidity management policy:

1. The approach to funding and structural liquidity is described in the annual funding plan, which is based on the annual budget data. On a monthly basis, the funding plan is updated taking into account the current recognized and unrecognized positions, changes in the asset and liability mismatches of the Group, available funding sources and market analysis. The Group has adopted contingency funding plans, the UniCredit Group standard risk management instrument, which describes potential funding sources in case of crisis situation. The contingency funding plan is updated in the event of crisis, but at least once a year by ALCO, after annual funding plan approval. In addition to Contingency funding plans UniCredit Group develops Recovery and Resolution Plan which covers extreme stress scenario management.

2. Structural liquidity is analyzed by Finance Department and Market Risk Unit using Net Stable Funding Ratio (hereinafter – "NSFR") and NSFR-based liquidity gap approach and reported to local ALCO and to the UniCredit Group on weekly basis. Liquidity limits and requirements both established by the UniCredit Group and the CBR are taken into account.

3. Short-term liquidity is monitored on the basis of cash flow models in total and separately by major currencies according to UniCredit Group approach and local approach. Differences in the two approaches are explained by necessity to control liquidity taking into account the Group's strategy and features of the local market environment.
   - Regulatory approach for liquidity monitoring based on Liquidity Coverage Ratio is applied in the Bank following UniCredit Group and the CBR requirements.
   - Stress scenarios (combined – including market crisis, foreign exchange market crisis scenario, etc.) are assessed to stress forecast future cash flows and corresponding liquidity needs. Market crisis scenario includes "haircuts" to liquid security positions, failure of the Group's counterparties to meet their obligations with regard to money market deals, run on retail deposits, inability to make swaps at reasonable prices, etc. In attempt to reveal possible weaknesses reverse stress testing applied with further development of recovery plan.
   - UniCredit Group sets limits on cash flow positions that depend on available liquidity sources and level of liquid assets (portfolio of assets that can be quickly liquidated to meet obligations without significant price decline). Additionally local ALCO sets limits on liquidity gaps in accordance with local approach to cash flow model.
   - Liquidity control framework is not limited to strict metrics but includes liquidity early warning indicators, which allows ALCO to switch between going-concern and crisis phases.

4. Funding structure concentration is monitored and managed on a constant basis:
   - ALCO sets an internal limit on the maximum volume of borrowings from a single group of clients;
   - Reports on customer funds concentration are presented to the management and analyzed on a weekly basis.

5. Liquidity ratios in line with regulatory requirements established by the CBR are to be monitored and met:
   - Instant liquidity Ratio (N2) is the ratio of liquid assets to sight and overnight liabilities;
   - Current liquidity ratio (N3) is the ratio of liquid assets to liabilities maturing within 30 calendar days;
   - Long-term liquidity ratio (N4) is the ratio of assets maturing after one year to the sum of capital and liabilities maturing after one year;
   - Liquidity coverage ratio (N26) is the ratio of high quality liquid assets and net short-term outflow. Calculated in compliance with actual CBR regulations, it implements "Basel III" standards;
   - Net stable funding ratio (N28) is ratio of stable funding and required stable funding. Calculated in compliance with actual CBR regulations, it implements "Basel III" standards.

Finance Department makes a forecast of N4 ratio for a one month horizon on a daily basis. Markets Department projects N2, N3 ratios for a one month horizon. Market risks performs daily N26 and N28 estimation.

As at 31 December 2017 and 31 December 2016, these ratios were as follows:

	2017,%	2016,%
N2 "Instant liquidity Ratio" (minimum 15%)	117.1	144.1
N3 "Current Liquidity Ratio" (minimum 50%)	224.9	219.8
N4 "Long-Term Liquidity Ratio" (maximum 120%)	64.5	59.2
N26 “"Liquidity Coverage Ratio"(minimum 80%)	139.4	76.3
N28 "Net Stable Funding Ratio" (minimum 100%)	116.9	-

The following tables shows the liquidity gap profile as at 31 December 2017 and 31 December 2016. This information is prepared using the internal Assets and Liabilities Management system according to the approved internal approach. The mapping approach is compliant with the requirements of the UniCredit Group liquidity policy. For example, debt securities are mapped according to the nearest put-date (if any) or to maturity date, loans to corporate customers are mapped based on facilities' types, for retail loans statistical model for prepayment simulation is implemented, sight items (both on assets and liabilities side) and term deposts with autoprolongation are mapped based on UniCredit Group statistical model according to historical pattern corresponding items' behavior, derivative instruments are recorded in other assets and other liabilities, amounts due to and due from banks are mapped based on maturity dates. This information is used internally for risk management purposes and differs from financial statement amounts.

The table below presents the liquidity gap profile according to the Group's approved internal approach as at 31 December 2017:

	Less than 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 3 years	More than 3 years	No stated maturity	Total
Assets								
Cash and cash balances	30 202 650	-	-	-	-	-	-	**30 202 650**
Trading securities	-	-	-	-	-	20 869 537	-	**20 869 537**
Amounts due from credit institutions	141 768 552	7 880 010	84 298 814	23 957 970	31 799 234	52 351	-	**289 756 931**
Loans to customers	50 587 505	39 174 167	61 303 930	97 127 030	290 902 753	125 545 869	-	**664 641 254**
Investment securities:								
- available-for-sale	33 554 704	307 488	434 664	-	9 802 905	33 366 505	-	**77 466 266**
- held-to-maturity	-	-	-	-	-	29 937 423	-	**29 937 423**
Fixed assets	-	-	-	-	-	-	4 909 170	**4 909 170**
Other assets	-	-	-	61 812 783	-	-	-	**61 812 783**
Total assets	**256 113 411**	**47 361 665**	**146 037 408**	**182 897 783**	**332 504 892**	**209 771 685**	**4 909 170**	**1 179 596 014**
Liabilities								
Amounts due to credit institutions	43 494 479	6 252 670	1 162 705	710 333	3 458 632	28 722 418	-	**83 801 237**
Amounts due to customers:								
- current accounts	96 038 455	23 084 864	19 948 479	24 245 646	27 819 993	22 870 111	-	**214 007 548**
- time deposits	239 676 332	53 383 949	88 262 854	135 196 495	67 901 717	27 931 676	-	**612 353 023**
Debt securities issued	162 856	-	-	6 301 017	45 920	-	-	**6 509 793**
Other liabilities	62 691 004	-	-	-	-	-	-	**62 691 004**
Equity	-	-	-	-	-	-	200 233 409	**200 233 409**
Total liabilities and equity	**442 063 126**	**82 721 483**	**109 374 038**	**166 453 491**	**99 226 262**	**79 524 205**	**200 233 409**	**1 179 596 014**
Net position	**(185 949 715)**	**(35 359 818)**	**36 663 370**	**16 444 292**	**233 278 630**	**130 247 480**	**(195 324 239)**	**-**
Accumulated gap	**(185 949 715)**	**(221 309 533)**	**(184 646 163)**	**(168 201 871)**	**65 076 759**	**195 324 239**	**-**	

As shown in the table above, as at 31 December 2017 there is a negative accumulated liquidity gap in 1 month to 1 year periods. The maximum negative accumulated gap in 1 to 3 months period is explained by significant amount of short-term and demand deposits in liabilities.

The accumulated gap can be sufficiently covered by refinancing with the CBR (loans secured by assets available for collateral under CBR loans), repurchase agreements and sell of securities while reducing volume of the Group's participation in reverse repurchase agreements. The approximate amount of funds available from the mentioned sources is RUB 233 742 797 thousand.

The table below presents the liquidity gap profile according to the approved internal approach as at 31 December 2016:

	Less than 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	1 year to 3 years	More than 3 years	No stated maturity	Total
Assets								
Cash and cash balances	58 588 565	-	-	-	-	-	-	**58 588 565**
Trading securities	-	-	-	-	335 872	2 069 789	-	**2 405 661**
Amounts due from credit institutions	119 386 397	5 500 000	3 507 682	37 146 221	100 990 308	-	-	**266 530 608**
Loans to customers	29 327 781	35 043 569	51 490 110	101 550 897	308 419 855	156 623 964	-	**682 456 176**
Investment securities:								
- available-for-sale	-	498 900	2 782 347	498 650	11 009 241	45 837 382	-	**60 626 520**
- held-to-maturity	-	-	-	-	-	30 917 270	-	**30 917 270**
Fixed assets	-	-	-	-	-	-	5 207 034	**5 207 034**
Other assets	-	-	-	67 993 629	-	-	-	**67 993 629**
Total assets	**207 302 743**	**41 042 469**	**57 780 139**	**207 189 397**	**420 755 276**	**235 448 405**	**5 207 034**	**1 174 725 463**
Liabilities								
Amounts due to credit institutions	99 014 043	10 864 874	1 286 179	2 965 291	3 342 810	35 339 397	-	**152 812 594**
Amounts due to customers:								
- current accounts	75 119 795	18 161 438	15 714 700	19 129 276	22 527 006	19 342 311	-	**169 994 526**
- time deposits	170 321 478	55 319 103	56 648 078	48 302 483	248 314 915	29 984 330	-	**608 890 387**
Debt securities issued	160 909	-	-	-	6 346 937	-	-	**6 507 846**
Other liabilities	54 845 205	-	-	-	-	-	-	**54 845 205**
Equity	-	-	-	-	-	-	181 674 905	**181 674 905**
Total liabilities and equity	**399 461 430**	**84 345 415**	**73 648 957**	**70 397 050**	**280 531 668**	**84 666 038**	**181 674 905**	**1 174 725 463**
Net position	**(192 158 687)**	**(43 302 946)**	**(15 868 818)**	**136 792 347**	**140 223 608**	**150 782 367**	**(176 467 871)**	**-**
Accumulated gap	**(192 158 687)**	**(235 461 633)**	**(251 330 451)**	**(114 538 104)**	**25 685 504**	**176 467 871**	**-**	

Notes to Consolidated Financial Statements (Continued)

26. Risk management (Continued)

Analysis of financial assets and liabilities by remaining contractual maturities. The tables below summarise the maturity profile of financial assets and liabilities as at 31 December 2017 and 31 December 2016 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay. The tables do not reflect the expected cash flows indicated by the Group's deposit retention history.

	Less than 1 month	1 month to 3 months	3 months to 6 months	6 to 12 months	1 year to 3 years	More than 3 years	Total
Financial assets as at 31 December 2017							
Cash and cash balances	30 202 650	-	-	-	-	-	**30 202 650**
Trading securities							
- held by the Group	20 064 838	-	-	-	-	-	**20 064 838**
- pledged under repurchase agreements	804 699	-	-	-	-	-	**804 699**
Amounts due from credit institutions	144 236 606	9 323 875	83 953 064	27 619 233	32 259 568	98 711	**297 491 057**
Derivative financial assets:							
- Contractual amounts payable	(39 903 661)	(32 307 216)	(40 190 050)	(45 360 955)	(59 156 774)	(18 956 662)	**(235 875 318)**
- Contractual amounts receivable	40 627 423	33 927 951	53 563 476	51 179 967	75 720 664	18 870 027	**273 889 508**
Derivative financial assets designated for hedging:							
- Contractual amounts payable	(174 382)	(675 425)	(1 394 457)	(19 494 045)	(78 502 885)	(5 068 611)	**(105 309 805)**
- Contractual amounts receivable	112 658	1 543 045	1 406 391	21 809 566	86 594 083	5 826 280	**117 292 023**
Loans to customers	51 832 653	36 301 780	54 064 890	80 759 859	281 816 610	319 310 064	**824 085 856**
Investment securities:							
available-for-sale							
- held by the Group	34 258 954	449 534	1 017 673	1 181 493	6 686 686	54 815 421	**98 409 761**
- pledged under repurchase agreements	-	-	271 120	271 120	1 084 478	1 478 097	**3 104 815**
held-to-maturity							
- held by the Group	390 075	527 042	182 477	1 099 594	11 508 301	25 855 339	**39 562 828**
Total undiscounted financial assets	**282 452 513**	**49 090 586**	**152 874 584**	**119 065 832**	**358 010 731**	**402 228 666**	**1 363 722 912**
Financial liabilities as at 31 December 2017							
Amounts due to credit institutions	42 278 604	7 840 886	2 963 319	3 075 252	11 279 879	42 626 439	**110 064 379**
Financial iabilities held for trading	26 399 813	-	-	-	-	-	**26 399 813**
Derivative financial liabilities:							
- Contractual amounts payable	34 657 667	18 529 033	30 445 251	45 915 040	35 673 583	30 621 000	**195 841 574**
- Contractual amounts receivable	(34 034 728)	(17 120 855)	(27 894 562)	(42 383 763)	(30 051 414)	(27 605 866)	**(179 091 188)**
Derivative financial liabilities designated for hedging:							
- Contractual amounts payable	130 454	1 713 856	7 679 280	21 130 406	31 593 649	6 503 307	**68 750 952**
- Contractual amounts receivable	(1 054 893)	(1 832 749)	(6 147 692)	(17 223 520)	(26 853 429)	(4 953 530)	**(58 065 813)**
Amounts due to customers	421 899 578	60 191 738	106 166 191	161 389 585	82 094 375	9 129 092	**840 870 559**
Debt securities issued	-	249 030	105 883	6 655 930	50 016	-	**7 060 859**
Total undiscounted financial liabilities	**490 276 495**	**69 570 939**	**113 317 670**	**178 558 930**	**103 786 659**	**56 320 442**	**1 011 831 135**

The maturity profile of the financial assets and liabilities at 31 December 2016 was the following:

	Less than 1 month	1 month to 3 months	3 months to 6 months	6 to 12 months	1 year to 3 years	More than 3 years	Total
Financial assets as at 31 December 2016							
Cash and cash balances	58 588 565	-	-	-	-	-	**58 588 565**
Trading securities							
- held by the Group	1 154 603	-	-	-	-	-	**1 154 603**
- pledged under repurchase agreements	1 251 058						**1 251 058**
Amounts due from credit institutions	121 557 508	6 593 777	6 565 215	36 827 447	106 087 190	60 672	**277 691 809**
Derivative financial assets:							
- Contractual amounts payable	(9 926 046)	(9 560 101)	(7 618 834)	(14 093 015)	(92 363 494)	(1 552 809)	**(135 114 299)**
- Contractual amounts receivable	10 476 859	12 863 892	9 117 673	20 885 865	122 945 698	3 761 760	**180 051 747**
Derivative financial assets designated for hedging:							
- Contractual amounts payable	(649 669)	(2 482 220)	(42 351 067)	(4 277 357)	(60 887 219)	(8 903 456)	**(119 550 988)**
- Contractual amounts receivable	1 471 828	3 902 693	48 516 136	6 500 284	69 839 473	10 133 246	**140 363 660**
Loans to customers	36 582 980	40 360 774	59 346 768	117 632 283	278 456 771	311 109 387	**843 488 963**
Investment securities:							
available-for-sale							
- held by the Group	79 259	1 415 435	2 067 183	1 365 966	12 080 509	37 722 725	**54 731 077**
- pledged under repurchase agreements	31 791	385 068	1 623 454	688 531	4 817 328	21 942 373	**29 488 545**
held-to-maturity							
- held by the Group	-	1 007 938	192 161	1 200 099	4 800 396	36 230 456	**43 431 050**
- pledged under repurchase agreements	-	11 868	-	11 868	47 472	330 548	**401 756**
Total undiscounted financial assets	**220 618 736**	**54 499 124**	**77 458 689**	**166 741 971**	**445 824 124**	**410 834 902**	**1 375 977 546**
Financial liabilities as at 31 December 2016							
Amounts due to credit institutions	101 907 138	13 026 833	3 445 055	7 805 056	18 440 912	47 855 749	**192 480 743**
FInancial iabilities held for trading	4 344 152	-	-	-	-	-	**4 344 152**
Derivative financial liabilities:							
- Contractual amounts payable	30 248 895	14 042 785	10 958 916	9 683 034	27 285 769	7 448 842	**99 668 241**
- Contractual amounts receivable	(29 202 541)	(11 885 597)	(6 412 398)	(8 570 535)	(20 651 948)	(4 985 558)	**(81 708 577)**
Derivative financial liabilities designated for hedging:							
- Contractual amounts payable	524 802	2 446 724	6 639 705	11 372 157	29 642 826	4 418 743	**55 044 957**
- Contractual amounts receivable	(1 271 790)	(2 030 533)	(2 983 893)	(8 127 602)	(24 969 823)	(2 678 148)	**(42 061 789)**
Amounts due to customers	313 302 672	61 166 648	62 101 253	60 565 182	270 645 174	7 487 754	**775 268 683**
Debt securities issued	-	249 030	105 883	354 913	7 060 860	-	**7 770 686**
Total undiscounted financial liabilities	**419 853 328**	**77 015 890**	**73 854 521**	**73 082 205**	**307 453 770**	**59 547 382**	**1 010 807 096**

The maturity analysis does not reflect the historical pattern of stable balances on current accounts. Withdrawals of current accounts historically are taking place over a longer period than indicated in the tables above. These balances are included in amounts due in less than one month in the tables above.

Included in due to customers are term deposits of individuals. In accordance with the Russian legislation, the Group is obliged to repay such deposits upon demand (please refer to Note 17).

The table below shows the contractual expiry by maturity of financial commitments and contingencies.

	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	More than 3 years	Total
2017	28 700 133	29 204 652	41 439 359	77 412 811	83 982 383	28 250 486	288 989 824
2016	25 356 922	23 688 878	36 507 699	48 549 038	135 890 008	49 418 763	319 411 308

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

Market risk. Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices.

The Group distinguishes the following market risk categories:
1. Interest Rate Risk is the risk that changes in interest rates will affect future cash flows or fair values of financial instruments;
2. Currency Risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates;
3. Spread Risk is the risk that changes in credit spreads will affect bond prices;
4. Basis spread risk is the risk that changes in cross-currency basis spread or between different basises (for example, 3 months and overnight) will affect the value of financial instruments
5. Residual Risk is the risk that a price of a particular instrument will change due to its specific characteristics.

On a daily basis the Group assesses interest rate, currency and basis spread risks for both the trading portfolio and banking book. Moreover, spread and residual risks are calculated for fixed income positions.

The Group applies a Value-at-Risk (hereinafter – "VaR") methodology for the measuring of all risks mentioned above. VaR measure adopted by the Group estimates the potential negative change in the market value of a portfolio at a 99% confidence level over a 1-day horizon. In addition, the Group calculates SVaR, a measure of the potential negative change in the market value of a portfolio at a 99% confidence level over a 1-day horizon in a period of market stress. The Group distinguishes the following types of VaR:
1. Total VaR is calculated for all risk factors taken in aggregate;
2. Interest Rate VaR is originated from interest rate risk exposure of the portfolio;
3. Foreign exchange VaR is originated from currency risk exposure of the portfolio;
4. Spread VaR is originated from spread risk exposure of the bond portfolio;
5. Residual VaR is originated from other factors exposure of the bond portfolio.

The Group also calculates an Incremental Risk Charge (hereinafter – "IRC") that complements additional standards being applied to VaR modelling framework according to amendments to Basel II. IRC is an estimate of the default and migration risks of unsecured credit products over a one year capital horizon at 99.9% confidence level.

For interest rate risk management and control the Group also uses a Basis Point Value (hereinafter – "BPV") measure, which shows a change of present value of the Group's position if interest rate changes by one basis point. The measure is calculated for all currencies in which the Group has interest rate exposures. In addition, for bonds the Group calculates a Credit Point Value (hereinafter – "CPV") measure that reflects a change of the bond position present value in case of credit spread changes by one basis point.

Starting from 2014, the Group additionally calculates (and includes in VaR calculation as a component of interest rate risk) the change of present value of the Group's position if cross-currency basis swap rates change by one basis point.

Since monitoring of VaR, BPV and CPV is an integral part of the risk management procedures, VaR, CPV and BPV limits and warning levels have been established and exposures are reviewed daily against the limits and warning levels by Market Risk Unit (hereinafter – "MRU"). IRC exposure is reviewed weekly.

The Group has adopted the following limits:
- Total VaR limit for the trading portfolio, and a warning level for total VaR for the whole portfolio;
- Warning level for Total VaR for banking book;
- Total SVaR limit for the trading portfolio;
- IRC limit for total bond position;
- Total BPV limit for the whole portfolio;
- BPV limits split by currencies;
- Open foreign exchange position limits;
- CPV limit for total bond position.

In addition, local ALCO sets limits for BPV by timeband and business segments and VaR warning levels for subportfolios.

Usage of VaR enables management of a position taking into consideration complex relationships and interdependencies between different risk factors. Typically MRU analyses VaR figures and sets BPV limits which help traders and the Finance Department to optimize risk profiles in volatile market environment.

Verification of applied methodologies is carried out through back- and stress-testing. Bank estimates its own internal models of market risk regarding data quality and risk factor completeness on a regular basis.

In addition, MRU monitors on a daily basis the financial result of the trading operations and thoroughly investigates any significant variances.

The control of economic and regulatory open foreign currency position is performed by MRU on a daily basis against the established limits.

All limit violations are analyzed by MRU on a daily basis, and all limit breaches are escalated and reported to local ALCO and to the relevant UniCredit Group functions.

According to Basel III regulatory standards the Credit Valuation Adjustment (modification of derivatives market value taking into account counterparty credit risk) and corresponding impact on capital are calculated monthly by the Group. Additionally, the requirements of minimum mark-up of derivative transactions with corporate counterparties are applied.

In 2014 the Group implemented a new IT system for Market risk measurement, which has considerably increased MRU's capability to perform stress tests. The new system also enables to calculate sensitivities to basis spread movements. Interest rate risk model for non-performing loans has been implemented.

In an effort to control the Group's trading strategy the sensitivity analysis of statement of comprehensive income in terms of risk factors is performed monthly and presented to ALCO. In 2014, the analysis was expanded to include historical impact of the risk factors.

In 2015-2017 Group continued to improve its VaR model by introduction of more detailed risk factors on interest rate curves distinguishing different curve types for every currency.

Interest rate risk management of the banking book. The Group uses the active interest rate risk management concept, which aims to minimize the net interest income volatility of the banking book.

In the banking book interest rate risk position there is a discrepancy between economic (behavioural) and contractual maturities of financial instruments. It concerns both instruments with fixed contractual maturities (loans and time deposits) and instruments without contractual maturities (current accounts, capital). Based on the historical observation, the Group developed models that allowed applying a behavioural approach to such kinds of banking book items for construction of interest rate risk position with the aim of better interest rate risk management by means of preventing over-hedging and encouraging self-hedging. The Group applies behavioural models to current accounts, short-term customer time deposits and time deposits with auto-rollover option as well as to capital. The Group has developed a prepayment model for retail loans and implemented it in interest rate risk position. For avoiding an accounting discrepancy between hedged items of the banking book calculated on an accrual basis and hedging instruments calculated on a mark-to-market basis and, as a result, to stabilize net interest income, the Group uses hedge accounting methodology. Currently, Macro Cash Flow Hedge and Portfolio Fair Value Hedge are used.

Objectives and limitation of VaR methodology (unaudited). The Group uses Basel II compliant VaR methodology based on historical simulations. Historical simulation is a method that allows to calculate VaR without making any assumptions about the statistical distribution of the portfolio value movements. This approach involves the construction of the hypothetical distribution of the yields (profit and losses) of a portfolio of financial instruments directly by means of the historical fluctuations of the market prices. Once the hypothetical distribution has been calculated, the VaR is given by the percentile evaluation with the 99% confidence interval.

VaR estimates are based on historical data and therefore have some limitations. The volatility of interest and exchange rates observed in the past might not match the current market conditions, which could lead to an underestimation of future losses. The VaR measure does not account for any losses that may occur beyond the 99% confidence level.

The adequacy of the models used by the Group is controlled using a back-testing method, which compares VaR measures with realized mark-to-market revaluation for traded instruments and mark-to-model revaluation for non-traded instruments. This analysis is provided by MRU on a monthly basis.

One single model is used to estimate VaR for all purposes (regulatory, market risk disclosures, etc.). Changes to VaR model/parameters (if any are required) are validated using the back-testing approach mentioned above. Regulatory requirements for approval, if any, are handled at the UniCredit Group level.

Computational results (unaudited). The following table shows an estimation of the potential losses that could occur on all risk positions as a result of movements in market rates and prices:

	2017	2016
Total VaR	720 566	1 032 729
Interest Rate VaR	152 347	610 026
Spread VaR	586 588	810 958
Foreign exchange VaR	550	5 614

The banking book includes corporate and retail loans and bonds from the investment portfolio on the asset side and deposits and debt securities issued on the liability side offset by interest rate swaps.

The following table shows estimation of the potential losses that could occur on the banking book risk positions as a result of movements in market rates and prices:

	2017	2016
Total VaR	526 141	1 085 016
Interest Rate VaR	189 690	587 246
Spread -VaR[1]	405 398	882 000

[1] Spread risk in the banking book arises from bonds comprising investment portfolio.

The following table shows estimation of the potential losses that could occur on the trading book risk positions as a result of movements in market rates and prices:

	2017	2016
Total VaR	296 223	83 037
Interest Rate VaR	91 766	55 414
Spread VaR	264 289	62 795
Foreign exchange VaR	550	5 614

Currency risk. Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

Strategic Risks Management Department together with Financial Markets Department controls currency risk by management of the open currency position in order to minimize the Group's losses from significant currency rates fluctuations toward its national currency, while also utilizing short-term profit opportunities. The Group does not keep long-term exposures to currency risk. The Group uses spots, swaps and forwards as main instruments of risk hedging.

26. Risk management (Continued)

The Group's exposure to foreign currency exchange rate risk as at 31 December 2017 is presented in the table below:

	RUB	USD	EUR	Other currencies	2017
Non-derivative financial assets					
Cash and cash equivalents	24 767 391	2 296 990	2 904 073	234 196	**30 202 650**
Trading securities - held by the Group	17 681 539	2 383 299	-	-	**20 064 838**
- pledged under repurchase agreements	804 699	-	-	-	**804 699**
Amounts due from credit institutions	103 067 611	163 536 414	22 247 348	3 569 241	**292 420 614**
Loans to customers	355 117 253	262 354 785	51 051 138	4	**668 523 180**
Investments available-for-sale					
- held by the Group	64 157 785	12 051 460	2 707	-	**76 211 952**
- pledged under repurchase agreements	1 254 314	-	-	-	**1 254 314**
Investments held to maturity					
- held by the Group	15 814 468	14 122 955	-	-	**29 937 423**
Total non-derivative financial assets	**582 665 060**	**456 745 903**	**76 205 266**	**3 803 441**	**1 119 419 670**
Non-derivative financial liabilities					
Amounts due to credit institutions	46 220 436	30 969 501	8 159 781	77 278	**85 426 996**
Financial iabilities held for trading	26 399 813	-	-	-	**26 399 813**
Amounts due to customers	356 207 046	405 607 415	60 731 382	4 557 482	**827 103 325**
Debt securities issued	6 509 793	-	-	-	**6 509 793**
Total non-derivative financial liabilities	**435 337 088**	**436 576 916**	**68 891 163**	**4 634 760**	**945 439 927**
OPEN BALANCE SHEET POSITION	**147 327 972**	**20 168 987**	**7 314 103**	**(831 319)**	**173 979 743**
OPEN POSITION ON DERIVATIVE FINANCIAL INSTRUMENTS	**46 396 372**	**(22 408 473)**	**(5 267 227)**	**817 705**	**19 538 377**
OPEN POSITION	**193 724 344**	**(2 239 486)**	**2 046 876**	**(13 614)**	**193 518 120**

The Group's exposure to foreign currency exchange rate risk as at 31 December 2016 is presented in the table below:

	RUB	USD	EUR	Other currencies	2016
Non-derivative financial assets					
Cash and cash equivalents	52 213 157	2 897 125	3 319 048	159 235	**58 588 565**
Trading securities - held by the Group	1 153 597	1 006	-	-	**1 154 603**
- pledged under repurchase agreements	1 251 058	-	-	-	**1 251 058**
Amounts due from credit institutions	46 333 225	208 636 535	12 060 344	2 470 066	**269 500 170**
Loans to customers	343 340 471	292 184 295	41 354 088	132 070	**677 010 924**
Investments available-for-sale					
- held by the Group	24 670 907	16 248 295	2 707	-	**40 921 909**
- pledged under repurchase agreements	19 704 611	-	-	-	**19 704 611**
Investments held to maturity					
- held by the Group	15 722 339	14 982 265	-	-	**30 704 604**
- pledged under repurchase agreements	212 666	-	-	-	**212 666**
Total non-derivative financial assets	**504 602 031**	**534 949 521**	**56 736 187**	**2 761 371**	**1 099 049 110**
Non-derivative financial liabilities					
Amounts due to credit institutions	109 018 800	36 383 738	6 289 000	417 122	**152 108 660**
Financial iabilities held for trading	4 344 152	-	-	-	**4 344 152**
Amounts due to customers	254 513 236	462 749 236	57 617 324	4 222 106	**779 101 902**
Debt securities issued	6 507 846	-	-	-	**6 507 846**
Total non-derivative financial liabilities	**374 384 034**	**499 132 974**	**63 906 324**	**4 639 228**	**942 062 560**
OPEN BALANCE SHEET POSITION	**130 217 997**	**35 816 547**	**(7 170 137)**	**(1 877 857)**	**156 986 550**
OPEN POSITION ON DERIVATIVE FINANCIAL INSTRUMENTS	**51 933 206**	**(36 490 879)**	**7 543 904**	**1 814 319**	**24 800 550**
OPEN POSITION	**182 151 203**	**(674 332)**	**373 767**	**(63 538)**	**181 787 100**

The following table presents sensitivities of profit and loss and equity to changes in exchange rates applied at the balance sheet date by 10%, with all other variables held constant:

	2017 impact	2016 impact
USD strengthening by 10%	(223 949)	(67 433)
USD weakening by 10%	223 949	67 433
EUR strengthening by 10%	204 688	37 377
EUR weakening by 10%	(204 688)	(37 377)

Management belives that sensitivity analysis does not necessarily reflect currency risk adherent to the Group due to the fact that amounts as of the end of reporting periods do not reflect the amounts throughout the year.

Operational risk

Operational risk definition and risk management principles. The Group defines as "operational" the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The definition of Operational Risk includes legal risk but excludes strategic and reputation risk. Legal risk includes but is not limited to exposure to fines, penalties or punitive damages resulting from supervisory actions as well as private settlements.

The management of operational risk as defined above is based on the following fundamental principles:
- Involvement of corporate governing bodies in all the relevant decisions regarding the operational risk management framework;
- Independence of operational risk management function from the risk taking functions;
- Effective system of controls at different control levels (line, second level and third level);
- Clear separation between the operational risk management framework development and validation functions;
- Involvement of operational risk management function in the evaluation of the risks within new products, processes, systems and markets;
- Effective and efficient escalation and decision-making process;
- Adequate and periodical disclosure and reporting process.

Operational risk management framework. The Group is fully compliant with the UniCredit Group's operational risk management framework in its guiding standards and principles as well as with the legislation of the Russian Federation.

The implementation of the standards and principles is substantially supported by the exhaustive set of internally approved normative documents being constantly maintained and updated in accordance with both external and internal requirements.

The Board of Management holds the responsibility for the establishment, governance and continuous monitoring of the effective and efficient operational risk management system. The Board of Management establishes the general policies of the Group's operational risk management system and has control over its due implementation and its actual operations including but not limiting to:

Approval of the operational risk framework and any essential changes to it as well as all internal normative documents of the Bank guiding the operational risk management system;

Establishment of an operational risk management function being of appropriate independence of judgement and having the adequate personnel and other resources;

Assurance that the tasks and responsibilities of the functions involved in the operational risk management system are assigned in a clear and appropriate manner with special regard to avoidance of conflicts of interest;

Establishment of informing and reporting system providing accurate, complete and timely information on operational risk exposure and other significant operational risk management issues.

For further enforcement of the operational risk management system, Operational Risk Committee being a governing body primarily is responsible for making decisions on operational risk topics and ongoing monitoring of developments affecting the Group's business and promoting the exchange of information among the divisions and individual operating functions (Retail Banking, CIB, CFO, Legal, HR, Security) representing line controls.

The Operational Risk Management Unit (hereinafter – "ORM Unit") performing the second level controls is fully independent from risk taking functions performing the line level controls. The ORM Unit's main methodologies, tools and activities to identify, assess, monitor and mitigate operational risk are focused on but not limited to:

- loss data collection including general ledger analysis, accounts reconciliation, transitory and suspense accounts monitoring, data quality control;
- operational risk indicators;
- scenario analysis;
- ELOR monitoring;
- insurance coverage;
- capital at risk allocation according to the Basel II Standardized Approach;
- new products/processes analysis from the operational risk impact perspective;
- credit bureaus cooperation;
- reporting and escalating any of the essential Operational Risk issues to the Board of Management, Internal Audit Department and competent UniCredit Group functions.

In order to assure and sustain the efficacy of the Operational Risk identification and mitigation processes, a Permanent Workgroup is operating which aims at identifying the source of Operational Risk and reduce the Operational Risk exposure, leveraging mainly on the expertise of the ORM Unit and Organization Department.

The Internal Audit Department performing the third level controls cooperates with the ORM Unit in terms of setting, development, implementation and maintenance of the operational risk management system, operational risk identification and the inherent local internal validation process.

27. Fair values of financial instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair values of financial assets and financial liabilities are determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions traded on active liquid markets are determined with reference to quoted market prices.
- Unquoted equities and debt securities classified as available-for-sale are valued using models that use both observable and unobservable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.
- As there is no active secondary market in Russia for loans and advances to banks and customers, deposits to banks and customers, promissory notes issued, subordinated debt, other borrowing funds and other financial assets and liabilities, there is no reliable market value available for these portfolios. In order to present fair value for these financial instruments a separate recalculation procedure is performed by a special routine which uses cash flows of each individual deal as a basis. The cash flows are multiplied with the respective discount factor per time bucket, currency and risk product (asset or liability).
  In accordance with the Group methodology discount factors include:
  - for assets: risk free rate + expected loss + unexpected loss;
  - for liabilities: risk free rate + own credit spread (liquidity spreads).
- For financial assets and liabilities that have a short term maturity (less than 3 months), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without a maturity.
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.
- The fair value valuation of derivative instruments is based on discounted cash flow analysis and performed using the management's best estimates and applicable interest rates. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

Except as detailed in the following table, the Group consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated statement of financial position approximate their fair value. For the purpose of fair value of financial instruments calculation, the Group applies ratios calculated by UniCredit Bank Austria AG.

	31 December 2017		31 December 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Amounts due from credit institutions	292 420 614	294 801 213	269 500 170	267 787 810
Loans to customers	668 523 180	686 343 008	677 010 924	692 396 971
Investment securities held-to-maturity				
- held by the Group	29 937 423	31 138 425	30 704 604	31 241 702
- pledged under repurchased agreements	-	-	212 666	223 919
Financial liabilities				
Amounts due to credit institutions	85 426 996	100 971 366	152 108 660	172 195 958
Amounts due to customers	827 103 325	834 742 389	779 101 902	792 735 879
Debt securities issued	6 509 793	6 668 535	6 507 846	6 701 406

The following tables provide an analysis of financial instruments that are measured subsequent to initial recognition at amortized cost, grouped into Levels 1 to 3.

	31 December 2017			
	Level 1	Level 2	Level 3	Total
Financial assets				
Amounts due from credit institutions	-	-	294 801 213	294 801 213
Loans to customers	-	-	686 343 008	686 343 008
Investment securities held-to-maturity:				
- held by the Group	14 535 750	16 602 675	-	31 138 425
Financial liabilities				
Amounts due to credit institutions	-	-	100 971 366	100 971 366
Amounts due to customers	-	-	834 742 389	834 742 389
Debt securities issued	-	6 668 535	-	6 668 535

	31 December 2016			
	Level 1	Level 2	Level 3	Total
Financial assets				
Amounts due from credit institutions	-	-	267 787 810	267 787 810
Loans to customers	-	-	692 396 971	692 396 971
Investment securities held-to-maturity				
- held by the Group	14 945 933	16 295 769	-	31 241 702
- pledged under repurchase agreements	-	223 919	-	223 919
Financial liabilities				
Amounts due to credit institutions	-	-	172 195 958	172 195 958
Amounts due to customers	-	-	792 735 879	792 735 879
Debt securities issued	-	6 701 406	-	6 701 406

27. Fair values of financial instruments (Continued)

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

				31 December 2017
	Level 1	Level 2	Level 3	Total
Financial assets at fair value				
Trading securitites:				
- held by the Group	2 593 613	17 471 225	-	20 064 838
- pledged under repurchase agreements	804 699	-	-	804 699
Derivative financial assets	-	37 985 906	-	37 985 906
Derivative financial assets designated for hedging	-	7 860 608	-	7 860 608
Investment securities available-for-sale:				
- held by the Group	23 731 042	52 361 258	-	76 092 300
- pledged under repurchase agreements	1 254 314	-	-	1 254 314
Total	**28 383 668**	**115 678 997**	**-**	**144 062 665**
Financial liabilities at fair value				
Financial liabilities held for trading	12 627 926	13 771 887	-	26 399 813
Derivative financial liabilities	-	15 658 296	-	15 658 296
Derivative financial liabilities designated for hedging	-	10 649 841	-	10 649 841
Total	**12 627 926**	**40 080 024**	**-**	**52 707 950**

				31 December 2016
	Level 1	Level 2	Level 3	Total
Financial assets at fair value				
Trading securitites:				
- held by the Group	1 006	1 153 597	-	1 154 603
- pledged under repurchase agreements	-	1 251 058	-	1 251 058
Derivative financial assets	-	41 257 596	-	41 257 596
Derivative financial assets designated for hedging	-	12 738 828	-	12 738 828
Investment securities available-for-sale:				
- held by the Group	31 516 523	9 285 734	-	40 802 257
- pledged under repurchase agreements	19 704 611	-	-	19 704 611
Total	**51 222 140**	**65 686 813**	**-**	**116 908 953**
Financial liabilities at fair value				
Financial liabilities held for trading	221 162	4 122 990	-	4 344 152
Derivative financial liabilities	-	16 857 167	-	16 857 167
Derivative financial liabilities designated for hedging	-	12 338 707	-	12 338 707
Total	**221 162**	**33 318 864**	**-**	**33 540 026**

The table above does not include available-for-sale equity investments of RUB 119 652 thousand (31 December 2016: RUB 119 652 thousand) which do not have a quoted market price in an active market and whose fair value cannot be reliably measured due to absence of the market for such instruments. Currently the Group does not intend to dispose of these investments.

During the year ended 31 December 2017 and 31 December 2016 there were no transfers for available-for-sale securities. During the year ended 31 December 2017 transfers from level 2 to level 1 amounted to RUB 995 235 for trading securities (31 December 2016: none).

28. Related party disclosures

In accordance with IAS 24 Related Party Disclosures, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be conducted on the same terms, conditions and amounts as transactions between unrelated parties.

Balances and transactions with UniCredit S.P.A were as follows:

	31 December 2017	Weighted average interest rate, %	31 December 2016	Weighted average interest rate, %
Amounts due from credit institutions				
- In EUR	202 408	0.0%	723 315	0.0%
- In USD	142 410 984	3.5%	129 316 571	3.7%
Derivative financial assets	7 541 866		2 553 939	
Derivative financial assets designated for hedging	6 158 452		9 806 496	
Other assets	249 000		9 600	
Amounts due to credit institutions				
- In Russian Roubles	145 887	0.0%	4 570 874	8.9%
- In EUR	482 668	1.8%	851 613	0.0%
- In USD	27 718 054	11.8%	29 178 071	10.9%
Derivative financial liabilities	2 893 942		1 815 514	
Derivative financial liabilities designated for hedging	3 952 680		825 002	
Other liabilities	463 601		566 535	
Commitments and guarantees issued	5 113 270		3 655 456	
Commitments and guarantees received	35 075 067		54 328 186	

	2017	2016
Interest income	18 962 823	15 313 998
Interest expense	(7 438 742)	(4 187 292)
Fee and commission income	33 708	26 466
Fee and commission expense	(676 145)	(1 980 791)
(Losses)/gains on financial assets and liabilities held for trading	(1 385 496)	6 739 107
Fair value adjustments in portfolio hedge accounting	(456 655)	(57 591)
Recovery of personnel expenses	13 430	49 495
Other administrative costs	(52 760)	(61 169)

Notes to Consolidated Financial Statements (Continued)

28. Related party disclosures (Continued)

Balances and transactions with other companies controlled by the UniCredit Group or related with UniCredit Group are as follows:

	31 December 2017	Weighted average interest rate, %	31 December 2016	Weighted average interest rate, %
Amounts due from credit institutions				
- In Russian Roubles	14 456 718	9.6%	14 408 535	11.8%
- In EUR	9 114 139	0.0%	10 233 164	0.0%
- In USD	3 513 219	0.0%	920 582	3.2%
- In other currencies	271	0.0%	2 530	0.0%
Derivative financial assets	1 602 713		1 121 258	
Derivative financial assets designated for hedging	1 488 171		2 230 501	
Loans to customers				
- In Russian Roubles	1 219 272	5.8%	1 073 115	5.0%
Intangible assets	300 687		793 973	
Other assets	5 318		191 086	
Amounts due to credit institutions				
- In Russian Roubles	9 634 419	5.4%	7 670 387	6.2%
- In EUR	6 734 240	1.5%	4 859 639	1.4%
- In USD	1 489 534	2.9%	5 676 402	2.5%
- In other currencies	102	0.0%	399	0.0%
Derivative financial liabilities	3 342 055		7 623 102	
Derivative financial liabilities designated for hedging	2 615 869		3 889 376	
Amounts due to customers				
- In Russian Roubles	542 898	6.4%	338 307	9.0%
- In EUR	6 416	0.0%	148 513	0.0%
Other liabilities	271 403		1 318 124	
Commitments and guarantees issued	8 256 342		9 504 684	
Commitments and guarantees received	5 315 300		3 556 535	

	2017	2016
Interest income	3 000 647	6 522 342
Interest expense	(2 786 977)	(4 000 492)
Fee and commission income	206 595	141 090
Fee and commission expense	(200 545)	(160 726)
Gains on financial assets and liabilities held for trading	1 289 666	2 403 390
Fair value adjustments in portfolio hedge accounting	(71 181)	(2 388 672)
Gains on disposal of loans	1 628	-
Other income	6 132	485
Personnel expenses	(14 187)	(30 283)
Other administrative expenses	(192 730)	(218 538)

Balances and transactions with key management personnel are as follows:

	31 December 2017	31 December 2016
Amounts due to customers	324 714	312 193
Other liabilities	55 106	43 531

	2017	2016
Interest expense	(13 659)	(15 021)
Personnel expenses, including:	(326 638)	(294 759)
short-term benefits	(211 207)	(200 648)
long-term benefits	(113 016)	(92 308)
post-employment benefits	(2 415)	(1 803)

Subordinated loans from the members of the UniCredit Group were as follows for 2017 and 2016:

	2017	2016
	UniCredit S.p.A	UniCredit S.p.A
Subordinated loans at the beginning of the year	29 178 071	51 091 697
Subordinated debt repaid during the year	-	(14 233 680)
Accrual of interest, net of interest paid	9 950	(94 799)
Effect of exchange rates changes	(1 469 967)	(7 585 147)
Subordinated loans at the end of the year	**27 718 054**	**29 178 071**

29. Subsequent events

As at 27 February 2018, Standard & Poor's Global Ratings (hereinafter –"S&P") raised its credit rating on AO UniCredit Bank to BBB-/A-3, Outlook Stable.The upgrade follows S&P's upgrade of Russian Federation on 23 February 2018. The stable outlook on AO UniCredit Bank mirrors that on Russia and on its sole shareholder, UniCredit S.p.A. It reflects the agency's view that AO UniCredit Bank will be able to maintain its creditworthiness over the next 18-24 months, keep its highly strategic status for the UniCredit Group, and receive support from the UniCredi Group in case of need.

As at 1 March 2018, as a result of the transaction between the Group and its sole shareholder UniCredit S.p.A., the Group acquired 40% of capital in BARN B.V. (the Netherlands), that is the sole shareholder of AO "RN Bank" (Russian Federation) since 2013. The remaining 60% in the authorized capital of BARN B.V. belongs to RN SF Holding B.V. (the Netherlands), which is a joint venture with equal participation (50%-50%) of RSI Bank S.A. and Nissan Motor Co., Ltd.

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