

# **PJSC MTS Bank**

Consolidated Financial Statements and  
Independent Auditor's Report  
for the Year Ended December 31, 2017

# Public Joint-Stock Company MTS Bank

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# Public Joint-Stock Company MTS Bank

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

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Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of Public Joint-Stock Company MTS Bank (hereinafter the "Bank") and its subsidiaries (hereinafter the "Group") as at December 31, 2017, and the related consolidated statements of profit or loss and other comprehensive loss, changes in equity and cash flows for the year than ended, and of significant accounting policies and notes to the consolidated financial statements (hereinafter "consolidated financial statements") in compliance with International Financial Reporting Standards (hereinafter "IFRSs").

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 is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance;
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

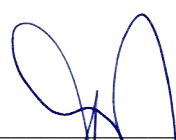
- Designing, implementing and maintaining an effective and sound system of internal controls throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRSs;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Russian Federation (hereinafter "RF");
- Taking such measures 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 of the Group for the year ended December 31, 2017 were authorised for issue by management on April 28, 2018.

### On behalf of the Management Board:

  
\_\_\_\_\_  
**I. V. Filatov**  
**Chairman of the Management Board**

April 28, 2018  
Moscow

  
\_\_\_\_\_  
**A. V. Yeltyshev**  
**Chief Accountant**

April 28, 2018  
Moscow

## INDEPENDENT AUDITOR'S REPORT

To: the Shareholders and the Board of Directors of Public Joint-Stock Company MTS Bank

### Report on the Audit of the Consolidated Financial Statements

#### Opinion

We have audited the accompanying consolidated financial statements of PJSC MTS Bank (Public Joint-Stock Company) and its subsidiaries (hereinafter the "Group") which comprise the consolidated statement of financial position as at December 31, 2017 and the consolidated statements of profit and loss, other comprehensive loss, changes in equity and 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 consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (hereinafter "IFRSs").

#### Basis for Opinion

We conducted our audit in accordance with International Standards of Auditing (hereinafter "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* (hereinafter 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
<b>Impairment of loans to customers</b>	<p>We obtained an understanding of the Group's internal processes and controls in respect of the identification of impairment events and calculation of impairment provision.</p>
<p>Impairment of loans to customers is considered a key audit matter as the Group's management makes subjective judgments in respect of the timing of recognition and the amount of impairment losses.</p>	<p>For collectively assessed loans impairment is calculated on a modelled basis. We tested the models' input data and assumptions; and checked arithmetical accuracy of the calculations. We performed the following procedures:</p>
<p>Key areas of risk include:</p>	<ul style="list-style-type: none"> <li>• tested completeness and integrity of input data used in the impairment models;</li> <li>• checked the models' logic and arithmetic accuracy of impairment calculations; in some cases, re-performed calculations and compared the results with management's;</li> <li>• tested consistency of the models' underlying key assumptions by comparing them with the historical data and checking their reasonableness against current economic conditions and industry practices;</li> <li>• analysed the impact of factors, which were not captured by management's impairment models and adjusted the calculations, where necessary.</li> </ul>
<ul style="list-style-type: none"> <li>• key assumptions underlying the calculation of impairment for portfolios of loans and the reasonableness of adjustments to the model's results;</li> <li>• key assumptions underlying the calculation of discounted cash flows for individually assessed loans;</li> <li>• methods of impairment events identification.</li> </ul>	<p>For a sample of impaired loans, assessed on the individual basis, we checked the actual presence of impairment indicators. For selected impaired loans we checked arithmetic accuracy and logic of calculation of projected future cash flows, including reasonableness and correctness of assumptions used in calculations.</p>
<p>Refer to Note 17 Loans to customers for detailed information.</p>	<p>Further, we tested the loans that were not assessed as impaired by the Group's management and performed the analysis to ensure that no indications of impairment were present using the data from available open sources.</p>
<b>Recognition of deferred tax assets</b>	<p>To assess appropriateness of deferred tax assets recognition we reviewed the input data, assumptions used and the method of calculations. We performed the following procedures:</p>
<p>Deferred tax assets recognized in the Group's consolidated financial statements as at December 31, 2017 amount to RUB 3,169,537 thousand. Deferred tax assets are recognized to the extent that it is probable that future taxable profits are available in</p>	<ul style="list-style-type: none"> <li>• Evaluated management's estimations of future taxable profits by challenging underlying assumptions</li> </ul>

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
<p>the amount sufficient to utilize those deferred tax assets.</p> <p>We focused on this area due to materiality of the amount of recognized deferred tax assets, and the high degree of subjectivity involved in forecasting future taxable profits.</p> <p>The key risk areas include the following judgements used by management in estimating future taxable profits:</p> <ul style="list-style-type: none"> <li>• anticipated changes in macroeconomic conditions;</li> <li>• changes in volumes, type and expected profitability of the Group's transactions;</li> <li>• expected future income, expenses and taxable profits;</li> <li>• anticipated losses related to different groups of assets;</li> <li>• expected period of tax losses utilization.</li> </ul> <p>Refer to Note 11 Income tax for detailed information on deferred tax assets.</p>	<p>and comparing them to our understanding of the Group's operations, strategy and business plans as well as the industry and market trends ;</p> <ul style="list-style-type: none"> <li>• Reviewed the previous estimations of expected taxable profits and management's sensitivity analysis of deferred tax assets to changes in the forecast assumptions and assessed how the Group's management addressed its results when calculating the amount of recognized deferred tax asset.</li> </ul>
<p><b>Fair value of property and equipment and investment property</b></p> <p>Assessing the fair value assessment of land and buildings included in property and equipment and investment property involves the use of judgement, in particular, when the input data is unobservable. The key assumptions used in valuation reflect the individual characteristics of each property item, its location and estimation of expected future rental revenues from that particular property item.</p> <p>Refer to Note 20 Property and equipment and intangible assets and Note 21 Investment property for detailed information.</p>	<p>We obtained an understanding of internal processes and controls over property valuation.</p> <p>For selected significant items of property and equipment and investment property, with the assistance of our valuation experts, we tested appropriateness of the valuation methods and models, their compliance with valuation standards, and assessed the reasonableness of assumptions used in the models.</p> <p>We analyzed the effects of the events, which were not captured by the models adjusted the valuation results, where necessary.</p> <p>On a sample basis, we verified the valuation models' input data to the supporting documentation.</p>

## Other information

Management is responsible for the other information. The other information comprises the information included in the quarterly report of the issuer for the first quarter of 2018, but does not include the consolidated financial statements and our auditor's report thereon.

The quarterly report of the issuer for the first quarter of 2018 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 financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

When we read the quarterly report of the issuer for the first quarter of 2018, 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 consolidated 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.

As part of an audit in accordance with ISAs, we exercise professional judgement 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 consolidated 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 Federal Law No. 395-1  
On Banks and Banking Activities dated December 2, 1990**

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

According to Article 42 of Federal Law No. 395-1 *On Banks and Banking Activities* dated December 2, 1990 (hereinafter the "Federal Law") in the course of our audit of the Group's consolidated 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 CBR requirements.

We have selected and performed procedures based on our judgment, including inquiries, analysis and review of documentation, comparison of the Bank's policies, procedures and methodologies with the CBR 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 CBR.

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 consolidated 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 and Russian financial reporting rules for annual financial statements of credit organizations.



2. With respect to compliance of the Group's internal control and risk management systems with the CBR requirements:
- (a) In accordance with the CBR requirements and recommendations as at December 31, 2017 the Bank's internal audit department was subordinated and accountable to the Bank's Board of Directors and the Bank'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 CBR;
  - (b) As at December 31, 2017, the Bank had duly approved in accordance with the CBR 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 Bank 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 Bank'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 Bank's internal policies; these reports included results of monitoring by the Bank's risk management and internal audit departments of effectiveness of the Bank's respective methodologies and improvement recommendations;
  - (e) As at December 31, 2017, the authority of the Bank's Board of Directors and the Bank's executive bodies included control over the Group's compliance with the risk limits and capital adequacy ratios established by the Bank. In order to control the efficiency and consistency of how the Group's risk management policies were applied during 2017, the Bank's Board of Directors and the Bank's executive bodies regularly discussed reports prepared by the risk management and internal audit departments and 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 CBR requirements.

  
Ekaterina Vladimirovna  
Engagement partner

  
April 28, 2018



The Bank: Public Joint-Stock Company MTS Bank

Certificate of state registration № 2268 of January 29, 1993.

Certificate of registration in the Unified State Register for Legal Entities №1027739053704 of August 8, 2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39.

Address: Russia, 115432, Moscow, Andropova Avenue 18, bld.1

Audit firm: ZAO Deloitte & Touche CIS

Certificate of state registration No. 018.482 issued by the Moscow Registration Chamber on October 30, 1992.

Primary State Registration Number: 1027700425444

Certificate of registration in the Unified State Register of Legal Entities series 77 No. 004840299 issued by Interregional Inspectorate of the Russian Ministry of Taxation No. 39 for Moscow on November 13, 2002.

Member of Self-Regulated Organization Russian Union of Auditors (Association), ORNZ 11603080484.

# Public Joint-Stock Company MTS Bank

## Consolidated Statement of Profit or Loss

for the Year Ended December 31, 2017

(in thousands of Russian Rubles, unless otherwise indicated)

	Notes	2017	2016
<b>Continuing operations</b>			
Interest income	4, 33	14 030 724	14 791 651
Interest expense	4, 33	(6 443 992)	(8 052 684)
<b>Net interest income before provision for impairment losses on interest-bearing assets</b>		<b>7 586 732</b>	<b>6 738 967</b>
Provision for impairment losses on interest-bearing assets	5, 33	(704 806)	(5 755 536)
<b>Net interest income</b>		<b>6 881 926</b>	<b>983 431</b>
Net gain on financial assets and liabilities at fair value through profit or loss	6, 33	423 652	861 746
Net loss on foreign exchange operations	7, 33	(656 511)	(671 002)
Fee and commission income	8, 33	4 157 716	3 121 989
Fee and commission expense	8, 33	(2 665 392)	(1 657 740)
Net gain on operations with available-for-sale financial assets		1 324	113 599
(Provision)/recovery of provision for impairment losses on other transactions	5, 33	(447 007)	839 929
Changes in fair value of investment property	21	(204 179)	(362 374)
Net loss on disposal of investment property		(89 797)	(44 602)
Impairment of property and equipment	20	(30 118)	(15 446)
Other income	9, 33	469 834	606 113
<b>Net non-interest income</b>		<b>959 522</b>	<b>2 792 212</b>
<b>Operating income</b>		<b>7 841 448</b>	<b>3 775 643</b>
Operating expenses	10, 33	(7 566 392)	(6 820 526)
<b>Profit/(loss) before income tax</b>		<b>275 056</b>	<b>(3 044 883)</b>
Income tax expense	11	(183 532)	(107 358)
<b>Profit/(loss) from continuing operations</b>		<b>91 524</b>	<b>(3 152 241)</b>
<b>Discontinued operations</b>			
(Loss)/profit from discontinued operations	12	(66 203)	170 852
<b>NET PROFIT/(LOSS)</b>		<b>25 321</b>	<b>(2 981 389)</b>
Attributable to:			
Owners of the parent of the Bank			
Profit/(loss) from continuing operations		91 524	(3 152 241)
(Loss)/profit from discontinued operations		(60 852)	112 762
Net profit/(loss) attributable to owners of the parent of the Bank		30 672	(3 039 479)
Non-controlling interest			
(Loss)/profit from discontinued operations		(5 351)	58 090
Net (loss)/profit attributable to the non-controlling interest		(5 351)	58 090
		25 321	(2 981 389)
<b>EARNINGS/(LOSS) PER SHARE</b>			
From continuing operations - basic and diluted (RUB)	13	4	(279)
From discontinued operations - basic and diluted (RUB)	13	(3)	10

On behalf of the Management Board:

  
**I. V. Filatov**  
 Chairman of the Management Board

April 28, 2018  
 Moscow

  
**A.V. Yeltyshev**  
 Chief Accountant

April 28, 2018  
 Moscow

The notes on pages 14-82 form an integral part of these consolidated financial statements.

# Public Joint-Stock Company MTS Bank

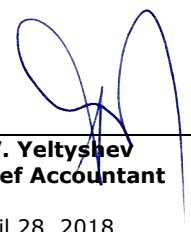
## Consolidated Statement of Other Comprehensive Loss for the Year Ended December 31, 2017 (in thousands of Russian Rubles)

	Notes	2017	2016
<b>Net profit/(loss) for the period</b>		25 321	(2 981 389)
<b>OTHER COMPREHENSIVE LOSS</b>			
<b>Items that will not be subsequently reclassified to profit or loss:</b>			
Exchange differences on translating foreign operations		337	(45 609)
Revaluation of property and equipment	20	(2 795)	67 809
Income tax	11	12 529	(18 000)
		10 071	4 200
<b>Items that may be reclassified subsequently to profit or loss:</b>			
Exchange differences on translating foreign operations		(21 430)	(2 328 348)
Reclassification adjustment relating to foreign currency translation reserve on disposal of subsidiary	12	(2 437 358)	-
Revaluation of available-for-sale financial assets		647 437	193 315
Reclassification adjustment relating to revaluation reserve of available-for-sale financial assets disposed of in the period		(6 922)	(156 106)
Reclassification adjustment relating to available-for-sale financial assets revaluation reserve on disposal of subsidiary	12	(106 194)	-
Income tax	11	(119 948)	(10 244)
		(2 044 415)	(2 301 383)
<b>Other comprehensive loss after income tax</b>		(2 034 344)	(2 297 183)
<b>TOTAL COMPREHENSIVE LOSS</b>		<b>(2 009 023)</b>	<b>(5 278 572)</b>
Attributable to:			
Owners of the parent of the Bank		(2 017 242)	(4 548 590)
Non-controlling interest		8 219	(729 982)
<b>TOTAL COMPREHENSIVE LOSS</b>		<b>(2 009 023)</b>	<b>(5 278 572)</b>

On behalf of the Management Board:

  
**I. V. Filatov**  
**Chairman of the Management Board**

April 28, 2018  
Moscow

  
**A.V. Yeltyshev**  
**Chief Accountant**  
April 28, 2018  
Moscow

The notes on pages 14-82 form an integral part of these consolidated financial statements.

# Public Joint-Stock Company MTS Bank

## Consolidated Statement of Financial Position as at December 31, 2017 (in thousands of Russian Rubles)

	Notes	December 31, 2017	December 31, 2016
<b>ASSETS:</b>			
Cash and balances with the Central Banks	14	14 358 077	17 885 561
Financial assets at fair value through profit or loss	15, 33	19 545 396	21 764 442
Due from banks	16, 33	6 484 497	14 300 379
Loans to customers	17, 33	57 582 306	68 457 296
Available-for-sale financial assets	18, 33	6 166 244	12 500 111
Investments held to maturity	19	27 346 087	17 163 134
Property, equipment and intangible assets	20	2 981 708	4 432 153
Investment property	21	4 090 832	2 911 545
Current income tax assets		-	150 594
Deferred income tax assets	11	3 169 537	3 287 043
Other assets	22, 33	727 392	837 026
<b>TOTAL ASSETS</b>		<b>142 452 076</b>	<b>163 689 284</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES:</b>			
Financial liabilities at fair value through profit or loss	23, 33	42 854	1 219 410
Due to banks and other financial institutions	24, 33	1 254 992	2 922 514
Customer accounts	25, 33	114 696 391	121 089 799
Debt securities issued	26, 33	2 073 655	2 029 515
Current income tax liabilities		19 575	190 336
Deferred income tax liabilities	11	-	204 136
Other liabilities	27, 33	3 138 699	2 471 824
Subordinated debt	28, 33	-	6 903 189
<b>TOTAL LIABILITIES</b>		<b>121 226 166</b>	<b>137 030 723</b>
<b>EQUITY:</b>			
Equity attributable to owners of the parent of the Bank:			
Share capital	30	10 882 298	10 882 298
Share premium	30	7 200 940	19 087 389
Available-for-sale financial assets revaluation reserve		614 370	216 526
Foreign currency translation reserve		-	2 451 421
Property and equipment revaluation reserve		55 999	182 370
Retained earnings/(accumulated deficit)		2 472 303	(9 444 959)
Total equity attributable to owners of the parent of the Bank		21 225 910	23 375 045
Non-controlling interest		-	3 283 516
<b>TOTAL EQUITY</b>		<b>21 225 910</b>	<b>26 658 561</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>142 452 076</b>	<b>163 689 284</b>

On behalf of the Management Board:

  
I. V. Filatov  
Chairman of the Management Board

April 28, 2018  
Moscow

  
A.V. Yeltyshev  
Chief Accountant

April 28, 2018  
Moscow

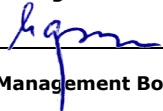
The notes on pages 14-82 form an integral part of these consolidated financial statements.

## Public Joint-Stock Company MTS Bank

### Consolidated Statement of Changes in Equity for the Year Ended December 31, 2017 (in thousands of Russian Rubles)

	Notes	Share capital	Share premium	Available-for-sale financial assets revaluation reserve	Foreign currency translation reserve	Property and equipment revaluation reserve	(Accumulated deficit)/ Retained earnings	Total equity attributable to owners of the parent of the Bank	Non-controlling interest	TOTAL EQUITY
<b>December 31, 2015</b>		<b>4 088 146</b>	<b>18 386 416</b>	<b>194 362</b>	<b>4 016 991</b>	<b>148 075</b>	<b>(14 087 165)</b>	<b>12 746 825</b>	<b>4 013 498</b>	<b>16 760 323</b>
Issue of ordinary shares	30	6 794 152	8 729 473	-	-	-	-	15 523 625	-	15 523 625
Result of transactions with related parties	20	-	-	-	-	-	(346 815)	(346 815)	-	(346 815)
Transfer of share premium to accumulated deficit	30	-	(8 028 500)	-	-	-	8 028 500	-	-	-
Comprehensive income/(loss)		-	-	22 164	(1 565 570)	34 295	(3 039 479)	(4 548 590)	(729 982)	(5 278 572)
<b>December 31, 2016</b>		<b>10 882 298</b>	<b>19 087 389</b>	<b>216 526</b>	<b>2 451 421</b>	<b>182 370</b>	<b>(9 444 959)</b>	<b>23 375 045</b>	<b>3 283 516</b>	<b>26 658 561</b>
Group reorganization	12	-	-	-	-	(132 034)	132 034	-	(3 291 735)	(3 291 735)
Result of transactions with related parties	12	-	-	-	-	-	(131 893)	(131 893)	-	(131 893)
Transfer of share premium to accumulated deficit	30	-	(11 886 449)	-	-	-	11 886 449	-	-	-
Comprehensive income/(loss)		-	-	397 844	(2 451 421)	5 663	30 672	(2 017 242)	8 219	(2 009 023)
<b>December 31, 2017</b>		<b>10 882 298</b>	<b>7 200 940</b>	<b>614 370</b>	<b>-</b>	<b>55 999</b>	<b>2 472 303</b>	<b>21 225 910</b>	<b>-</b>	<b>21 225 910</b>

On behalf of the Management Board:

  
I. V. Filatov  
Chairman of the Management Board

April 28, 2018  
Moscow

  
A.V. Yeltyshev  
Chief Accountant

April 28, 2018  
Moscow

The notes on pages 14-82 form an integral part of these consolidated financial statements.

# Public Joint-Stock Company MTS Bank

## Consolidated Statement of Cash Flows for the Year Ended December 31, 2017 (in thousands of Russian Rubles)

	Notes	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Interest received		14 028 547	16 783 250
Interest paid		(6 843 291)	(8 819 063)
Payment for financial assets at fair value through profit or loss		(877 052)	123 988
Payments on trading in foreign currencies		(769 772)	(238 049)
Fee and commission income		4 239 676	3 241 501
Fee and commission expense		(2 604 463)	(1 769 900)
Other operating income received		222 264	265 428
Administrative and other operating expenses paid		(6 826 102)	(7 042 926)
Income tax paid		(176 174)	(135 256)
<b>Cash inflow from operating activities before changes in operating assets and liabilities</b>		<b>393 633</b>	<b>2 408 973</b>
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Obligatory reserve with the Central Banks of the Russian Federation and Luxembourg	14	(43 333)	(40 351)
Financial assets at fair value through profit or loss		2 362 884	(1 500 208)
Due from banks		(3 883 800)	14 534 442
Loans to customers		(561 724)	7 167 045
Other assets		(116 841)	(152 164)
Increase/(decrease) in operating liabilities:			
Due to the Central Bank of the Russian Federation		-	(2 179 677)
Due to banks and other financial institutions		(1 692 479)	2 379 597
Customer accounts		21 212 889	(10 859 469)
Debt securities issued		(370 288)	(88 604)
Other liabilities		224 396	167 519
<b>Net cash inflow from operating activities</b>		<b>17 525 337</b>	<b>11 837 103</b>

# Public Joint-Stock Company MTS Bank

## Consolidated Statement of Cash Flows (continued) for the Year Ended December 31, 2017 (in thousands of Russian Rubles)

	Notes	2017	2016
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, equipment and intangible assets	20	(619 921)	(1 841 892)
Proceeds from disposal of property, equipment and intangible assets		6 953	4 874
Purchase of investment property	21	(913 195)	-
Proceeds from sale of investment property		651 465	400 597
Purchase of available-for-sale financial assets		(2 847 203)	(15 373 590)
Proceeds from disposal of available-for-sale financial assets		3 087 060	8 896 695
Purchase of investments held to maturity		(18 005 081)	(19 311 039)
Proceeds from redemption of investments held to maturity		9 501 623	2 268 299
Cash outflow on sale of subsidiaries	12	(13 873 520)	(3)
<b>Net cash outflow from investing activities</b>		<b>(23 011 819)</b>	<b>(24 956 059)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of ordinary shares	30	-	15 523 625
Repayment of subordinated debt	28, 29	(6 600 000)	(6 346 428)
<b>Net cash (outflow)/inflow from financing activities</b>		<b>(6 600 000)</b>	<b>9 177 197</b>
<b>Effect of foreign currencies exchange rate fluctuations on cash and cash equivalents</b>		<b>(475 960)</b>	<b>(5 566 269)</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(12 562 442)</b>	<b>(9 508 028)</b>
<b>CASH AND CASH EQUIVALENTS, beginning of the period</b>	<b>14</b>	<b>28 843 752</b>	<b>38 351 780</b>
<b>CASH AND CASH EQUIVALENTS, end of the period</b>	<b>14</b>	<b>16 281 310</b>	<b>28 843 752</b>

On behalf of the Management Board:

  
I. V. Filatov  
Chairman of the Management Board

April 28, 2018  
Moscow

  
A.V. Yeltyshev  
Chief Accountant

April 28, 2018  
Moscow

The notes on pages 14-82 form an integral part of these consolidated financial statements.

# Public Joint-Stock Company MTS Bank

## Notes to the Consolidated Financial Statements for the Year Ended December 31, 2017 (in thousands of Russian Rubles, unless otherwise indicated)

### 1. Organization

Public Joint Stock Company MTS Bank (hereinafter "MTS Bank") is a joint-stock Bank. The Bank was established in the Russian Federation as an open joint stock company in 1993. Former title of MTS Bank is JSCB Moscow Bank for Reconstruction and Development (Open Joint Stock Company) (hereinafter "MBRD") and was changed under a decision of the shareholders' meeting held on December 16, 2011. In accordance with the change in Russian Federation legislation in 2014, MTS Bank changed its legal form from OJSC to PJSC.

MTS Bank is regulated by the Central Bank of the Russian Federation (hereinafter the "CBR") and conducts its business under general license number 2268. MTS Bank's primary business consists of commercial activities, trading with securities, foreign currencies and derivative instruments, originating loans and guarantees.

Its registered office is located at 18, bld.1, Andropova Avenue, Moscow, 115432, Russian Federation.

As at December 31, 2017 and 2016, MTS Bank had 7 operating offices in the Russian Federation (hereinafter "RF").

The Bank is a parent company of a banking group (hereinafter the "Group"). As at December 31, 2017 and 2016, the Group controls CJSC Mortgage agent of MTSB, OOO Proektnoe resheniye, OOO Vector-A.

Furthermore, as at December 31, 2017 and December 31, 2016, the Group holds 100 percent of the following investment funds:

- Closed unit combined investment fund Kapitalny 2;
- Closed unit investment real estate fund Uralskaya Nedvizhimost 1;
- Closed unit investment real estate fund Uralskaya Nedvizhimost 2;
- Closed unit investment real estate fund Bashkirsкая Nedvizhimost 2;
- Closed unit investment annuity fund Rentny 2;
- Closed unit investment real estate fund Rentny 3.

In 2017, the Group obtained control over Closed unit investment real estate fund Sistema – Rentnaya Nedvizhimost 1.

In 2016, the Group lost control over Closed unit investment annuity fund Uralskaya Nedvizhimost 3, as it was closed down.

As at December 31, 2016, the Group owned 66 percent of shares of East-West United Bank S.A. (Luxembourg) (hereinafter "EWUB"). In May 2017, the Group sold 47 percent of shares of EWUB to a related party and deconsolidated EWUB's assets and liabilities (Note 12). As at December 31, 2017, the Group has no control or significant influence over EWUB.

The table below shows details of non-controlling interest in EWUB:

Name of subsidiary	Proportion of ownership interests and voting rights held by non-controlling interest		(Loss)/profit allocated to non-controlling interest		Accumulated non-controlling interest	
	December 31, 2017	December 31, 2016	2017	2016	December 31, 2017	December 31, 2016
East-West United Bank S.A.	-	34%	(5 351)	58 090	-	3 283 516
<b>Total</b>			<b>(5 351)</b>	<b>58 090</b>	<b>-</b>	<b>3 283 516</b>



# Public Joint-Stock Company MTS Bank

## Notes to the Consolidated Financial Statements (continued) for the Year Ended December 31, 2017 (in thousands of Russian Rubles, unless otherwise indicated)

### 1. Organisation (continued)

As at December 31, 2017 and 2016, the following shareholders owned the issued shares of MTS Bank:

	December 31, 2017	December 31, 2016
<b>Shareholder</b>		
PJSC JSFC Sistema (hereinafter "Sistema")	71.87	71.87
Mobile Telesystems B.V.	26.37	26.37
CJSC Promtorgcenter	0.72	0.72
OJSC Moscow City Telephone Network	0.24	0.24
Other	0.80	0.80
<b>Total</b>	<b>100.00</b>	<b>100.00</b>

As at December 31, 2017 and December 31, 2016, PJSC JSFC Sistema directly or indirectly owned 86.60% and 86.60% of the share capital of MTS Bank respectively. Mr. V.P. Evtushenkov owns a controlling stake in Sistema.

The General meeting of Shareholders has the authority to give final approval to these financial statements.

### 2. Basis of presentation

#### Accounting basis

**Statement of compliance.** These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (hereinafter "IFRSs") issued by the International Accounting Standards Board (hereinafter "IASB").

**Going concern.** In 2017, the Group generated profit after tax in the amount of RUB 25 321 thousand (2016: loss of RUB 2 981 389 thousand). The negative financial result in 2016 was mainly due to significant additional provision for overdue unsecured loans to individuals.

In 2015 and 2016 the Group's focus shifted to low- and medium-risk segments and loan underwriting procedures were significantly revised. Key focus areas of the Group's management were development of transactional business, increase in efficiency of network of its branches, as well as optimization of administrative expenses.

In 2017, the Group continued its policy of improving the loan portfolio quality by means of improving the quality of new loan origination, on the one hand, and increasing the efficiency of collection, on the other hand, which led to significant decrease in expenses on provision for loans to legal entities and individuals in 2017. The annual increase in overdue loans in category '90+' of the Group's loan portfolio (exclusive of subsidiary's assets and before deduction of loans written off in 2017) amounted to 2.19% (2016: 4.11%). As at December 31, 2017, overdue loans in category '90+' of the Group's loan portfolio amounted to RUB 8 781 528 thousand (December 31, 2016: RUB 29 077 394 thousand).

In 2017, net interest and operating income of the Group from continuing operations before contributions to provision increased by 12.6% and 3.5% respectively. The cost of risk ratio of the Group in 2017 amounted to 1%.

In 2018 the Group aims at further rapid growth of its active retail customer base due to the development of a 'digital banking' model and the creation of a 'digital' transaction bank to serve small and micro businesses.

To achieve this goal the Group exercises successful practices worked out for the year of the digital transformation program implementation.

# Public Joint-Stock Company MTS Bank

## Notes to the Consolidated Financial Statements (continued) for the Year Ended December 31, 2017 (in thousands of Russian Rubles, unless otherwise indicated)

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### 2. Basis of presentation (continued)

The Group plans the growth of active client base to 2.5 million clients, share of digital sales in attracting those customers is expected to be not less than 20%. Growth of digital sales is to be implemented by both the means of digital marketing and introduction of the Group's products in digital applications of the largest retail chain of children products Detskiy Mir.

As at January 1, 2018, the Group has a positive (including stable sources of financing) cumulative liquidity position in the amount of RUB 19 996 412 thousand for the period less than 1 year.

As at January 1, 2018, the Group's liabilities from its related parties amounted to 50.1% (2016:47.2%) of total liabilities being RUB 60 741 554 thousand (2016: RUB 64 662 149 thousand). Management of the Group carried out an analysis of its funding requirements and confirms that the Group will be able to meet all obligations as they fall due in 2018 and beyond.

As at the end of 2017, MTS Bank's capital adequacy ratio in accordance with the CBR requirements amounted to 14.9% with the minimum regulatory requirement for capital adequacy ratio of 8%. As at the end of 2017, MTS Bank's common equity adequacy ratio in accordance with the CBR requirements amounted to 8.4% with the minimum regulatory requirement for common equity adequacy ratio of 4.5%.

In 2017, the Group lost control over its subsidiary East-West United Bank S.A. as a result of the sale of the 47 percent interest in the subsidiary. The transaction led to a decrease in the Group's assets and liabilities. Discontinued operations (financial results of the subsidiary disposed of) are presented in Note 13.

To ensure future operational profitability and maintain financial stability, the Group's management and shareholders intend to develop the Group's business both in corporate and in retail segments focusing on transactional income, lending to low-risk clientele, operations with JSFC Sistema and further improvement in cost efficiency.

These financial statements have been prepared based on the assumption that the Group will continue as a going concern for the foreseeable future. The Group's management is confident that the going concern assumption is applicable to the Group, as it has a sufficient level of capital, as well as historical experience proving that the Group's current liabilities have always been refinanced in the ordinary course of its activities. Management believes that the Group will continue to receive shareholders' support in case of need. Management implements the development plan to improve the Group's profitability and its internal capital generation capacity.

**Other basis of presentation criteria.** These consolidated financial statements are presented in thousands of Russian rubles (hereinafter "RUB thousand"), unless otherwise indicated. These consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below.

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.

# Public Joint-Stock Company MTS Bank

## Notes to the Consolidated Financial Statements (continued) for the Year Ended December 31, 2017 (in thousands of Russian Rubles, unless otherwise indicated)

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### 2. Basis of presentation (continued)

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 Group 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.

The Bank and its consolidated companies, registered in the Russian Federation, maintain their accounting records in accordance with Russian Accounting Standards (RASs), and the foreign subsidiary Bank maintains its accounting records in accordance with the laws of Luxembourg. These consolidated financial statements have been prepared from the statutory accounting records and have been adjusted to conform to IFRSs

**Functional currency.** Items included in the financial statements of each of the Group's entities are measured using the currency of the primary of the economic environment in which the entity operates (hereinafter "the functional currency"). The functional currency of the parent of the Group is the Russian Ruble ("RUB"). The Russian Ruble is the presentational currency of the consolidated financial statements of the Group. All values are rounded to the nearest thousand Rubles, except where otherwise indicated.

**Offsetting.** Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense is not offset in the consolidated statement of profit or loss unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

The principal accounting policies are set out below.

### 3. Significant accounting policies

**Basis of consolidation.** The consolidated financial statements incorporate the financial statements of MTS Bank and entities controlled by MTS Bank (its subsidiaries).

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.

MTS 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 MTS 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. MTS 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.

# Public Joint-Stock Company MTS Bank

## Notes to the Consolidated Financial Statements (continued) for the Year Ended December 31, 2017 (in thousands of Russian Rubles, unless otherwise indicated)

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### 3. Significant accounting policies (continued)

Consolidation of a subsidiary begins when MTS Bank obtains control over the subsidiary and ceases when the Bank loses control of 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 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.

**Non-controlling interest.** Non-controlling interest represents the portion of profit or loss and net assets of subsidiaries not owned, directly or indirectly, by the Bank.

Non-controlling interests are presented separately in the consolidated statement of profit or loss, statement of other comprehensive income and within equity in the consolidated statement of financial position, separately from MTS Bank shareholders' equity.

**Changes in the Group's ownership interests in existing 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 recognized directly in equity and attributed to the owners of the Group.

When the Group loses control of a subsidiary, the profit or loss on disposal 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. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognized in other comprehensive income and accumulated in equity, the amounts previously recognized in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified 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 IAS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

When the Group loses control over a subsidiary due to a related party transaction, the difference between the fair value of the transferred interest and the consideration received is recognized in equity.

**Business combinations.** Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

# Public Joint-Stock Company MTS Bank

## Notes to the Consolidated Financial Statements (continued) for the Year Ended December 31, 2017 (in thousands of Russian Rubles, unless otherwise indicated)

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### 3. Significant accounting policies (continued)

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

**Recognition of interest income and expense.** Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income and expense are recognized on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Once a financial asset or a group of similar financial assets has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest earned on assets designated at fair value is recognized as interest income.

**Recognition of income on repurchase and reverse repurchase agreements.** Gain/loss on the sale of the above instruments is recognized as interest income or expense in the statement of profit or loss based on the difference between the repurchase price accrued to date using the effective interest method and the sale price when such instruments are sold to third parties. When the reverse repo/repo is fulfilled on its original terms, the effective yield/interest between the sale and repurchase price negotiated under the original contract is recognized using the effective interest method.

**Recognition of fee and commission income.** Loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in profit or loss over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in profit or loss on expiry. Loan servicing fees are recognized as revenue as the services are rendered. Loan syndication fees are recognized in profit or loss when the syndication has been completed. All other commissions are recognized as services are provided.

**Recognition of dividend income.** Dividend income from investments is recognized when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

**Recognition of rental income.** The Group's policy for recognition of income as a lessor is set out in the *Leases* section of this footnote.

**Cash and cash equivalents.** Cash and cash equivalents include cash on hand, unrestricted balances on correspondent accounts with banks, the Central Bank of Russian Federation and the Central Bank of Luxembourg, term deposits with the Central Bank of Russian Federation with original maturity less than 90 days.

The obligatory reserve deposits with the CBR and Central Bank of Luxembourg are subject to restrictions to its availability and therefore are not included in cash and cash equivalents.

# Public Joint-Stock Company MTS Bank

## Notes to the Consolidated Financial Statements (continued) for the Year Ended December 31, 2017 (in thousands of Russian Rubles, unless otherwise indicated)

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### 3. Significant accounting policies (continued)

**Precious metals.** Assets and liabilities denominated in precious metals are translated at the current rate computed based on the second fixing of the London Metal Exchange rates, using the RUB/USD exchange rate effective at the date. Changes in the bid prices are recorded in net gain/(loss) on operations with precious metals operations.

**Due from banks.** In the normal course of business, the Group maintains advances and deposits for various periods of time with other banks. Due from banks are initially recognized at fair value. Due from banks are subsequently measured at amortized cost using the effective interest method. Amounts due from credit institutions are carried net of any provision for impairment losses.

**Recognition and measurement of financial instruments.** The Group recognizes financial assets and liabilities in its consolidated statement of financial position when it becomes a party to the contractual obligations of the instrument. Regular way purchases and sales of financial assets and liabilities are recognized using settlement date accounting. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

**Effective interest method.** The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including any amounts paid or received under a debt instrument that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

A financial asset other than a financial asset held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated at fair value through profit or loss upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

**Financial assets.** Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (hereinafter "FVTPL"), 'held-to-maturity' investments, 'available-for-sale' (hereinafter "AFS") investments and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

**Financial assets at FVTPL.** Financial assets are classified as at FVTPL (i) contingent consideration that may be paid by an acquirer as part of a business combination to which IFRS 3 applies, (ii) held for trading, or (iii) it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

# Public Joint-Stock Company MTS Bank

## Notes to the Consolidated Financial Statements (continued) for the Year Ended December 31, 2017 (in thousands of Russian Rubles, unless otherwise indicated)

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### 3. Significant accounting policies (continued)

A financial asset other than a financial asset held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' and 'interest income' line item, respectively, in the statement of profit or loss. Fair value is determined in the manner described in Note 35.

**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 were 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.

**Available-for-sale financial assets.** Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Listed shares and listed redeemable notes held by the Bank that are traded in an active market and classified as AFS are stated at fair value. The Group also has investments in unlisted shares that are not traded in an active market but that are also classified as AFS financial assets and stated at fair value at the end of each reporting period (because the directors consider that fair value can be reliably measured). Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in the assets revaluation reserve, with the exception of other-than-temporary impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognized in profit or loss. Where the financial asset is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the assets revaluation reserve is reclassified to profit or loss.

AFS 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.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange gains and losses that are recognized in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income.

# Public Joint-Stock Company MTS Bank

## Notes to the Consolidated Financial Statements (continued) for the Year Ended December 31, 2017 (in thousands of Russian Rubles, unless otherwise indicated)

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### 3. Significant accounting policies (continued)

**Loans and receivables.** Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market (including balances with the CBR, due from banks, loans to customers and other financial assets) are classified as 'loans and receivables'. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

**Securities repurchase and reverse repurchase agreements and securities lending transactions.** In the normal course of business, the Group enters into financial assets sale and purchase back agreements (hereinafter "repos") and financial assets purchase and sale back agreements (hereinafter "reverse repos"). Repos and reverse repos are utilized by the Group as an element of its treasury management.

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. These agreements are accounted for as financing transactions. Financial assets sold under repo are retained in the consolidated financial statements and consideration received under these agreements is recorded as collateralised deposit received within depositary instruments with banks.

Assets purchased under reverse repos are recorded in the consolidated financial statements as cash placed on deposit collateralised by securities and other assets and are classified within due from banks and/or loans and advances to customers.

The Group enters into securities repurchase agreements and securities lending transactions under which it receives or transfers collateral in accordance with normal market practice. Under standard terms for repurchase transactions in the RF and other states of the Commonwealth of Independent States (hereinafter "CIS"), the recipient of collateral has the right to sell or repledge the collateral, subject to returning equivalent securities on settlement of the transaction.

The transfer of securities to counterparties is only reflected on the statement of financial position if the risks and rewards of ownership are also transferred.

**Impairment of financial assets.** Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For loans and receivables and all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as default or delinquency in interest or principal payments; or
- Renegotiation of terms of loans;
- Default or delinquency in interest or principal payments; or
- Likely probability that the borrower will enter bankruptcy or financial re-organization or
- The disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as loans and receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of loans and receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.



# Public Joint-Stock Company MTS Bank

## Notes to the Consolidated Financial Statements (continued) for the Year Ended December 31, 2017 (in thousands of Russian Rubles, unless otherwise indicated)

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### 3. Significant accounting policies (continued)

For financial assets carried at amortised cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an provision account. When a loan or a receivable is considered uncollectible, it is written off against the provision account. Changes in the carrying amount of the provision account are recognized in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

If, in a subsequent period, the amount of the impairment loss on financial assets carried at amortized cost decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through the profit and loss to the extent that the carrying amount of financial assets at the date the impairment is reversed cannot exceed what the carrying amount would have been had the impairment not been recognized.

In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income and accumulated under the heading of assets revaluation reserve.

In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the financial assets can be objectively related to an event occurring after the recognition of the impairment loss.

**Reclassification of financial assets.** Effective from July 1, 2009, the Group was permitted to reclassify, in certain circumstances, non-derivative financial assets out of the 'Held for trading' category and into the 'Available-for-sale', 'Loans and receivables', or 'Held to maturity' categories. From this date it was also permitted to reclassify, in certain circumstances, financial instruments out of the 'Available-for-sale' category and into the 'Loans and receivables' category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortized cost. Reclassification is at the election of management, and is determined on an instrument by instrument basis.

**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 any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continually 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 individual or collective 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 provision 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. Usually, the Group writes off unsecured debt overdue for the period of 720 days against the related provision for impairment. Subsequent recoveries of amounts previously written off are included in other operating income in the consolidated statement of profit and loss in the period of recovery.

# Public Joint-Stock Company MTS Bank

## Notes to the Consolidated Financial Statements (continued) for the Year Ended December 31, 2017 (in thousands of Russian Rubles, unless otherwise indicated)

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### 3. Significant accounting policies (continued)

**Derecognition of financial assets.** The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

#### **Financial liabilities issued and equity instruments**

**Classification as debt or equity.** Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

**Equity instruments.** An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognized as proceeds received, net of direct issue costs.

Repurchase of the Group's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Bank's own equity instruments.

**Financial liabilities.** Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL. Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration that may be paid by an acquirer as part of a business combination to which IFRS 3 applies, (ii) held for trading, or (iii) it is designated as at FVTPL.

A financial liability is classified as held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- It has been incurred principally for the purpose of repurchasing it in the near term;
- On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

# Public Joint-Stock Company MTS Bank

## Notes to the Consolidated Financial Statements (continued) for the Year Ended December 31, 2017 (in thousands of Russian Rubles, unless otherwise indicated)

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### 3. Significant accounting policies (continued)

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'interest expenses' line item in the statement of profit or loss. Fair value is determined in the manner described in Note 35.

Other financial liabilities. Other financial liabilities, including depository instruments with the Central Bank of the Russian Federation, deposits by banks and customers, other borrowed funds, debt securities issued, repurchase agreements, subordinated debt and other financial liabilities, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost. Interest expense is calculated using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

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

Financial guarantee contracts issued by the Group are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- The amount of the obligation under the contract, as determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and
- The amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies.

**Derecognition of financial liabilities.** The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. Where an existing financial liability is replaced by another 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. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

# Public Joint-Stock Company MTS Bank

Notes to the Consolidated Financial Statements (continued)  
for the Year Ended December 31, 2017  
(in thousands of Russian Rubles, unless otherwise indicated)

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## 3. Significant accounting policies (continued)

### *Derivatives*

**Forwards and futures.** Forward and futures contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market. Futures contracts are transacted in standardized amounts on regulated exchanges and are subject to daily cash margin requirements. The main differences in the risk associated with forward and futures contracts are credit risk and liquidity risk.

The Group has credit exposure to the counterparties of forward contracts. The credit risk related to future contracts is considered minimal because the cash margin requirements of the exchange helps ensure that these contracts are always honored. Forward contracts are settled gross and are, therefore, considered to bear a higher liquidity risk than the futures contracts which are settled on a net basis. Both types of contracts result in market risk exposure.

**Swaps.** Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate or equity index.

Interest rate swaps relate to contracts taken out by the Group with other financial institutions in which the bank either receives or pays a floating rate of interest in return for paying or receiving, respectively, a fixed rate of interest. The payment flows are usually netted against each other, with the difference being paid by one party to the other.

In a currency swap, the Group pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross-settled.

Credit default swaps are contractual agreements between two parties to make payments with respect to defined credit events, based on specified notional amounts. The Group purchases credit default swaps from monoline insurers and banks in order to mitigate the risk of default by the counterparty on the underlying security referenced by the swap.

**Options.** Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period. The Group purchases and sells options through regulated exchanges and in the over-the-counter markets.

Options purchased by the Group provide the Group with the opportunity to purchase (call options) or sell (put options) the underlying asset at an agreed-upon value either on or before the expiration of the option. The Group is exposed to credit risk on purchased options only to the extent of their carrying amount, which is their fair value.

Options written by the Group provide the purchaser the opportunity to purchase from or sell to the bank the underlying asset at an agreed-upon value either on or before the expiration of the option.

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts, interest rate swaps and cross currency swaps. Further details of derivative financial instruments are disclosed in Notes 15, 23.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. Gains or losses arising from that are immediately recognized through financial results, except derivatives designated and effective as a hedging instrument. The timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives as either hedges of the fair value of recognized assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations.

# Public Joint-Stock Company MTS Bank

## Notes to the Consolidated Financial Statements (continued) for the Year Ended December 31, 2017 (in thousands of Russian Rubles, unless otherwise indicated)

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### 3. Significant accounting policies (continued)

**Embedded derivatives.** Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

**Leases.** 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.

**The Group as lessor.** Amounts due from lessees under finance leases are recognized as receivables 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.

Income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

**The Group as lessee.** Assets held under finance leases are initially recognized as assets of the Bank at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are recognized in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's general policy on borrowing costs. Contingent rentals arising under finance leases are recognized as an expense in the period in which they are incurred.

Operating lease payment are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

**Property, equipment and intangible assets.** Property, equipment (except for buildings and land plots) and intangible assets, acquired after January 1, 2003 are carried at historical cost less accumulated depreciation and any recognized impairment loss, if any. Property, equipment (except for buildings and land plots) and intangible assets, acquired before January 1, 2003 are carried at historical cost restated for inflation less accumulated depreciation and any recognized impairment loss, if any.

Depreciation is recognized so as to write off the cost or valuation of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis at the following annual rates:

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Land and buildings	2%
Furniture and equipment	20%
Intangible assets	20%

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Leasehold improvements are amortized over the life of the related leased asset. Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalization.

# Public Joint-Stock Company MTS Bank

## Notes to the Consolidated Financial Statements (continued) for the Year Ended December 31, 2017 (in thousands of Russian Rubles, unless otherwise indicated)

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### 3. Significant accounting policies (continued)

The carrying amounts of property, equipment and intangible assets are reviewed at each reporting date to assess whether they are recorded in excess of their recoverable amounts. The recoverable amount is the higher of fair value less costs to sell and value in use. Where carrying values exceed the estimated recoverable amount, assets are written down to their recoverable amount. After the recognition of an impairment loss the depreciation charge for property, equipment and intangible assets is adjusted in future periods to allocate the assets' revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

Land and buildings held for use in supply of services, or for administrative purposes, are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation.

Any revaluation increase arising on the revaluation of property and equipment is credited to the property and equipment revaluation reserve, except to the extent that it reverses a revaluation decrease from the same asset recognized previously in the consolidated statement of profit or loss. In this case the increase is credited to profit or loss for the period to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation is charged as an expense to the extent that it exceeds the positive balance, if any, held in the property and equipment revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued land and buildings is charged to the consolidated statement of profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the property and equipment revaluation reserve is transferred directly to retained earnings.

An item of property and equipment is derecognized 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 recognized in profit or loss.

**Investment property.** Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

**Non-currents assets classified as held for sale.** Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

# Public Joint-Stock Company MTS Bank

Notes to the Consolidated Financial Statements (continued)  
for the Year Ended December 31, 2017  
(in thousands of Russian Rubles, unless otherwise indicated)

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## 3. Significant accounting policies (continued)

**Impairment of tangible and intangible assets other than goodwill.** At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell or 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 which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount.

An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. Recovery of impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the recovery of impairment loss is treated as a revaluation increase.

**Taxation.** Income tax expense comprises current tax and deferred tax.

Current income tax is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized 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 recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

# Public Joint-Stock Company MTS Bank

## Notes to the Consolidated Financial Statements (continued) for the Year Ended December 31, 2017 (in thousands of Russian Rubles, unless otherwise indicated)

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### 3. Significant accounting policies (continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred income tax assets and deferred income tax liabilities are offset and reported net in the consolidated statement of financial position if:

- The Group has a legally enforceable right to set off current income tax assets against current income tax liabilities; and
- Deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

**Current and deferred tax for the year.** Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

**Operating taxes.** Countries where the Group operates also have various other taxes, which are assessed on the Group's activities. These taxes are included as a component of operating expenses in the consolidated statement of profit or loss.

**Provisions.** Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

**Contingent liabilities.** Contingent liabilities are not recognized in the consolidated statement of financial position, but are disclosed in the consolidated financial statements unless the probability of any outflow in settlement is remote. A contingent asset is not recognized in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

**Retirement benefit obligations.** In accordance with the requirements of the RF legislation, pension payments are calculated by an employer as certain percentages of salary expenses and transferred to the Pension Fund of the Russian Federation which transfers them to pension funds selected by employees. The Group does not have an obligation to transfer pension payments directly to pension funds selected by employees. This expense is charged to profit or loss in the period in which the related salaries are earned. Upon retirement, all retirement benefit payments are made by the pension funds as selected by employees. The Group does not have any pension arrangements separate from the RF state pension system. In addition, the Group has no post-retirement benefits or other significant compensated benefits requiring accrual.



# Public Joint-Stock Company MTS Bank

## Notes to the Consolidated Financial Statements (continued) for the Year Ended December 31, 2017 (in thousands of Russian Rubles, unless otherwise indicated)

### 3. Significant accounting policies (continued)

**Foreign currency translation.** In preparing the financial statements of each individual Group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for:

- Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- Exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into RUB using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Group are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognized in profit or loss. For all other partial disposals (i.e. reductions in the Group's ownership interest in associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognized in equity.

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

	December 31, 2017	December 31, 2016
RUB/USD	57.6002	60.6569
RUB/EUR	68.8668	63.8111
RUB/Gold (1 gram)	2 400.9700	2 260.4300

# Public Joint-Stock Company MTS Bank

## Notes to the Consolidated Financial Statements (continued) for the Year Ended December 31, 2017 (in thousands of Russian Rubles, unless otherwise indicated)

### 3. Significant accounting policies (continued)

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

	2017	2016
<b>Average exchange rate for the period for revaluation of foreign currency account balances</b>		
RUB/USD	58.3529	67.0349
RUB/EUR	65.9014	74.2310
<b>Average exchange rate for the period for translation of functional currencies to the presentation currency</b>		
RUB/EUR	62.2862	74.2310

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.

**Accounting for the effects of hyperinflation.** In accordance with IAS 29 the economy of the Russian Federation was treated as hyperinflationary till the end of 2002. Since January 1, 2003, the economy of the Russian Federation ceased to be hyperinflationary and the costs of non-monetary assets, liabilities and equity as stated in measuring units as at December 31, 2002 was used to form the opening balances as at January 1, 2003.

**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. Revenue for provision of trustee services is recognized as services are provided.

**Segment information.** The Group separates operating segments based on its organizational structure. Operating segments are presented on the basis of management accounting records provided to the chief operating decision maker, Chairman of the Management Board. The segments whose revenue, financial result or assets are 10% or more of all the segments, are reported separately.

**Share capital and share premium.** Contributions to share capital, made before January 1, 2003 are recognized at their cost restated for inflation. Contributions to share capital made after January 1, 2003 are recognized at cost. Share premium represents the excess of contributions over the nominal value of the shares issued.

Dividends on ordinary shares are recognized in equity as a reduction in the period in which they are declared. Dividends that are declared after the reporting date are treated as a subsequent event under IAS 10 *Events after the Balance Sheet Date* and disclosed accordingly.

**Equity reserves.** The reserves recorded in equity (other comprehensive income) on the Group's statement of financial position include:

- Available-for-sale financial assets revaluation reserve which comprises changes in fair value of available-for-sale financial assets;
- Foreign currency translation reserve which is used to record exchange differences arising from the translation of the net investment in foreign operations, net of the effects of hedging;
- Property revaluation reserve, which comprises revaluation reserve of land and building;
- Other capital reserve, which includes the portions of compound financial liabilities that qualify for treatment as equity.

# Public Joint-Stock Company MTS Bank

Notes to the Consolidated Financial Statements (continued)  
for the Year Ended December 31, 2017  
(in thousands of Russian Rubles, unless otherwise indicated)

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## 3. Significant accounting policies (continued)

**Critical accounting judgments and key sources of estimation uncertainty.** In the application of the Group's accounting policies the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized 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.

**Critical judgments in applying accounting policies.** The following are the critical judgments, apart from those involving estimations (see below), that the Group management have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

**Held-to-maturity financial assets.** Management have reviewed the Group's held-to-maturity investments in the light of its capital maintenance and liquidity requirements and has confirmed the Group's positive intention and ability to hold those assets to maturity.

**Key sources of estimation uncertainty.** The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

**Provision for impairment of loans.** The Group regularly reviews its loans to customers, due from banks and accounts receivable to assess for impairment. The Group's provisions for impairment of such assets are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Group considers accounting estimates related to provision for impairment of loans and receivables a key source of estimation uncertainty because (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired loans and receivables are based on recent performance experience, and (ii) any significant difference between the Group's estimated losses and actual losses would require the Group to record provision which could have a material impact on its financial statements in future periods.

The Group uses management's judgments to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on customer performance in the past, on observable data indicating an adverse change in the payment status of borrowers in a group, and national or local economic conditions that correlate with defaults in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans. The Group uses management's judgment to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data.

Loans to customers which are assessed individually and for which no indicators of impairment are identified are aggregated into portfolios with similar credit quality characteristics. The level of provision was estimated on the basis of statistical information on the historical losses on loans with similar credit characteristics.

The provision for impairment of financial assets in the consolidated financial statements has been determined on the basis of existing economic and political conditions. The Group is not in a position to predict what changes in conditions will take place in the RF and what effect such changes might have on the adequacy of the provision for impairment of financial assets in future periods.

# Public Joint-Stock Company MTS Bank

## Notes to the Consolidated Financial Statements (continued) for the Year Ended December 31, 2017 (in thousands of Russian Rubles, unless otherwise indicated)

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### 3. Significant accounting policies (continued)

**Valuation of financial instruments.** The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Note 35 provides detailed information about the key assumptions used in the determination of the fair value of financial instruments, as well as the detailed sensitivity analysis for these assumptions. Management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

**Revaluation of property, equipment and investment property.** Land, buildings, and investment property, except for construction in progress recorded at cost and tested for impairment are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation, determined from market-based evidence by appraisal undertaken by professional independent appraisers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Market value of property is assessed using three methods:

- The comparable sales method which involves analysis of market sales prices for similar real estate property;
- The income-based method which assumes a direct relationship between revenues generated by the property and its market value;
- The costs method which presumes the value of property to be equal to its recoverable amount less any depreciation charges.

Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date. The date of the latest appraisal was December 31, 2017. The next revaluation is scheduled for December 31, 2018.

**Deferred tax assets.** A deferred tax asset is recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. Assessment of probability is based on management's estimates of future taxable profit and involves the exercise of significant judgement from the Group's management.

The recoverability of the deferred tax asset has been determined using profitability forecasts used in the long-term business strategy of the Group, including the assumption of planned business changes within the Group. These assumptions were tested for sensitivity to confirm that the estimates used are not overestimated or aggressive. The forecast assumptions do not include any incremental tax planning strategies. The valuation of deferred tax asset is sensitive to the successful realization of the Group's strategy. The Group has reviewed sensitivity of its deferred tax assets to estimated taxable profits. In particular, the Group has reviewed the following scenarios:

- Taxable profits with a one-year delay as compared to development strategy plans;
- Taxable profits are 15% lower as against estimated figures provided for by the development strategy.

The Group considers that the deferred tax assets will be fully realised within the period of 8-10 years.

**Provisions for possible payments.** The Group discloses estimated (probable) liabilities under legal or constructive obligations and other conditions defined in IAS 37, clause 14. The Group provides for such liabilities if management believes that the probability of such obligations arising is higher than the probability of an event where such obligations will not arise.

#### Application of new and revised International Financial Reporting Standards (IFRSs)

In the current year, the Group has adopted a number of amendments to IFRSs issued by the International Accounting Standards Board ("IASB") and required for adoption/with respect to the reporting periods starting after January 1, 2017.

**Amendments to IAS 7 Disclosure Initiative.** The Bank 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.

# Public Joint-Stock Company MTS Bank

## Notes to the Consolidated Financial Statements (continued) for the Year Ended December 31, 2017 (in thousands of Russian Rubles, unless otherwise indicated)

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### 3. Significant accounting policies (continued)

The reconciliation of opening and closing balances of liabilities arising as a result of financial activities is disclosed in Note 29. According to transitional provisions, the Group has not disclosed comparative information for the prior period. Apart from additional disclosures in Note 29, the application of these amendments had no effect on the consolidated financial statements of the Group.

**Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised 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 utilise 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 2012-2014 Cycle.** The Group has applied the amendments to IFRS 12 that are included in Annual Improvements to IFRSs 2014-2016 Cycle. The amendments have been applied by the Group for the first time to these financial statements. Other amendments included herein are not yet mandatorily effective in the current period and have not been early adopted by the Group.

The amendments to IFRS 12 state 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 impact on the Group's consolidated financial statements as the Group has no interests in subsidiaries, associates or joint ventures that 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	<i>Financial Instruments</i> <sup>1</sup>
IFRS 15	<i>Revenue from Contracts with Customers (and the related Clarifications)</i> <sup>1</sup>
IFRS 16	<i>Leases</i> <sup>2</sup>
Amendments to IFRS 2	<i>Classification and Measurement of Share-based Payment Transactions</i> <sup>1</sup>
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> <sup>3</sup>
Amendments to IAS 40	<i>Transfers of Investment Property</i> <sup>1</sup>
Amendments to IFRSs	<i>Annual Improvements to IFRS Standards 2014-2016 Cycle</i> <sup>1</sup>
IFRIC 22	<i>Foreign Currency Transactions and Advance Consideration</i> <sup>1</sup>

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.

**IFRS 9 Financial Instruments.** IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. The principal changes cover a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' measurement category for certain simple debt instruments. IFRS 9 will replace the current IAS 39 *Financial Instruments: Recognition and Measurement*. The key requirements of IFRS 9 are stated below.

# Public Joint-Stock Company MTS Bank

## Notes to the Consolidated Financial Statements (continued) for the Year Ended December 31, 2017 (in thousands of Russian Rubles, unless otherwise indicated)

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### 3. Significant accounting policies (continued)

- **Classification and measurement of financial assets.** All recognized financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt and equity instruments are measured at their fair values. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 applies) in other comprehensive income, with only dividend income generally recognized in profit or loss.
- **Classification and measurement of financial liabilities.** With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- **Impairment.** The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before a credit loss is recognized.
- **Hedge accounting.** The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.
- **Derecognition.** The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

The standard is effective from January 1, 2018 with early application permitted. Based on an analysis of the Group's financial assets and financial liabilities as at December 31, 2017 on the basis of the facts and circumstances that exist at that date, the management of the Group has performed a preliminary assessment of the impact of IFRS 9 to the Group's consolidated financial statements as follows:

- **Classification and measurement.** Corporate bonds, debt securities of the RF regional governments and government debt securities classified as held-to-maturity investments as disclosed in Note 19 and loans to customers as disclosed in Note 17: these are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets will continue to be subsequently measured at amortised cost upon the application of IFRS 9;

# Public Joint-Stock Company MTS Bank

## Notes to the Consolidated Financial Statements (continued) for the Year Ended December 31, 2017 (in thousands of Russian Rubles, unless otherwise indicated)

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### 3. Significant accounting policies (continued)

- Debt securities classified as available-for-sale financial assets carried at fair value as disclosed in Note 18: these are held within a business model whose objective is achieved both by collecting contractual cash flows and selling the securities in the open market, and the securities' contractual terms give rise to cash flows on specified dates that are solely payments of principal and interest on the principal outstanding. Accordingly, these debt securities will continue to be subsequently measured at FVTOCI upon the application of IFRS 9, and the fair value gains or losses accumulated in the assets revaluation reserve will continue to be subsequently reclassified to profit or loss when these securities are derecognized or reclassified;
- Investments in bond funds classified as available-for-sale financial assets carried at fair value as disclosed in Note 18: these are held within a business model whose objective is achieved both by redemption or selling in the open market, and the contract does not give rise to cash flows on specified dates that are payments of principal and interest on the principal outstanding. Accordingly, these equity securities will continue to be subsequently measured at fair value through profit or loss under IFRS 9, and the fair value gains or losses accumulated in the assets revaluation reserve will continue to be subsequently reclassified to retained earnings when these securities are derecognized or reclassified;
- Investments in venture fund and equity securities classified as available-for-sale financial assets as disclosed in Note 18: these investments qualify for designation as measured at FVTOCI under IFRS 9; however, the fair value gains or losses accumulated in the assets revaluation reserve will no longer be subsequently reclassified to profit or loss under IFRS 9, which is different from the current treatment. This will affect the amounts recognized in the Group's profit or loss and other comprehensive income but will not affect total comprehensive income;
- All other financial assets and financial liabilities will continue to be recognized under IFRS 9 the same as under IAS 39.

**Impairment.** Financial assets measured at amortised cost, debt financial instruments that will be carried at FVTOCI under IFRS 9 (see classification and measurement section above), amounts due from banks (Note 16), other financial assets (Note 22), guarantee issued and similar commitments (Note 32) will be subject to the impairment provisions of IFRS 9.

The Group expects to apply the simplified approach to recognize lifetime expected credit losses for other financial assets. As regards several corporate bonds, debt securities of the RF regional governments and government debt securities as disclosed in (Note 19), the management of the Group considers that they have low credit risk given their strong external credit rating and hence expect to recognize 12-month expected credit losses for these items.

The Group started to prepare for the application of IFRS 9 with regard to impairment in 2016. In 2017, the Group completed the development of a methodology for application of the key aspects of the Standard. Currently, there are still areas to be improved (macroeconomic impact, segmentation of portfolios, etc.). The work is expected to be finalized in the 2nd quarter of 2018, therefore, currently, the management does not have sufficient information to reasonably estimate the effect of the application of a new impairment model on the Group's consolidated financial statements.

**IFRS 15 Revenue from Contracts with Customers.** In May 2014, IFRS 15 was issued to establish 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 recognize 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. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15. The standard is effective from January 1, 2018 with early application permitted.

The management is still in the process of assessing the full impact of the application of IFRS 15 on the Group's consolidated financial statements. At the same time, the management believes that the application of IFRS 15 will not have a material impact on the Group's consolidated financial statements.

# Public Joint-Stock Company MTS Bank

## Notes to the Consolidated Financial Statements (continued) for the Year Ended December 31, 2017 (in thousands of Russian Rubles, unless otherwise indicated)

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### 3. Significant accounting policies (continued)

**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. The standard is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted.

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 recognized 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, 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.

The management of the Group anticipates that the application of IFRS 16 in the future may have an impact on the amount of assets and liabilities due to recognition of leases for contracts where the Group is a lessee in the form of a right-of-use asset and a corresponding liability. However, a detailed review needs to be performed in order to provide a reasonable estimate of the effect of IFRS 16. It is not practicable to provide a reasonable estimate of the financial effect until the management completes the review.

The management of the Group believes that the following new and revised IFRSs that have been issued but are not yet effective will have no material impact on amounts reported in the Group's consolidated financial statements:

- Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions*;
- Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*;
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*;
- IAS 40 *Transfers of Investment Property*;
- Annual Improvements to IFRSs 2014-2016 Cycle.



# Public Joint-Stock Company MTS Bank

**Notes to the Consolidated Financial Statements (continued)**  
**for the Year Ended December 31, 2017**  
*(in thousands of Russian Rubles, unless otherwise indicated)*

## 4. Net interest income

	2017	2016
<b>Interest income comprises:</b>		
Interest income on financial assets recorded at amortized cost:		
- interest income on individually unimpaired financial assets	12 334 624	12 756 484
- interest income on individually impaired financial assets	184 760	364 910
Interest income on financial assets at fair value	1 511 340	1 670 257
<b>Total interest income</b>	<b>14 030 724</b>	<b>14 791 651</b>
Interest income on financial assets recorded at amortized cost comprises:		
Interest on loans to customers	10 120 490	11 566 383
Interest on balances due from banks	619 628	912 992
Interest on investments held to maturity	1 779 266	642 019
Total interest income on financial assets recorded at amortized cost	12 519 384	13 121 394
Interest income on financial assets at fair value:		
Interest income on financial assets at fair value through profit or loss	1 455 763	1 616 046
Interest income on investments available-for-sale	55 577	54 211
Total interest income on financial assets at fair value	1 511 340	1 670 257
<b>Interest expense on financial liabilities recorded at amortized cost comprises:</b>		
Interest expense on customer accounts	(6 048 345)	(7 156 491)
Interest expense on due to banks and other financial institutions	(83 207)	(49 022)
Interest expense on debt securities issued	(291 797)	(228 212)
Interest expense on subordinated debt	(20 643)	(618 959)
<b>Total interest expense on financial liabilities carried at amortized cost</b>	<b>(6 443 992)</b>	<b>(8 052 684)</b>
<b>Net interest income before provision for impairment losses on interest-bearing assets</b>	<b>7 586 732</b>	<b>6 738 967</b>

# Public Joint-Stock Company MTS Bank

**Notes to the Consolidated Financial Statements (continued)**  
**for the Year Ended December 31, 2017**  
*(in thousands of Russian Rubles, unless otherwise indicated)*

## 5. Provision for impairment losses and other provisions

The movements in provision for impairment losses on interest bearing assets were as follows:

	Due from banks	Loans to customers	Total
<b>December 31, 2015</b>	<b>234 941</b>	<b>46 753 568</b>	<b>46 988 509</b>
Provision - continuing operations	29 449	5 726 087	5 755 536
Recovery of provision - discontinued operations	-	(67 253)	(67 253)
Write-off against provision	(198 791)	(13 610 638)	(13 809 429)
Disposal of provision on sale	-	(1 073 539)	(1 073 539)
Foreign exchange difference	(17 266)	(1 218 965)	(1 236 231)
<b>December 31, 2016</b>	<b>48 333</b>	<b>36 509 260</b>	<b>36 557 593</b>
(Provision)/recovery of provision - continuing operations	(5 850)	710 656	704 806
Recovery of provision - discontinued operations	-	(3 488)	(3 488)
Write-off against provision	-	(24 547 348)	(24 547 348)
Disposal of provision on sale	-	(44 426)	(44 426)
Group reorganization	-	(3 819 243)	(3 819 243)
Foreign exchange difference	-	(356 898)	(356 898)
<b>December 31, 2017</b>	<b>42 483</b>	<b>8 448 513</b>	<b>8 490 996</b>

The movements in other provisions were as follows:

	Other assets	Guarantees	Provision for legal claims and contingent liabilities	Total
<b>December 31, 2015</b>	<b>625 853</b>	<b>1 950 099</b>	<b>64 316</b>	<b>2 640 268</b>
Provision/(recovery) of provisions	731 091	(1 597 940)	26 920	(839 929)
Write-off against provision	(549 836)	-	(10 014)	(559 850)
<b>December 31, 2016</b>	<b>807 108</b>	<b>352 159</b>	<b>81 222</b>	<b>1 240 489</b>
Provision	144 732	86 010	216 265	447 007
Write-off against provision	(104 969)	-	(12 176)	(117 145)
<b>December 31, 2017</b>	<b>846 871</b>	<b>438 169</b>	<b>285 311</b>	<b>1 570 351</b>

Provision for impairment of interest bearing assets and other assets are deducted from the respective asset items. Provision for guarantees and legal claims are accounted for as other liabilities.

# Public Joint-Stock Company MTS Bank

Notes to the Consolidated Financial Statements (continued)  
for the Year Ended December 31, 2017  
(in thousands of Russian Rubles, unless otherwise indicated)

## 6. Net gain on financial assets and liabilities at fair value through profit or loss

Net gain on financial assets and liabilities at fair value through profit or loss comprises:

	2017	2016
<b>Net gain on derivatives</b>		
Realised gain on derivatives	152 471	161 886
Fair value adjustments	201 664	772 870
<b>Net gain on financial assets and liabilities held for trading</b>		
Realised gain on dealing operations	46 297	120 301
Fair value adjustments	23 220	(193 311)
<b>Net gain on financial assets and liabilities at fair value through profit or loss</b>	<b>423 652</b>	<b>861 746</b>

## 7. Net loss on foreign exchange operations

Net loss on foreign exchange operations comprises:

	2017	2016
Dealing, net	(711 392)	197 848
Translation differences, net	54 881	(868 850)
<b>Total net loss on foreign exchange operations</b>	<b>(656 511)</b>	<b>(671 002)</b>

## 8. Fee and commission income and expense

Fee and commission income and expense comprise:

	2017	2016
<b>Fee and commission income:</b>		
Acquiring and card transactions	1 617 528	1 022 187
Maintenance of bank cards	704 924	518 089
Cash operations with plastic cards	435 487	443 396
Other cash operations	402 526	276 637
Maintenance of accounts	377 838	371 952
Settlements	250 019	211 861
Documentary operations	106 241	108 442
Intermediary services	85 326	43 983
Foreign currency agent and controller operations	51 213	56 241
Other	126 614	69 201
<b>Total fee and commission income</b>	<b>4 157 716</b>	<b>3 121 989</b>
<b>Fee and commission expense:</b>		
Settlements	(1 158 294)	(937 549)
Intermediary services	(1 169 560)	(556 984)
Cash transactions	(247 548)	(78 920)
Documentary operations	(72 460)	(72 472)
Other	(17 530)	(11 815)
<b>Total fee and commission expense</b>	<b>(2 665 392)</b>	<b>(1 657 740)</b>

# Public Joint-Stock Company MTS Bank

## Notes to the Consolidated Financial Statements (continued) for the Year Ended December 31, 2017 (in thousands of Russian Rubles, unless otherwise indicated)

### 9. Other income

Other income comprises:

	2017	2016
Recovery of assets previously written off	198 312	132 297
Gain on write-off of liabilities	122 177	302 498
Operating lease income	110 032	104 890
Fines and penalties	15 475	9 557
Information and consulting services	9 725	9 772
Other	14 113	47 099
<b>Total other income</b>	<b>469 834</b>	<b>606 113</b>

### 10. Operating expenses

Operating expenses comprise:

	2017	2016
Staff costs	3 225 503	2 685 775
Social security contributions	759 297	651 614
<b>Total personnel expenses</b>	<b>3 984 800</b>	<b>3 337 389</b>
Depreciation and amortization	523 751	676 612
Communications	457 665	294 999
Call center services	398 697	396 845
Operating leases	370 169	588 914
Payments to the Deposit Insurance Agency	338 840	305 390
Property and equipment maintenance	325 385	236 048
Software maintenance	246 898	243 947
Professional services	186 011	274 714
Plastic cards	138 414	40 553
Taxes, other than income tax	91 307	32 838
Security expenses	55 974	63 555
Advertising expenses	41 772	9 462
Fines and penalties	40 906	30 901
Disposals of property and equipment	27 798	98 689
Business trip expenses	16 113	15 306
Office expenses	7 556	3 767
Other expenses	314 336	170 597
<b>Total operating expenses</b>	<b>7 566 392</b>	<b>6 820 526</b>

### 11. Income tax

The Group calculates tax payments based on the tax accounts maintained and prepared in accordance with the tax regulations of RF and countries where the Group and its subsidiaries operate, which may differ from IFRSs. As certain income and expense are tax-free or tax non-deductible the Group is subject to certain permanent tax differences.

The Group is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and certain income being treated as non-taxable for tax purposes.

# Public Joint-Stock Company MTS Bank

## Notes to the Consolidated Financial Statements (continued) for the Year Ended December 31, 2017 (in thousands of Russian Rubles, unless otherwise indicated)

### 11. Income tax (continued)

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities in the financial statements and the amounts used for tax purposes. Temporary differences at December 31, 2017 and 2016 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Income tax in 2017 and 2016 was calculated by applying a 20% tax rate to the profit or loss for the year in respect of continuing operations.

The tax rate used for the reconciliations below is the corporate tax rate of 20% payable by corporate entities in the RF on taxable profits under tax law in that jurisdiction.

Temporary differences as at December 31, 2017 and 2016 comprised:

	December 31, 2017	December 31, 2016
Deferred tax assets/(liabilities) in relation to:		
Due from banks and loans to customers	743 524	1 043 865
Other assets	55 601	264 602
Investment property	513 507	308 531
Financial assets at fair value through profit or loss	5 604	17 330
Financial liabilities at fair value through profit or loss	8 571	228 198
Available-for-sale financial assets	(148 369)	(112 395)
Investments held to maturity	14 654	58 708
Customer accounts	1 828	7 238
Property, equipment and intangible assets	128 786	(116 442)
Other financial liabilities	301 139	177 955
Tax loss carryforwards	6 154 887	5 775 542
Unrecognized deferred tax assets	(4 610 195)	(4 570 225)
<b>Net deferred tax assets</b>	<b>3 169 537</b>	<b>3 082 907</b>

Reconciliation between income tax expense and consolidated profit before income tax for the years ended December 31, 2017 and 2016 is presented in the table below:

	2017	2016
Profit/(loss) before income tax	275 056	(3 044 883)
Tax charge at the statutory tax rate (20%)	55 011	(608 977)
Change in deferred tax asset not recognized	39 971	836 553
Effect of income taxed at different tax rates	(61 177)	(35 817)
Tax effect of permanent differences	149 727	(84 401)
<b>Income tax expense</b>	<b>183 532</b>	<b>107 358</b>
Current income tax expense	183 532	107 452
Changes in deferred tax	-	(94)
<b>Income tax expense</b>	<b>183 532</b>	<b>107 358</b>

# Public Joint-Stock Company MTS Bank

## Notes to the Consolidated Financial Statements (continued) for the Year Ended December 31, 2017 (in thousands of Russian Rubles, unless otherwise indicated)

### 11. Income tax (continued)

As at December 31, 2017 and 2016, the Group did not recognize part of deferred tax asset in the amount of RUB 4 530 253 thousand and RUB 4 570 225 thousand, respectively, as related tax losses are not expected to be utilized. The valuation of deferred tax assets is highly judgmental and is discussed in Note 3.

Deferred tax assets/(liabilities)	December 31, 2017	December 31, 2016
Deferred tax assets at January 1	3 287 043	3 289 732
Deferred tax liabilities at January 1	(204 136)	(144 400)
Change in deferred income tax balances recognized in profit or loss from continuing operations	-	94
Change in deferred income tax balances recognized in profit or loss from discontinued operations	(13 578)	(74 825)
Change in deferred income tax recognized in other comprehensive income	(107 419)	(30 125)
Effect of foreign currencies exchange rate fluctuations	7 770	42 431
Group reorganization	199 857	-
Deferred tax assets at December 31	3 169 537	3 287 043
Deferred tax liabilities at December 31	-	(204 136)

### 12. Discontinued operations

On May 29, 2017, the Group sold 47 percent of shares of EWUB to a related party and lost control over the bank's operations.

The amount of consideration received is presented in the table below:

	May 29, 2017
Consideration in cash	2 600 000
Fair value of 19% of shares of EWUB	1 104 383
Total	3 704 383

# Public Joint-Stock Company MTS Bank

## Notes to the Consolidated Financial Statements (continued) for the Year Ended December 31, 2017 (in thousands of Russian Rubles, unless otherwise indicated)

### 12. Discontinued operations (continued)

Disposed of assets and liabilities of EWUB are presented in the table below:

	May 29, 2017	December 31, 2016
<b>ASSETS:</b>		
Cash and balances with the Central Banks	12 293 318	9 513 342
Financial assets at fair value through profit or loss	30 816	19 697
Due from banks	6 757 509	5 459 216
Loans to customers	8 629 364	10 004 368
Available-for-sale financial assets	5 796 743	6 412 813
Property, equipment and intangible assets	1 361 050	1 362 176
Current income tax assets	184 512	150 594
Other assets	84 361	115 753
<b>Total assets</b>	<b>35 137 673</b>	<b>33 037 959</b>
<b>LIABILITIES:</b>		
Financial liabilities at fair value through profit or loss	85 635	48 496
Due to banks and other financial institutions	128 420	199 473
Customer accounts	24 859 712	22 794 601
Deferred income tax liabilities	199 857	204 259
Current income tax liabilities	318 281	183 202
Other liabilities	401 878	466 842
<b>Total liabilities</b>	<b>25 993 783</b>	<b>23 896 873</b>
<b>Net assets disposed of</b>	<b>9 143 890</b>	<b>9 141 086</b>

As at the transaction date, the fair value of assets sold exceeded the amount of consideration received from the buyer. The difference between the amount of consideration received and the fair value of assets sold amounting RUB 131 894 thousand is recognized in retained earnings of the Group.

The loss related to the disposal of the subsidiary is presented in the table below:

	May 29, 2017
Fair value of interest sold	2 731 894
Fair value of 19% of shares of EWUB	1 104 383
Net assets disposed of	(9 143 890)
Non-controlling interests	3 291 735
Cumulative gain on available-for-sale financial assets reclassified from equity on loss of control of subsidiary	106 194
Cumulative exchange differences in respect of net assets of subsidiary reclassified from equity to profit or loss on loss of control over subsidiary	2 437 358
Group's liabilities to EWUB	(575 870)
Transaction costs	(2 270)
<b>Loss on disposal</b>	<b>(50 466)</b>

Net cash outflow from the disposal of the subsidiary is presented in the table below:

	May 29, 2017
Consideration in cash and cash equivalents	2 600 000
Less cash and cash equivalent balances disposed of	(16 473 520)
<b>Total</b>	<b>(13 873 520)</b>

# Public Joint-Stock Company MTS Bank

## Notes to the Consolidated Financial Statements (continued) for the Year Ended December 31, 2017 (in thousands of Russian Rubles, unless otherwise indicated)

### 12. Discontinued operations (continued)

The combined results of the discontinued operations included in the consolidated statement of profit or loss are presented below.

	2017	2016
Interest income	346 188	1 619 257
Interest expenses	(61 222)	(311 476)
Recovery of provision for impairment losses on interest-bearing assets	3 488	67 253
Net non-interest income	119 167	225 210
Operating expenses	(394 644)	(1 353 008)
Income tax expense	(28 714)	(76 384)
(Loss)/ profit for the period	(15 737)	170 852
Loss on disposal	(50 466)	-
<b>Loss from discontinued operations</b>	<b>(66 203)</b>	<b>170 852</b>
Attributable to:		
Owners of the parent	(60 852)	112 762
Non-controlling interest	(5 351)	58 090
<b>Cash flows from discontinued operations</b>		
Net cash inflow from operating activities	1 407 522	3 879 840
Net cash inflow/(outflow) from investing activities	329 812	(500 317)
<b>Net cash inflow</b>	<b>1 665 324</b>	<b>3 604 589</b>

### 13. Earnings/(loss) per share

The earnings/(loss) and weighted average number of ordinary shares used in calculation of basic and diluted earnings/(loss) per share are as follows:

	2017	2016
Net earnings/(loss) for the period from continuing operations attributable to owners of the Bank	91 524	(3 152 241)
Net (loss)/earnings for the period from discontinued operations attributable to owners of the Bank	(60 852)	112 762
Weighted average number of ordinary shares for the purpose of basic and diluted earnings/(loss) per share	20 807 780	11 306 805
<b>Earnings/(loss) per share from continuing operations - basic and diluted (RUB)</b>	<b>4</b>	<b>(279)</b>
<b>(Loss)/earnings per share from discontinued operations - basic and diluted (RUB)</b>	<b>(3)</b>	<b>10</b>



# Public Joint-Stock Company MTS Bank

## Notes to the Consolidated Financial Statements (continued) for the Year Ended December 31, 2017 (in thousands of Russian Rubles, unless otherwise indicated)

### 14. Cash and balances with the Central Banks

Cash and balances comprise:

	December 31, 2017	December 31, 2016
Balances with the Central Bank of the Russian Federation	10 781 906	4 055 455
Cash	3 576 171	4 330 930
Balances with the Central Bank of Luxembourg	-	9 499 176
<b>Total cash and balances with the Central Banks</b>	<b>14 358 077</b>	<b>17 885 561</b>

The balances with the Central Banks of the Russian Federation and Luxembourg as at December 31, 2017 and 2016 include RUB 873 883 thousand and RUB 1 042 059 thousand, respectively, which represent the obligatory reserve deposits with the Central Banks. The Group is required to maintain obligatory reserve deposits with the Central Banks on a constant basis.

Cash and cash equivalents for the purposes of the statement of cash flows comprise the following:

	December 31, 2017	December 31, 2016
Cash and balances with the Central Banks	14 358 077	17 885 561
Correspondent accounts with banks and other financial organizations	2 797 116	12 000 250
	<b>17 155 193</b>	<b>29 885 811</b>
Less obligatory reserve deposits with the Central Bank of the Russian Federation	(873 883)	(898 802)
Less obligatory reserve deposits with the Central Bank of Luxembourg	-	(143 257)
<b>Total cash and cash equivalents</b>	<b>16 281 310</b>	<b>28 843 752</b>

### 15. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprised:

	Weighted average %	December 31, 2017	Weighted average %	December 31, 2016
Debt securities				
- corporate and bank bonds	8.6%	16 188 049	8.2%	14 891 203
- government debt securities	7.9%	25 598	9.2%	3 554 780
- municipal debt securities	10.3%	33 066	10.2%	98 769
Derivative financial instruments		244 519		166 288
Bond fund units		3 054 164		3 053 402
<b>Total financial assets at fair value through profit or loss</b>		<b>19 545 396</b>		<b>21 764 442</b>

Information on derivative financial instruments is disclosed in Note 23.

As at December 31, 2016, financial assets at fair value through profit or loss included government bonds and eurobonds in the amount of RUB 3 554 780 thousand, which exceeded 10% of the Group's equity.

As at December 31, 2016, financial assets at fair value through profit or loss of RUB 2 304 243 thousand were pledged under repurchase agreements with the CBR (Note 24).

# Public Joint-Stock Company MTS Bank

## Notes to the Consolidated Financial Statements (continued) for the Year Ended December 31, 2017 (in thousands of Russian Rubles, unless otherwise indicated)

### 16. Due from banks

Due from banks comprise:

	December 31, 2017	December 31, 2016
Correspondent accounts with banks and other financial organizations	2 797 116	12 000 250
Reverse repurchase agreements with financial institutions	2 478 435	-
Term deposits with banks	1 251 429	2 348 462
	<b>6 526 980</b>	<b>14 348 712</b>
Less provision for impairment	(42 483)	(48 333)
<b>Total due from banks</b>	<b>6 484 497</b>	<b>14 300 379</b>

Movements in provisions for impairment losses on balances due from banks for the years ended December 31, 2017 and 2016 are disclosed in Note 5.

As at December 31, 2016, the Group had amounts due from 1 bank, which exceeded 10% of the Group's equity.

As at December 31, 2017 and 2016, due from banks included guarantee deposits totaling RUB 1 176 237 thousand and RUB 1 141 954 thousand, respectively.

As at December 31, 2016, term deposits with banks included other placements totaling RUB 1 096 324 thousand according to the agreement on the procedure of payment of floating margin amounts.

Fair value of assets pledged and carrying value of loans under the reverse repurchase agreements as at December 31, 2017 and 2016 comprise:

	December 31, 2017 Carrying amount of loans	December 31, 2017 Fair value of collateral	December 31, 2016 Carrying amount of loans	December 31, 2016 Fair value of collateral
Corporate bonds	2 251 860	2 355 074	-	-
Shares	226 575	259 740	-	-
<b>Total</b>	<b>2 478 435</b>	<b>2 614 814</b>	<b>-</b>	<b>-</b>

### 17. Loans to customers

Loans to customers comprise:

	December 31, 2017	December 31, 2016
Loans to customers	66 030 819	104 966 556
Less provision for impairment losses	(8 448 513)	(36 509 260)
<b>Total loans to customers</b>	<b>57 582 306</b>	<b>68 457 296</b>

Movements in provision for impairment losses for the years ended December 31, 2017 and 2016 are disclosed in Note 6.

# Public Joint-Stock Company MTS Bank

## Notes to the Consolidated Financial Statements (continued) for the Year Ended December 31, 2017 (in thousands of Russian Rubles, unless otherwise indicated)

### 17. Loans to customers (continued)

The table below summarizes carrying value of loans to customers analysed by type of collateral obtained by the Group:

	December 31, 2017	December 31, 2016
Loans collateralised by pledge of real estate	19 225 161	25 553 584
Loans collateralised by guaranties	12 691 823	12 681 841
Loans collateralised by pledge of equipment	905 516	2 118 956
Loans collateralised by cash	296 454	2 184 338
Loans collateralised by guarantees provided by the RF Ministry of Finance	118 438	118 438
Loans collateralised by pledge of own promissory notes	89 575	46 789
Loans collateralised by pledge of securities	40 325	129 768
Loans collateralised by pledge of inventories	7 688	93 303
Loans collateralised by pledge of rights of claim	-	52 968
Loans collateralised by other collateral	-	229
Unsecured loans	32 655 839	61 986 342
	66 030 819	104 966 556
Less provision for impairment losses	(8 448 513)	(36 509 260)
<b>Total loans to customers</b>	<b>57 582 306</b>	<b>68 457 296</b>

Amounts, presented in the table above, are book value of loans issued and do not necessary reflect the fair value of collateral received.

As at December 31, 2017 and 2016, cash balances are placed with the Group as collateral for loans to customers in the amount of RUB 300 000 thousand and RUB 2 197 289 thousand, respectively (Note 25).

	December 31, 2017	December 31, 2016
<b>Analysis by sector:</b>		
Individuals	37 774 407	44 156 628
Real estate	8 500 815	10 345 180
Trade	5 817 026	9 483 690
Manufacturing	3 402 470	17 298 478
Finance sector	3 156 596	3 640 129
Transport and communications	2 389 129	7 876 910
Agriculture	1 346 559	2 493 058
Finance lease	1 099 320	2 865 241
Hotel business	313 403	2 323 531
Food production	197 208	1 598 296
Culture and art	21 065	885 985
Other	2 012 821	1 999 430
	66 030 819	104 966 556
Less provision for impairment losses	(8 448 513)	(36 509 260)
<b>Total loans to customers</b>	<b>57 582 306</b>	<b>68 457 296</b>

# Public Joint-Stock Company MTS Bank

## Notes to the Consolidated Financial Statements (continued) for the Year Ended December 31, 2017 (in thousands of Russian Rubles, unless otherwise indicated)

### 17. Loans to customers (continued)

Loans to individuals comprise the following products:

	December 31, 2017	December 31, 2016
Consumer loans	15 045 428	14 671 147
Mortgage loans	14 199 521	17 451 225
Credit cards	8 421 397	11 019 921
Car loans	1 125	381 214
Other	106 936	633 121
	37 774 407	44 156 628
Less provision for impairment losses	(4 019 473)	(12 979 022)
<b>Total loans to individuals</b>	<b>33 754 934</b>	<b>31 177 606</b>

As at December 31, 2017 and 2016, included in loans to individuals are mortgage loans with gross amount of RUB 1 776 401 thousand and RUB 1 915 692 thousand, respectively, pledged as collateral for mortgage-backed bonds issued by the Group in 2014 (Note 26).

As at December 31, 2017 and 2016, the Group granted loans to 2 and 4 groups of customers totaling RUB 7 203 081 thousand and RUB 13 623 294 thousand, respectively, which individually exceeded 10% of the Group's equity.

As at December 31, 2017 and 2016, loans to customers included loans totaling RUB 1 001 769 thousand and RUB 1 130 719 thousand, respectively, whose terms were renegotiated. Otherwise, these loans would be past due or impaired.

During the years ended December 31, 2017 and 2016, the Group sold certain loans to third parties with a discount to nominal value with no recourse and without any service obligations associated with the loans. Provision for impairment losses written off on sale of loans for the year ended December 31, 2017 and 2016 amounted to RUB 44 426 thousand and RUB 1 073 539 thousand, respectively (Note 5).

The table below summarizes analysis of loans to customers by impairment:

	December 31, 2017			December 31, 2016		
	Carrying value of loans before provision	Provision for impairment	Carrying value	Carrying value of loans before provision	Provision for impairment	Carrying value
Loans to customers individually determined to be impaired	6 679 241	(4 345 799)	2 333 442	27 614 572	(21 298 520)	6 316 052
Loans with no individual indicators of impairment	18 497 757	(325 146)	18 172 611	28 846 021	(351 385)	28 494 636
Loans to customers collectively assessed for impairment	40 853 821	(3 777 568)	37 076 253	48 505 963	(14 859 355)	33 646 608
<b>Total</b>	<b>66 030 819</b>	<b>(8 448 513)</b>	<b>57 582 306</b>	<b>104 966 556</b>	<b>(36 509 260)</b>	<b>68 457 296</b>

As at December 31, 2017 and 2016, loans that had individual indicators of impairment were collateralised by pledge of the following types: real estate, corporate guarantees, equipment, other collateral, in the gross amount of RUB 18 474 468 thousand and RUB 66 873 006 thousand, respectively.

# Public Joint-Stock Company MTS Bank

Notes to the Consolidated Financial Statements (continued)  
for the Year Ended December 31, 2017  
(in thousands of Russian Rubles, unless otherwise indicated)

## 18. Available-for-sale financial assets

Financial assets available-for-sale comprise:

	Weighted average interest rate to nominal, %	December 31, 2017	Weighted average interest rate to nominal, %	December 31, 2016
Investments in bond funds		4 698 044		4 104 636
Equity securities		1 104 398		9
Debt securities	8.2%	357 106	5.0%	8 384 490
Investment in venture fund		6 696		10 976
<b>Total investments available-for-sale</b>		<b>6 166 244</b>		<b>12 500 111</b>

Investments in bond funds represent investments in Russian funds investing mainly in bonds and eurobonds of Russian blue chips.

In 2016, in order to hold a number of debt securities to maturity, and due to market considerations, high credit quality of issuers and short duration of instruments, the Group reclassified available-for-sale financial assets in the amount of RUB 1 059 229 thousand to investments held to maturity (Note 19).

## 19. Investments held to maturity

Investments held to maturity comprise:

	Weighted average effective rate, %	December 31, 2017	Weighted average effective rate, %	December 31, 2016
Corporate bonds	8.9%	15 995 465	10.7%	8 194 554
Debt securities of the Russian Federation constituent entities	8.0%	11 035 238	10.8%	6 977 615
RF government eurobonds	2.4%	315 384	2.7%	1 990 965
<b>Total investments held to maturity</b>		<b>27 346 087</b>		<b>17 163 134</b>

# Public Joint-Stock Company MTS Bank

Notes to the Consolidated Financial Statements (continued)  
for the Year Ended December 31, 2017  
(in thousands of Russian Rubles, unless otherwise indicated)

## 20. Property, equipment and intangible assets

	Land and buildings	Capital investments	Furniture and equipment	Total property and equipment	Intangible assets	Total property, equipment and intangible assets
<b>Book/fair value</b>						
<b>December 31, 2015</b>	<b>2 123 392</b>	<b>300 299</b>	<b>2 597 379</b>	<b>5 021 070</b>	<b>2 216 093</b>	<b>7 237 163</b>
Acquisitions	1 407 284	7 072	112 046	<b>1 526 402</b>	311 532	<b>1 837 934</b>
Disposals	(1 026)	(50 030)	(1 205 949)	<b>(1 257 005)</b>	(192 035)	<b>(1 449 040)</b>
Elimination of accumulated depreciation on revaluation	(12 650)	-	-	<b>(12 650)</b>	-	<b>(12 650)</b>
Reclassification between groups	121 972	(121 972)	-	-	-	-
Revaluation	(294 452)	-	-	<b>(294 452)</b>	-	<b>(294 452)</b>
Foreign exchange differences	(300 349)	-	(28 008)	<b>(328 357)</b>	(49 088)	<b>(377 445)</b>
<b>December 31, 2016</b>	<b>3 044 171</b>	<b>135 369</b>	<b>1 475 468</b>	<b>4 655 008</b>	<b>2 286 502</b>	<b>6 941 510</b>
Acquisitions	1 332	1 469	122 694	<b>125 495</b>	494 433	<b>619 928</b>
Reclassification to investment property	(56 574)	-	-	<b>(56 574)</b>	-	<b>(56 574)</b>
Disposals	(1)	(18 718)	(216 828)	<b>(235 547)</b>	(15 789)	<b>(251 336)</b>
Elimination of accumulated depreciation on revaluation	(33 401)	-	-	<b>(33 401)</b>	-	<b>(33 401)</b>
Revaluation	(32 914)	-	-	<b>(32 914)</b>	-	<b>(32 914)</b>
Foreign exchange differences	(17 238)	-	(1 400)	<b>(18 638)</b>	(2 670)	<b>(21 308)</b>
Disposal of subsidiary	(1 257 772)	-	(117 336)	<b>(1 375 108)</b>	(231 022)	<b>(1 606 130)</b>
<b>December 31, 2017</b>	<b>1 647 603</b>	<b>118 120</b>	<b>1 262 598</b>	<b>3 028 321</b>	<b>2 531 454</b>	<b>5 559 775</b>
<b>Accumulated depreciation</b>						
<b>December 31, 2015</b>	<b>951</b>	<b>115 507</b>	<b>1 678 148</b>	<b>1 794 606</b>	<b>1 379 175</b>	<b>3 173 781</b>
Charge for the year - continuing operations	12 650	31 824	329 975	<b>374 449</b>	302 163	<b>676 612</b>
Charge for the year - discontinued operations	75	-	13 214	<b>13 289</b>	20 562	<b>33 851</b>
Disposals	(1 026)	(46 468)	(1 104 716)	<b>(1 152 210)</b>	(153 094)	<b>(1 305 304)</b>
Elimination of accumulated depreciation on revaluation	(12 650)	-	-	<b>(12 650)</b>	-	<b>(12 650)</b>
Foreign exchange differences	-	-	(25 485)	<b>(25 485)</b>	(31 448)	<b>(56 933)</b>
<b>December 31, 2016</b>	<b>-</b>	<b>100 863</b>	<b>891 136</b>	<b>991 999</b>	<b>1 517 358</b>	<b>2 509 357</b>
Charge for the year - continuing operations	33 402	2 740	217 059	<b>253 201</b>	270 551	<b>523 751</b>
Charge for the year - discontinued operations	12 207	-	1 363	<b>13 570</b>	10 849	<b>24 420</b>
Disposals	-	(9 338)	(157 798)	<b>(167 136)</b>	(15 532)	<b>(182 668)</b>
Elimination of accumulated depreciation on revaluation	(33 401)	-	-	<b>(33 401)</b>	-	<b>(33 401)</b>
Foreign exchange differences	128	-	(1 363)	<b>(1 235)</b>	(1 675)	<b>(2 910)</b>
Disposal of subsidiary	(12 336)	-	(106 564)	<b>(118 900)</b>	(141 582)	<b>(260 482)</b>
<b>December 31, 2017</b>	<b>-</b>	<b>94 265</b>	<b>843 833</b>	<b>938 098</b>	<b>1 639 969</b>	<b>2 578 067</b>
<b>Net book value</b>						
<b>December 31, 2016</b>	<b>3 044 171</b>	<b>34 506</b>	<b>584 332</b>	<b>3 663 009</b>	<b>769 144</b>	<b>4 432 153</b>
<b>December 31, 2017</b>	<b>1 647 603</b>	<b>23 855</b>	<b>418 765</b>	<b>2 090 223</b>	<b>891 485</b>	<b>2 981 708</b>

# Public Joint-Stock Company MTS Bank

## Notes to the Consolidated Financial Statements (continued) for the Year Ended December 31, 2017 (in thousands of Russian Rubles, unless otherwise indicated)

### 20. Property, equipment and intangible assets (continued)

As at December 31, 2016, buildings with a carrying amount of RUB 1 274 946 thousand were pledged as collateral on a loan received from another bank (Note 24).

As at December 31, 2017 and 2016, land and buildings owned by the Group were recognized at fair value. The following methods were used for estimation of their fair value: discounted cash flow method (income approach), integrated cost estimation method (cost based method), method of sales comparison (comparative approach).

For the final value calculation, certain weights were assigned to the results obtained using different approaches, depending on the degree of reliability and completeness of the information. The carrying values of these assets were RUB 1 647 603 thousand and RUB 3 044 171 thousand, respectively. If the land and buildings were accounted for at historical cost adjusted for inflation less accumulated depreciation and impairment losses, their carrying value as at December 31, 2017 and 2016 would be RUB 1 434 526 thousand and RUB 1 944 791 thousand, respectively.

In December 2016 the Group purchased real properties from a related party for using in operating activities. As at December 31, 2016, these properties were recognized at fair value in the amount of RUB 1 181 992 thousand. The difference between the fair value of the properties and transaction costs amounted to RUB 346 815 thousands and was recognized in the statement of changes in equity.

As at December 31, 2017 and 2016, included in property and equipment was fully depreciated equipment totaling RUB 395 691 thousand and RUB 263 362 thousand, respectively. The main part of disposals of property and equipment in 2016 included write-offs of fully depreciated property.

As at December 31, 2017 and 2016, the fair value of buildings owned by the Group belonged to Level 3 within the fair value hierarchy.

### 21. Investment property

Investment property comprises:

	December 31, 2017	December 31, 2016
At January 1	2 911 545	2 785 669
Acquisitions	913 195	-
Property taken in possession under loan agreements	1 154 959	933 449
Transferred from property and equipment	56 574	-
Disposals	(741 262)	(445 199)
Changes in fair value of investment property	(204 179)	(362 374)
<b>At December 31</b>	<b>4 090 832</b>	<b>2 911 545</b>

As at December 31, 2017 and 2016, operating lease income comprised investment property rental income of RUB 103 330 thousand and RUB 98 073 thousand, respectively.

As at December 31, 2017 and 2016, operating expenses comprised investment property operating expenses of RUB 39 625 thousand and RUB 42 177 thousand, respectively.

As at December 31, 2017 and 2016, investment property was recognized at fair value. The following methods were used for the estimation of their fair value: discounted cash flow method (income approach), method of sales comparison (comparative approach). For estimation of the final value, the results obtained using the approaches were weighted by the following criteria: reliability and completeness of the information and individual characteristics consideration.

The Group has no restrictions as to the sale of the investment property, or documented obligations to purchase, construct, repair, maintain or improve the investment property.

As at December 31, 2017 and 2016, the fair value of the Group's investment property belonged to Level 3 within the fair value hierarchy.

## Public Joint-Stock Company MTS Bank

**Notes to the Consolidated Financial Statements (continued)**  
**for the Year Ended December 31, 2017**  
*(in thousands of Russian Rubles, unless otherwise indicated)*

### 22. Other assets

Other assets comprise:

	December 31, 2017	December 31, 2016
Accrued commission income	279 439	270 606
Taxes, other than income tax	250 699	118 628
Advances to suppliers and contractors	229 457	330 233
Inventories	187 918	285 559
Unsettled transactions with plastic cards	33 205	16
Prepaid expenses	18 011	54 437
Precious metals	15 858	15 043
Other financial assets	517 360	529 726
Other non-financial assets	42 316	39 886
<b>Total other assets before provision</b>	<b>1 574 263</b>	<b>1 644 134</b>
Less provision for impairment losses	(846 871)	(807 108)
<b>Total other assets</b>	<b>727 392</b>	<b>837 026</b>

As at December 31, 2017 and 2016, other assets included financial assets less provision in the amount of RUB 167 607 thousand and RUB 114 740 thousand, respectively.

### 23. Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss comprise:

	December 31, 2017	December 31, 2016
Derivatives	42 854	1 219 410
<b>Total financial liabilities at fair value through profit or loss</b>	<b>42 854</b>	<b>1 219 410</b>

Derivatives are used by the Group primarily for hedging purposes. The following table gives information about the fair value of derivative financial instruments included in assets or liabilities and their nominal value. The nominal value recognized on a gross basis is a value to which reference rate or index is applied and is the basis upon which changes in the value of derivatives are measured. The nominal value indicates the volume of transactions outstanding at the year end and are indicative of neither the market risk nor the credit risk.

As at December 31, 2017, derivative financial instruments comprise:

	Nominal value	Maturity	Fair value	
			Asset	Liability
Derivatives held for trading:				
Foreign currency				
Options	3 200 000	December, 2018	244 519	42 854
Total derivative held for trading			244 519	42 854



# Public Joint-Stock Company MTS Bank

**Notes to the Consolidated Financial Statements (continued)**  
**for the Year Ended December 31, 2017**  
*(in thousands of Russian Rubles, unless otherwise indicated)*

## 23. Financial liabilities at fair value through profit or loss (continued)

As at December 31, 2016, derivative financial instruments comprised:

	Nominal value	Maturity	Fair value	
			Asset	Liability
Derivative financial instruments held for trading:				
Foreign currency				
Options	3 200 000	March, 2017	146 562	14 956
Swaps	2 148 916	January, 2017	19 726	48 502
Interest rate				
Swaps	1 870 000	September, 2017	-	1 155 952
Total derivative financial instruments held for trading			166 288	1 219 410

## 24. Due to banks and other financial institutions

Due to banks and other financial institutions comprise:

	December 31, 2017	December 31, 2016
Correspondent accounts of other banks	1 227 983	798 770
Loans and term deposits from banks and other financial institutions	27 009	623 321
Loans under repurchase agreements	-	1 500 423
<b>Total due to banks and other financial institutions</b>	<b>1 254 992</b>	<b>2 922 514</b>

As at December 31, 2016, financial assets at fair value through profit or loss with fair value of RUB 1 596 683 thousand were pledged under repurchase agreements with the banks (Note 15).

As at December 31, 2016, buildings with a carrying amount of RUB 1 274 946 thousand were pledged as collateral on a loan received from another bank.

## 25. Customer accounts

Customer accounts comprise:

	December 31, 2017	December 31, 2016
Term deposits	70 706 345	72 639 779
Current accounts	43 990 046	48 450 020
<b>Total customer accounts</b>	<b>114 696 391</b>	<b>121 089 799</b>

As at December 31, 2017 and 2016, customer accounts individually exceeding 10% of the Group's equity were placed by 6 and 5 customers in the total amount of RUB 47 419 796 thousand (41% of total customer accounts) and RUB 33 640 950 thousand (28% of total customer accounts), respectively.

## Public Joint-Stock Company MTS Bank

### Notes to the Consolidated Financial Statements (continued) for the Year Ended December 31, 2017 (in thousands of Russian Rubles, unless otherwise indicated)

#### 25. Customer accounts (continued)

As at December 31, 2017 and 2016, customer accounts included balances placed with the Group as a collateral for loans to customers in the amount of RUB 300 000 thousand and RUB 2 315 727 thousand, respectively.

	December 31, 2017	December 31, 2016
<b>Analysis by sector:</b>		
Individuals	71 990 432	73 702 686
Transport and communications	17 261 811	6 760 957
Finance sector	6 345 743	19 748 262
Real estate and construction	4 217 373	8 679 540
Manufacturing	3 742 300	2 048 347
Trade	3 624 564	2 813 044
Medicine	2 507 967	2 217 518
Science and education	254 241	437 738
Oil and gas industry	13 548	15 099
Other	4 738 412	4 666 608
<b>Total customer accounts</b>	<b>114 696 391</b>	<b>121 089 799</b>

#### 26. Debt securities issued

Debt securities issued comprise:

	Maturity month/year	Annual interest rate, %	December 31, 2017	Maturity month/year	Annual interest rate, %	December 31, 2016
Mortgage-Backed Securities	November 2041	10.5%	1 896 894	November 2041	10.5%	1 954 006
Promissory notes	June 2017 – August 2018	1.5%-8.08%	176 761	January 2017 – May 2019	0.1%- 8.05%	75 509
<b>Total debt securities issued</b>			<b>2 073 655</b>			<b>2 029 515</b>

As at December 2017 and 2016, Mortgage-Backed Securities issued by the Group in the amount of RUB 1 896 894 thousand and RUB 1 954 006 thousand, respectively, were collateralised by retail loans with gross amount of RUB 1 776 401 thousand and RUB 1 915 692 thousand respectively (Note 18).

#### 27. Other liabilities

Other liabilities comprise:

	December 31, 2017	December 31, 2016
Trade accounts payable	911 501	1 018 688
Salaries and other compensations payable to employees	784 993	459 293
Taxes payable, other than income tax	412 649	378 375
Provision for guarantees (Note 6)	438 169	352 159
Provision for legal claims (Note 6)	285 311	81 222
Contributions to the Deposit Insurance Agency	85 492	82 915
Other	220 584	99 172
<b>Total other liabilities</b>	<b>3 138 699</b>	<b>2 471 824</b>

As at December 31, 2017 and 2016, other liabilities comprised other financial liabilities of RUB 1 925 734 thousand and RUB 1 587 959 thousand, respectively.

Movements in provisions for guarantees and legal claims for the years ended December 31, 2017 and 2016 are disclosed in Note 5.

## Public Joint-Stock Company MTS Bank

### Notes to the Consolidated Financial Statements (continued) for the Year Ended December 31, 2017 (in thousands of Russian Rubles, unless otherwise indicated)

#### 28. Subordinated debt

As at December 31, 2016, the Group's subordinated debt amounted to RUB 6 903 189 thousand. In January 2017, the Group early repaid the subordinated debt.

#### 29. Liabilities arising from financing activities

The table below provides changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities comprise liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	January 1, 2017	Cash flows from financing activities	Interest accrual and payment	December 31, 2017
Subordinated debt (Note 28)	6 903 189	(6 600 000)	(303 189)	-

	January 1, 2016	Cash flows from financing activities	Interest accrual and payment	December 31, 2016
Subordinated debt (Note 28)	13 319 654	(6 346 428)	(70 037)	6 903 189

Changes in the share capital and the share premium are presented in the statement of changes in equity.

#### 30. Share capital

As at December 31, 2017, the authorized share capital consisted of 20 807 780 ordinary shares with par value of RUB 500 each and 1 000 preference shares with par value of RUB 500 each.

The table below provides a reconciliation of the number of shares issued for the years ended December 31, 2017 and 2016:

	Number of preference shares	Number of ordinary shares
<b>December 31, 2015</b>	<b>1 000</b>	<b>7 219 476</b>
Issue of shares	-	13 588 304
<b>December 31, 2016</b>	<b>1 000</b>	<b>20 807 780</b>
Issue of shares	-	-
<b>December 31, 2017</b>	<b>1 000</b>	<b>20 807 780</b>

All ordinary shares are of the same class and bear one vote. Preference shares are not cumulative and not redeemable.

As at December 31, 2017 and 2016, share premium totaling RUB 7 200 940 thousand and RUB 19 087 389 thousand, respectively, represents an excess of contributions received over the nominal value of shares issued.

In 2016, PJSC MTS Bank issued 13 588 304 ordinary shares with par value of RUB 500 each for RUB 15 523 625 thousand.

In 2017 and 2016, the Group transferred share premium in the amount of RUB 11 886 449 thousand and RUB 8 028 500 thousand to cover accumulated loss.

# Public Joint-Stock Company MTS Bank

## Notes to the Consolidated Financial Statements (continued) for the Year Ended December 31, 2017 (in thousands of Russian Rubles, unless otherwise indicated)

### 31. Transferred financial assets

The Group lends and sells securities under agreements to repurchase (repos) and borrows and purchases securities under agreements to resell (reverse repos).

The securities lent or sold under agreements to repurchase are transferred to a third party in exchange for cash or other financial assets. The Group retains substantially all the risks and rewards in respect of these securities, which include credit risk and market risk, and therefore does not derecognize them. In addition, the Group recognizes a financial liability in respect of cash or other financial assets received.

The Group may sell or re-pledge any securities borrowed or purchased under repurchase agreements, but recognizes obligations to return the securities and the counterparty retains substantially all the risks and rewards of ownership. Consequently, the securities are not recognized by the Group, which instead recognizes a separate asset in respect of cash or other financial assets received.

Details of transferred financial assets that were not derecognized as at December 31, 2016 are disclosed below:

	Financial assets at fair value through profit or loss (Note 15)
<b>As at December 31, 2016</b>	
Carrying amount of assets	1 596 683
Carrying amount of associated liabilities (loans received under repurchase agreements, Note 24)	1 500 423

### 32. Commitments and contingencies

In the normal course of business, the Group is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the consolidated statement of financial position.

The Group's maximum exposure to credit risk under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

The Group's uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

As at December 31, 2017 and 2016, contingent liabilities comprise:

	December 31, 2017	December 31, 2016
<b>Contingent liabilities, credit and capital commitments</b>		
Commitments on loans and unused credit lines	16 050 855	6 888 348
Guarantees issued and other commitments	5 580 449	3 921 162
<b>Total commitments on loans, contingent liabilities and contractual commitments before provision</b>	<b>21 631 304</b>	<b>10 809 510</b>
Less provision for credit related commitments	(438 169)	(352 159)
<b>Total commitments on loans, contingent liabilities and contractual commitments</b>	<b>21 193 135</b>	<b>10 457 351</b>

# Public Joint-Stock Company MTS Bank

## Notes to the Consolidated Financial Statements (continued) for the Year Ended December 31, 2017 (in thousands of Russian Rubles, unless otherwise indicated)

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### 32. Commitments and contingencies (continued)

Movements in provision for credit related commitments for the years ended December 31, 2017 and 2016 are disclosed in Note 5.

Extension of loans to customers within credit line limits is approved by the Group on a case-by-case basis and depends on borrowers' financial performance, debt service and other conditions. As at December 31, 2017 and 2016, such unused credit lines amounted to RUB 10 335 233 thousand and RUB 6 784 467 thousand, respectively.

The Group also provides depositary services to its customers. As at December 31, 2017 and 2016, the Group had 628 177 428 and 488 193 000 customer securities, respectively, in its nominal holder accounts.

**Legal proceedings.** In respect of claims against the Group received from customers and counterparties the management of the Group is of the opinion that no material losses will be incurred other than those that were provided for in these consolidated financial statements.

**Taxation.** Major part of the Group's business activity is carried out in the Russian Federation. 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 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 review by the tax authorities in respect of taxes for three calendar years preceding the year of the review. 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 tax authorities may interpret the laws differently, which may have a significant effect on the financial statements.

In 2015, amendments were introduced into the Russian tax legislation in respect of taxation of profit of controlled foreign companies. According to these changes, undistributed profits of the Group foreign subsidiaries, qualifying as controlled foreign companies, should be included in the income tax base of the controlling entities in particular cases. The management does not expect any significant effect of these changes on the consolidated financial statements of the Group.

**Operating environment.** The Russian Federation displays certain characteristics of an emerging market. 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 prices of oil and gas on the world market. In 2016 and 2017, in the light of the high volatility of the prices of natural resources, the Ruble exchange rate and interest rates remained relatively stable. Ongoing political tension in the region and new packages of sanctions imposed on a number of Russian officials, businessmen and entities by the U.S. and the E.U. continue to negatively affect the Russian economy. The above mentioned events have led to reduced access of the Russian businesses to international capital markets, increased inflation, slackening of the economic growth rates and other negative economic consequences. The impact of further economic developments on future operations and financial position of the Bank is difficult to determine at this stage.

Russian consumers and corporations continue to face growing economic challenges, which leads to an increased risk of default in the retail and commercial banking sectors. This operating environment has a significant impact on the Group's operations and financial position. Management is taking necessary measures to ensure sustainability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

## Public Joint-Stock Company MTS Bank

**Notes to the Consolidated Financial Statements (continued)**  
**for the Year Ended December 31, 2017**  
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### 33. Related party transactions

Transactions between the Bank and its subsidiaries, which are related parties of the Bank, have been eliminated on consolidation and are not disclosed in this note. The Group had the following transactions outstanding with related parties as at December 31, 2017 and 2016:

	<b>December 31, 2017</b>		<b>December 31, 2016</b>	
	<b>Related party transactions</b>	<b>Total category as per the financial statements caption</b>	<b>Related party transactions</b>	<b>Total category as per the financial statements caption</b>
Financial assets at fair value through profit or loss	492 690	19 545 396	407 226	21 764 442
- the parent Company	243 145		255 597	
- entities with joint control or significant influence over the Group	5 026		5 038	
- entities under common control with the Group	244 519		146 591	
Loans to customers before provision for impairment losses	4 353 849	66 030 819	4 138 865	104 966 556
- entities under common control with the Group	4 295 479		4 135 598	
- key management personnel of the entity or its parent	58 370		3 265	
- other related parties	-		2	
Provision for impairment losses on loans to customers	(53 460)	(8 448 513)	(183 959)	(36 509 260)
- entities under common control with the Group	(53 343)		(183 959)	
- other related parties	-		-	
Available-for-sale financial assets	1 104 383	6 166 244	329 753	12 500 111
- the parent Company	-		329 753	
- entities under common control with the Group	1 104 383		-	
Other assets	439 766	1 574 263	473 608	1 644 134
- entities with joint control or significant influence over the Group	11 003		3 623	
- entities under common control with the Group	428 763		469 981	
- other related parties	-		4	
Provision for impairment losses on other assets	(363 228)	(846 871)	(363 228)	(807 108)
- entities under common control with the Group	(363 228)		(363 228)	
Financial liabilities at fair value through profit or loss	42 854	42 854	14 962	1 219 410
- entities under common control with the Group	42 854		14 962	
Due to banks and other financial institutions	41 435	1 254 992	-	2 922 514
- entities under common control with the Group	41 435		-	

## Public Joint-Stock Company MTS Bank

**Notes to the Consolidated Financial Statements (continued)**  
**for the Year Ended December 31, 2017**  
*(in thousands of Russian Rubles, unless otherwise indicated)*

### 33. Related party transactions (continued)

	December 31, 2017		December 31, 2016	
	Related party transactions	Total category as per the financial statements caption	Related party transactions	Total category as per the financial statements caption
Customer accounts	59 804 416	114 696 391	57 242 043	121 089 799
- the parent Company	3 734 018		1 882 261	
- entities with joint control or significant influence over the Group	12 395 769		2 812 489	
- entities under common control with the Group	12 947 408		15 235 383	
- key management personnel of the entity or its parent	29 167 341		30 269 509	
- other related parties	1 559 880		7 042 401	
Debt securities issued	39 882	2 073 655	20 293	2 029 515
- entities under common control with the Group	39 882		20 293	
Other liabilities	884 082	3 138 699	496 624	2 471 824
- entities with joint control or significant influence over the Group	406 964		301 952	
- entities under common control with the Group	81 834		128 373	
- key management personnel of the entity or its parent	393 618		66 299	
- other related parties	1 666		-	
Subordinated debt	-	-	6 903 189	6 903 189
- the parent Company	-		4 787 401	
- entities with joint control or significant influence over the Group	-		2 115 788	
Commitments on loans and unused credit lines	254 027	16 050 855	539 689	6 888 348
- entities with joint control or significant influence over the Group	30 000		30 000	
- entities under common control with the Group	224 027		374 689	
- other related parties	-		135 000	
Guarantees issued and similar commitments	1 113 189	5 580 449	233 805	3 921 162
- entities under common control with the Group	751 233		233 805	
- other related parties	361 956		-	
Guarantees received	2 440 714	12 691 823	2 100 965	12 681 841
- entities under common control with the Group	2 440 714		2 100 965	

As at December 31, 2017, the Group has investments in units of open-end bond fund recognized in financial assets at fair value through profit or loss in the amount of RUB 3 054 164 thousand (December 31, 2016: RUB 3 053 402 thousand) and investments in units of open-end bond fund recognized in available-for-sale financial assets in the amount of RUB 4 698 044 thousand (December 31, 2016: RUB 4 104 636 thousand). The funds are managed and controlled by a related party.

In December 2016, the Group acquired real estate properties from the related party for use in principal activities. As at December 31, 2016, the properties were recognized at their fair value in the amount of RUB 1 181 992 thousand. The difference between transaction costs and the fair value of the properties amounted to RUB 346 815 thousand and was recognized in the statement of changes in equity (Note 20).

# Public Joint-Stock Company MTS Bank

**Notes to the Consolidated Financial Statements (continued)**  
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## 33. Related party transactions (continued)

The remuneration of directors and other members of key management was as follows:

	2017		2016	
	Related party transactions	Total category as per the financial statements caption	Related party transactions	Total category as per the financial statements caption
Key management personnel compensation:				
- short-term compensation	555 762	3 984 800	170 792	3 337 389
- long-term compensation	393 784		170 792	
	161 978		-	

Included in the statement of profit or loss for the years ended December 31, 2017 and 2016 are the following amounts, which arose due to transactions with related parties:

	2017		2016	
	Related party transactions	Total category as per the financial statements caption	Related party transactions	Total category as per the financial statements caption
<b>Continuing operations</b>				
Interest income	483 450	14 030 724	1 047 625	14 791 651
- the parent Company	24 552		19 438	
- entities with joint control or significant influence over the Group	647		653	
- entities under common control with the Group	443 912		1 009 727	
- key management personnel of the entity or its parent	4 310		6 027	
- other related parties	10 029		11 780	
Interest expenses	(3 165 153)	(6 443 992)	(4 170 141)	(8 052 684)
- the parent Company	(137 375)		(194 961)	
- entities with joint control or significant influence over the Group	(333 482)		(280 630)	
- entities under common control with the Group	(505 474)		(499 356)	
- key management personnel of the entity or its parent	(2 086 980)		(2 316 100)	
- other related parties	(101 842)		(879 094)	
Recovery of provision/(provision) for impairment losses on interest bearing assets	130 500	(704 806)	44 751	(5 755 536)
- entities under common control with the Group	130 617		43 922	
- key management personnel of the entity or its parent	(117)		-	
- other related parties	-		829	
Net gain on financial assets and liabilities at fair value through profit or loss	62 365	423 652	134 382	861 746
- the parent Company	(7 670)		2 689	
- entities with joint control or significant influence over the Group	-		14	
- entities under common control with the Group	70 035		131 679	



# Public Joint-Stock Company MTS Bank

**Notes to the Consolidated Financial Statements (continued)**  
**for the Year Ended December 31, 2017**  
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## 33. Related party transactions (continued)

	2017		2016	
	Related party transactions	Total category as per the financial statements caption	Related party transactions	Total category as per the financial statements caption
Net loss/(gain) on foreign exchange operations	125 536	(656 511)	(127 895)	(671 002)
- the parent Company	180 016		(126 603)	
- entities with joint control or significant influence over the Group	(30 691)		(8 394)	
- entities under common control with the Group	(24 958)		36 069	
- key management personnel of the entity or its parent	-		(29 142)	
- other related parties	1 169		175	
Fee and commission income	556 090	4 157 716	431 829	3 121 989
- the parent Company	6 275		8 514	
- entities with joint control or significant influence over the Group	204 140		201 208	
- entities under common control with the Group	334 217		216 372	
- key management personnel of the entity or its parent	3 805		3 828	
- other related parties	7 653		1 907	
Fee and commission expense	(872 470)	(2 665 392)	(278 368)	(1 657 740)
- entities with joint control or significant influence over the Group	(478 866)		(149 093)	
- entities under common control with the Group	(393 604)		(129 274)	
- key management personnel of the entity or its parent	-		(1)	
Provision for impairment losses on other transactions	-	(447 007)	(363 228)	839 929
- entities under common control with the Group	-		(363 228)	
Other income	18 511	469 834	11 206	606 113
- the parent Company	15		9	
- entities with joint control or significant influence over the Group	3 956		118	
- entities under common control with the Group	12 782		10 753	
- key management personnel of the entity or its parent	1 028		289	
- other related parties	730		37	
Operating expense (net of staff cost)	(634 131)	(3 581 592)	(662 817)	(3 483 137)
- entities with joint control or significant influence over the Group	(517 929)		(415 452)	
- entities under common control with the Group	(116 202)		(247 365)	
<b>Discontinued operations</b>				
(Loss)/profit from discontinued operations (Note 12)	(50 466)	(66 203)	-	170 852
- the parent Company	(50 466)		-	

# Public Joint-Stock Company MTS Bank

## Notes to the Consolidated Financial Statements (continued) for the Year Ended December 31, 2017 (in thousands of Russian Rubles, unless otherwise indicated)

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### 34. Segment reporting

The Group separates operating segments based on its organizational structure. Operating segments are presented on the basis of management accounting records provided to the chief operating decision maker, Chairman of the Management Board. The segments whose revenue, financial result or assets are 10% or more of all the segments, are reported separately.

For management purposes, the Group is divided into the following operating segments:

- **Retail banking** – full range of banking services to mass, affluent and wealthy individuals, including customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.
- **Corporate banking** – full range of banking services provided to large corporate customers, including, among others, direct debt facilities, current accounts, deposits, overdrafts, loan and other credit facilities and a variety of settlement and transactional services.
- **Investment banking** – comprises interbank lending and borrowings from banks, securities trading and brokerage in securities, repo transactions, foreign exchange services, issuance of domestic bonds and promissory notes, treasury functions.
- **Small and medium business (SMB)** – banking services provided to small and medium businesses and individual entrepreneurs, including direct debt facilities, current accounts, deposits, overdrafts, loan and other credit facilities and settlement and transaction services.
- **Other** – balances and/or income and expense items not allocated to any of the Group's business segments in the internal management reporting systems, as they are not initiated by any of the business units and represent part of the Group's routine headquarter activities.

Management reviews the results of each of the segments when making decisions about allocation of resources and assessing their performance.

# Public Joint-Stock Company MTS Bank

## Notes to the Consolidated Financial Statements (continued) for the Year Ended December 31, 2017 (in thousands of Russian Rubles, unless otherwise indicated)

### 34. Segment reporting (continued)

Segment information about these businesses comprises:

	Retail	Corporate	Investment	SMB	Other	2017
Interest income	7 179 863	2 694 737	3 910 232	245 892	-	14 030 724
Interest expenses	(4 606 434)	(1 392 623)	(395 647)	(49 288)	-	(6 443 992)
Cross-segment revenue/(expenses)	2 709 924	(268 577)	(2 666 535)	225 188	-	-
<b>Net interest income before provision for impairment losses on interest-bearing assets</b>	<b>5 283 353</b>	<b>1 033 537</b>	<b>848 050</b>	<b>421 792</b>	<b>-</b>	<b>7 586 732</b>
(Provision)/recovery of provision for impairment losses on interest bearing assets	(1 527 961)	600 430	5 850	216 875	-	(704 806)
<b>Net interest income/(expense)</b>	<b>3 755 392</b>	<b>1 633 967</b>	<b>853 900</b>	<b>638 667</b>	<b>-</b>	<b>6 881 926</b>
Net gain on financial assets and liabilities at fair value through profit or loss	-	-	423 652	-	-	423 652
Net gain/(loss) on foreign exchange operations	55 103	40 604	(759 749)	7 531	-	(656 511)
Fee and commission income	3 235 384	558 577	36 185	327 558	12	4 157 716
Fee and commission expense	(2 304 481)	(187 587)	(93 591)	-	(79 733)	(2 665 392)
Net gain on available-for-sale financial assets	-	-	1 324	-	-	1 324
Provision for impairment losses on other transactions	(53 528)	(62 962)	-	-	(330 517)	(447 007)
Changes in fair value of investment property	(49 752)	(154 427)	-	-	-	(204 179)
Net loss on disposal of investment property	(13 192)	(60 495)	-	-	(16 110)	(89 797)
Impairment of property and equipment	-	-	-	-	(30 118)	(30 118)
Other income	275 836	12 000	907	17 010	164 081	469 834
<b>NET NON-INTEREST INCOME/(EXPENSE)</b>	<b>1 145 370</b>	<b>145 710</b>	<b>(391 272)</b>	<b>352 099</b>	<b>(292 385)</b>	<b>959 522</b>
<b>OPERATING INCOME</b>	<b>4 900 762</b>	<b>1 779 677</b>	<b>462 628</b>	<b>990 766</b>	<b>(292 385)</b>	<b>7 841 448</b>
OPERATING EXPENSES	(5 742 371)	(947 222)	(299 625)	(577 174)	-	(7 566 392)
<b>PROFIT/(LOSS) BEFORE INCOME TAX</b>	<b>(841 609)</b>	<b>832 455</b>	<b>163 003</b>	<b>413 592</b>	<b>(292 385)</b>	<b>275 056</b>
Income tax expense	-	-	-	-	(183 532)	(183 532)
<b>NET PROFIT/(LOSS)</b>	<b>(841 609)</b>	<b>832 455</b>	<b>163 003</b>	<b>413 592</b>	<b>(475 917)</b>	<b>91 524</b>
Depreciation and amortization	416 300	42 021	7 221	58 209	-	523 751
<b>TOTAL ASSETS</b>	<b>33 754 935</b>	<b>22 061 084</b>	<b>73 026 418</b>	<b>1 766 288</b>	<b>11 843 351</b>	<b>142 452 076</b>
<b>TOTAL LIABILITIES</b>	<b>(71 665 794)</b>	<b>(39 188 514)</b>	<b>(3 371 502)</b>	<b>(4 280 256)</b>	<b>(2 720 100)</b>	<b>(121 226 166)</b>

# Public Joint-Stock Company MTS Bank

**Notes to the Consolidated Financial Statements (continued)**  
**for the Year Ended December 31, 2017**  
*(in thousands of Russian Rubles, unless otherwise indicated)*

## 34. Segment reporting (continued)

	Retail	Corporate	Investment	SMB	Other	2016
Interest income	7 285 501	3 828 540	3 225 268	452 096	246	14 791 651
Interest expenses	(5 199 167)	(1 903 768)	(896 183)	(53 555)	(11)	(8 052 684)
Cross-segment revenue/(expenses)	3 087 003	(1 143 298)	(1 993 811)	50 106	-	-
<b>Net interest income before provision for impairment losses on interest-bearing assets</b>	<b>5 173 337</b>	<b>781 474</b>	<b>335 274</b>	<b>448 647</b>	<b>235</b>	<b>6 738 967</b>
(Provision)/recovery of provision for impairment losses on interest bearing assets	(4 486 180)	(1 417 541)	(29 449)	177 634	-	(5 755 536)
<b>Net interest income/(expense)</b>	<b>687 157</b>	<b>(636 067)</b>	<b>305 825</b>	<b>626 281</b>	<b>235</b>	<b>983 431</b>
Net gain on financial assets and liabilities at fair value through profit or loss	-	-	861 746	-	-	861 746
Net gain/(loss) on foreign exchange operations	8 288	(89 988)	(602 646)	13 344	-	(671 002)
Fee and commission income	2 334 076	392 746	29 455	365 695	17	3 121 989
Fee and commission expense	(1 464 742)	(43 835)	(89 696)	-	(59 467)	(1 657 740)
Net loss on operations with financial assets available-for-sale	-	-	113 599	-	-	113 599
(Provision)/recovery of provision for impairment losses on other transactions	(413 074)	1 384 838	-	-	(131 835)	839 929
Changes in fair value of investment property	(47 038)	(315 336)	-	-	-	(362 374)
Net loss on disposal of investment property	(25 161)	(19 441)	-	-	-	(44 602)
Impairment of property and equipment	-	-	-	-	(15 446)	(15 446)
Other income	253 502	34 066	4 514	4 231	309 800	606 113
<b>NET NON-INTEREST INCOME/(EXPENSE)</b>	<b>645 851</b>	<b>1 343 050</b>	<b>316 972</b>	<b>383 270</b>	<b>103 069</b>	<b>2 792 212</b>
<b>OPERATING INCOME</b>	<b>1 333 008</b>	<b>706 983</b>	<b>622 797</b>	<b>1 009 551</b>	<b>103 304</b>	<b>3 775 643</b>
OPERATING EXPENSES	(4 785 929)	(939 518)	(317 617)	(777 204)	(258)	(6 820 526)
<b>(LOSS)/PROFIT BEFORE INCOME TAX</b>	<b>(3 452 921)</b>	<b>(232 535)</b>	<b>305 180</b>	<b>232 347</b>	<b>103 046</b>	<b>(3 044 883)</b>
Income tax expense	-	-	-	-	(107 358)	(107 358)
<b>NET LOSS/(PROFIT)</b>	<b>(3 452 921)</b>	<b>(232 535)</b>	<b>305 180</b>	<b>232 347</b>	<b>(4 312)</b>	<b>(3 152 241)</b>
Depreciation and amortization	483 371	72 745	11 032	109 464	-	676 612
<b>TOTAL ASSETS</b>	<b>31 177 606</b>	<b>35 356 864</b>	<b>82 571 569</b>	<b>1 922 826</b>	<b>12 660 419</b>	<b>163 689 284</b>
<b>TOTAL LIABILITIES</b>	<b>(73 702 711)</b>	<b>(43 458 993)</b>	<b>(13 074 629)</b>	<b>(4 280 256)</b>	<b>(2 514 134)</b>	<b>(137 030 723)</b>

The Group performs its continuing operations in the Russian Federation. Revenue received from non-resident counterparties constitutes an insignificant part of the Group's total revenue from continuing operations. After the sale of EWUB in 2017, all non-current assets of the Group are located in the Russian Federation.

# Public Joint-Stock Company MTS Bank

## Notes to the Consolidated Financial Statements (continued) for the Year Ended December 31, 2017 (in thousands of Russian Rubles, unless otherwise indicated)

### 35. Fair value 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 following tables provide an analysis of financial assets and financial liabilities that are measured on a recurring basis at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable as at December 31, 2017 and 2016.

	Level 1	Level 2	Level 3	December 31, 2017
<b>Financial assets</b>				
Financial assets at fair value through profit or loss	16 246 713	3 298 683	-	<b>19 545 396</b>
Available-for-sale financial assets	357 121	4 698 044	1 104 383	<b>6 159 548</b>
<b>Financial liabilities</b>				
Financial liabilities at fair value through profit or loss	-	42 854	-	<b>42 854</b>

	Level 1	Level 2	Level 3	December 31, 2016
<b>Financial assets</b>				
Financial assets at fair value through profit or loss	18 564 478	3 199 964	-	<b>21 764 442</b>
Available-for-sale financial assets	8 384 499	4 104 636	-	<b>12 489 135</b>
<b>Financial liabilities</b>				
Financial liabilities at fair value through profit or loss	48 502	1 170 908	-	<b>1 219 410</b>

The description of valuation techniques and the description of the inputs used in the fair value measurement for level 2 measurements at December 31, 2017 and December 31, 2016 are as follows:

	December 31, 2017		Valuation technique	Key inputs
	Fair value Assets	Liabilities		
Units of investment funds			Net fund asset value	Market quotes for instruments comprising fund assets
Interest rate swaps	7 752 208	-	Discounted cash flows adjusted for embedded options and counterparty credit risk.	Russian ruble curve. US Dollar swaps curve.
Currency options	-	-	Black-Scholes option pricing model	Counterparty credit risk. Expected volatility of the underlying asset.
	244 519	42 854		
<b>Total recurring fair value measurements at level 2</b>	<b>7 996 727</b>	<b>42 854</b>		

# Public Joint-Stock Company MTS Bank

## Notes to the Consolidated Financial Statements (continued) for the Year Ended December 31, 2017 (in thousands of Russian Rubles, unless otherwise indicated)

### 35. Fair value of financial instruments (continued)

As at December 31, 2017, financial assets available-for-sale included in Level 3 of the fair value hierarchy of RUB 1 104 383 thousand represent investments in EWUB shares (Note 12). The fair value of investments was determined by an independent appraiser based on the analysis of EWUB's net assets value.

	December 31, 2016		Valuation technique	Key inputs
	Fair value Assets	Liabilities		
Units of investment funds	3 053 402	-	Net fund asset value Discounted cash flows adjusted for embedded options and counterparty credit risk.	Market quotes for instruments comprising fund assets Russian ruble curve. US Dollar swaps curve. Counterparty credit risk.
Interest rate swaps	-	1 155 952	Black-Scholes option pricing model	Expected volatility of the underlying asset.
Currency options	146 562	14 956		
<b>Total recurring fair value measurements at level 2</b>	<b>3 199 964</b>	<b>1 170 908</b>		

Excluded from the table above were investments in equity securities of unlisted entities classified as available-for-sale securities. The fair value of such securities is not readily measurable accordingly such investments are carried at the acquisition cost.

As at December 31, 2017 and 2016, the carrying value of such investments amounted RUB 6 696 thousand and RUB 10 976 thousand, respectively.

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 and 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 by banks and customers and other financial assets and liabilities, there is no reliable market value available for these portfolios.
- 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.
- For loans and advances to personal customers are used variable and fixed rates. As there is no active secondary market in Russia for such loans and advances, there is no reliable market value available for this portfolio. The fair value of floating rate instruments is normally their carrying amount. Due to significant changes in market situation interest rates for loans and advances to customers and due from banks issued at fixed interest rates can be revised. Therefore interest rates for loans issued just before the reporting date do not differ significantly from interest rates for new credit instruments with similar credit risk and remaining maturity.  
If under the Group assessment interest rates for the loans issued before the reporting date differ significantly from current interest rates for similar credit instruments the fair value for these loans is estimated. The estimation is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty.

# Public Joint-Stock Company MTS Bank

## Notes to the Consolidated Financial Statements (continued) for the Year Ended December 31, 2017 (in thousands of Russian Rubles, unless otherwise indicated)

### 35. Fair value of financial instruments (continued)

- Liabilities carried at amortized cost. The fair value is based on quoted market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. Discount rates used were consistent with the Group's credit risk and also depend on currency and maturity of the instrument.
- The fair value of derivative instruments are based on discounted cash flow analysis and performed using the management's best estimates and applicable interest rates.

Except as detailed in the following table, the Management consider that the carrying amounts of financial assets and financial liabilities not measured at fair value on a recurring basis and recognized in the consolidated statement of financial position approximate their fair value.

	December 31, 2017		31 December 2016	
	Carrying value	Fair value	Carrying value	Fair value
<b>Financial assets</b>				
Loans to customers	57 582 306	59 515 903	68 457 296	69 913 153
Investments held to maturity	27 346 087	27 736 930	17 163 134	17 091 501
<b>Financial liabilities</b>				
Customer accounts	114 696 391	114 718 470	121 089 799	121 031 359
Debt securities issued	2 073 655	2 134 968	2 029 515	2 027 897
Subordinated debt	-	-	6 903 189	6 327 774

The following tables provide an analysis of financial instruments the fair value of which differs from their carrying value as at December 31, 2017 and 2016. There were no transfers between Levels during 2017 and 2016.

	Level 1	Level 2	Level 3	December 31, 2017
<b>Financial assets</b>				
Loans to customers	-	-	59 515 903	<b>59 515 903</b>
Investments held to maturity	27 736 930	-	-	<b>27 736 930</b>
<b>Financial liabilities</b>				
Customer accounts	-	-	114 718 470	<b>114 718 470</b>
Debt securities issued	1 072 688	1 062 280	-	<b>2 134 968</b>

	Level 1	Level 2	Level 3	December 31, 2016
<b>Financial assets</b>				
Loans to customers	-	-	69 913 153	<b>69 913 153</b>
Investments held to maturity	17 091 501	-	-	<b>17 091 501</b>
<b>Financial liabilities</b>				
Customer accounts	-	-	121 031 359	<b>121 031 359</b>
Debt securities issued	1 175 746	852 151	-	<b>2 027 897</b>
Subordinated debt	-	6 327 774	-	<b>6 327 774</b>

# Public Joint-Stock Company MTS Bank

## Notes to the Consolidated Financial Statements (continued) for the Year Ended December 31, 2017 (in thousands of Russian Rubles, unless otherwise indicated)

### 36. Capital management

The Group manages its capital in order to achieve the following objectives: (i) comply with capital requirements set by the CBR and Basel recommendations; (ii) ensure that all entities in the Group are able to continue as a going concern.

The capital structure of the Group consists of debt, which includes subordinated debt disclosed in Note 28, and equity attributable to owners of the parent, comprising issued share capital, reserves and retained earnings as disclosed in the statement of changes in equity.

The Group's overall capital risk management policy remains unchanged from 2016.

The CBR requires that the banks comply with the minimum capital adequacy ratios of 8% calculated on the basis of the statutory financial statements of the banks. During the years ended December 31, 2017 and 2016 the Bank met the capital adequacy requirements established by the CBR. As at December 31, 2017 and 2016, the Bank's capital adequacy ratio in accordance with CBR requirements was 14.9% and 18.6% respectively.

The following table analyzes the Group's regulatory capital resources for capital adequacy purposes in accordance with the principles employed by the Basel Committee (Basel I):

	December 31, 2017	December 31, 2016
<b>Tier 1 capital</b>		
Share capital	10 882 298	10 882 298
Share premium	7 200 940	19 087 389
Retained earnings/(accumulated deficit)	2 472 303	(9 444 959)
Non-controlling interest	-	3 283 516
<b>Total Tier 1 capital (principal capital)</b>	<b>20 555 541</b>	<b>23 808 244</b>
<b>Tier 2 capital</b>		
Investments available-for-sale revaluation reserve	614 370	216 526
Foreign currency translation reserve	-	2 451 421
Property and equipment revaluation reserve	55 999	182 370
Subordinated debt	7 246 000	11 904 122
<b>Total Tier 2 capital</b>	<b>7 916 369</b>	<b>14 754 439</b>
<b>Total capital</b>	<b>28 471 910</b>	<b>38 562 683</b>
Capital ratios:		
Tier 1 capital	15.3%	18.1%
Total capital	21.1%	29.3%

Quantitative measures established by regulation to ensure capital adequacy require the Group to maintain minimum amounts and ratios of total (8%) and tier 1 capital (4%) to risk weighted assets.

In November 2015, the Bank received a subordinated debt of RUB 7 246 000 thousand in the form of Federal Loan Bonds (OFZ) from the state corporation Deposit Insurance Agency (DIA). In accordance with the contract, the Bank should return the securities to the creditor at the end of the contract period. The Bank pays interest on the principal amount in the amount of comprehensive coupon income on OFZ plus fixed interest rate. In accordance with the contract, the Bank should comply with certain covenants with respect to capital, loan portfolio, employee benefits. If the above conditions are not met, DIA may apply penalties to the Bank. The contract also includes certain restrictions on sale or repledge of the securities by the Bank. The transaction represents a securities lending transaction. The Group does not recognize the received securities and subordinated obligation to return them to the creditor in the consolidated statement of financial position of the Group. The obligation to return the securities received from DIA is subordinated with respect to other liabilities of the Group. The debt conditions meet the criteria for inclusion of the loan in Tier 2 capital in the amount limited to 50% of Tier 1 capital.



# Public Joint-Stock Company MTS Bank

## Notes to the Consolidated Financial Statements (continued) for the Year Ended December 31, 2017 (in thousands of Russian Rubles, unless otherwise indicated)

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### 36. Capital management (continued)

As at December 31, 2017 and 2016, the Group included in the computation of Tier 2 capital for Capital adequacy purposes the subordinated debts received, limited to 50% of Tier 1 capital. 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.

### 37. Risk management policies

Management of risk is fundamental to the Group's Banking business and is an essential element of the Group's operations. The main risks inherent to the Group's operations are those related to:

- Credit exposures;
- Liquidity risk;
- Market risk.

The Group recognizes that it is essential to have efficient and effective risk management processes in place. To enable this, the Group has established a risk management framework, whose main purpose is to protect the Group from risk and allow it to achieve its performance objectives. Through the risk management framework, the Group manages the following risks:

**Credit risk.** The Group takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by product, borrower, group of borrowers and industry sector, including banks and brokers are described in the Credit Policies, which are approved by Management Boards, and are reviewed, on a regular basis. The credit risk exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Group's risk management policy are not breached.

The Group monitors its loan portfolio on a regular basis. As well as ensuring that the borrower fulfills its obligations under each loan, the Group regularly reviews all of the available information on the borrower's activities. In particular, the Group obtains and analyzes financial reports on a quarterly basis, regularly monitors the value of the underlying collateral for each loan. In relation to its loan portfolio, the Group also monitors the level of non-performing loans and the concentration of the loan portfolio per borrower, group of borrowers or industry.

The Group's maximum exposure to credit loss under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

The Group uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

The Group has established a department that performs valuation and monitoring of collateral. When evaluating collateral, the Group adjusts the market value of the assets and the potential costs of sale.

**Maximum credit risk exposure.** The Group's maximum credit risk exposure may vary significantly depending on the individual risks inherent in specific assets and overall market risks.

The following table presents the maximum exposure to credit risk of balance sheet and off balance sheet financial assets. For financial assets in the balance sheet, the maximum exposure is equal to the carrying amount of those assets prior to any offset or collateral. For financial guarantees and other off-balance sheet contingent liabilities the maximum exposure to credit risk is the maximum amount the Group would have to pay if the guarantee was called on or in the case of commitments, if the loan amount was called on.

# Public Joint-Stock Company MTS Bank

## Notes to the Consolidated Financial Statements (continued) for the Year Ended December 31, 2017 (in thousands of Russian Rubles, unless otherwise indicated)

### 37. Risk management policies (continued)

	December 31, 2017	December 31, 2017	December 31, 2016	December 31, 2016
	Maximum exposure	Collateral pledged	Maximum exposure	Collateral pledged
Balances with the Central Banks	10 781 906	-	13 554 631	-
Financial assets at fair value through profit or loss, less equity securities	16 246 713	-	18 711 040	-
Due from banks	6 484 497	2 478 435	14 300 379	-
Loans to customers	57 582 306	29 104 717	68 457 296	28 030 772
Financial assets available-for-sale, less equity securities and investments in units of investment funds	357 106	-	8 384 490	-
Investments held to maturity	27 346 087	-	17 163 134	-
Other financial assets	167 607	-	114 740	-
Guarantees issued and similar commitments	5 142 279	78 859	3 569 003	694 364
Commitments on loans and unused of credit lines	16 050 855	-	6 888 348	-

Collateral for due from banks (Note 16), and collateral for Loans to customers is stated at minimum of fair value of collateral and carrying amount of loans (Note 17).

As at December 31, 2017, balances with the Central Bank of the Russian Federation amounted to RUB 10 781 906 thousand. As at December 31, 2016, balances with the Central Bank of the Russian Federation and Central Bank of Luxembourg amounted to RUB 4 055 455 thousand and RUB 9 499 176 thousand, respectively. The credit rating of the Russian Federation according to S&P rating agency was BB+ in 2017 and 2016. The credit rating of Luxembourg according to the international rating agencies in 2016 corresponded to investment level AAA.

Financial assets are graded according to the current credit rating they have been issued by an internationally regarded agency such as Fitch, Standard & Poor's and Moody's. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classed as speculative grade.

The following table details the credit ratings of financial assets held by the Group as at December 31, 2017 that are neither impaired nor past due:

	AAA	AA	A	BBB	<BBB	Not rated	December 31, 2017
Financial assets at fair value through profit or loss, less equity securities	-	-	662 800	4 582 253	11 001 660	244 519	<b>16 491 232</b>
Due from banks	-	53 023	2 426 226	3 628 933	351 762	24 553	<b>6 484 497</b>
Financial assets available-for- sale, less equity securities and investments in units of investment funds	-	-	-	357 116	-	-	<b>357 116</b>
Investments held to maturity	-	-	-	12 817 371	14 528 716	-	<b>27 346 087</b>
Other financial assets	-	-	-	5 280	73 333	88 994	<b>167 607</b>

As at December 31, 2016:

	AAA	AA	A	BBB	<BBB	Not rated	December 31, 2016
Financial assets at fair value through profit or loss, less equity securities	-	-	196 754	12 564 738	5 783 260	166 288	<b>18 711 040</b>
Due from banks	-	2 687 449	6 690 528	4 537 155	325 089	60 158	<b>14 300 379</b>
Financial assets available-for- sale, less equity securities and investments in units of investment funds	262 082	1 121 727	860 741	4 705 660	1 334 091	100 189	<b>8 384 490</b>
Investments held to maturity	-	-	-	11 411 319	5 751 815	-	<b>17 163 134</b>
Other financial assets	-	-	-	10 325	-	104 415	<b>114 740</b>

## Public Joint-Stock Company MTS Bank

### Notes to the Consolidated Financial Statements (continued) for the Year Ended December 31, 2017 (in thousands of Russian Rubles, unless otherwise indicated)

#### 37. Risk management policies (continued)

Loans to customers detailed by credit quality categories according to the Group's proprietary credit quality rating methodology are presented below.

	Legal entities	Individuals	December 31, 2017	Legal entities	Individuals	December 31, 2016
Top performing loans	16 637 817	31 688 837	48 326 653	25 693 864	28 902 710	54 596 574
Moderately performing loans	3 336 601	680 348	4 016 949	4 090 114	956 316	5 046 430
Other	3 852 954	1 385 750	5 238 704	7 495 712	1 318 579	8 814 291
<b>Total</b>	<b>23 827 372</b>	<b>33 754 934</b>	<b>57 582 306</b>	<b>37 279 690</b>	<b>31 177 606</b>	<b>68 457 296</b>

The "Top performing" category with low credit risk includes loans with no past due status that are granted to borrowers that have a good credit history with the Group and other creditors; with no signs of decline of their financial sustainability.

The "Moderately performing" category with temperate credit risk includes loans that are granted to borrowers with good credit history with the Group and other creditors with minor exceptions in the past or that have the status of technically overdue at the reporting date; that are characterized by average financial sustainability at the moment.

The "Other" category includes loans that are granted to borrowers that do not fall within the two categories described above.

The banking industry is generally exposed to credit risk through its loans to customers and interbank deposits. With regard to the loans to customers this risk exposure is concentrated within the Russian Federation and Luxembourg. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Group's risk management policy are not breached.

**Geographical concentration.** The Assets and Liabilities Management Committee ("ALMC") exercises control over the risk in the legislation and regulatory arena 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 RF.

The geographical concentration of assets and liabilities is set out below as at December 31, 2017 and 2016:

	RF	Non-OECD countries	OECD countries	December 31, 2017
<b>FINANCIAL ASSETS</b>				
Cash and balances with the Central Banks	14 358 077	-	-	14 358 077
Financial assets at fair value through profit or loss	19 545 396	-	-	19 545 396
Due from banks	3 623 604	135 391	2 725 502	6 484 497
Loans to customers	57 553 471	28 728	107	57 582 306
Available-for-sale financial assets	5 061 861	-	1 104 383	6 166 244
Investments held to maturity	27 346 087	-	-	27 346 087
Other financial assets	167 607	-	-	167 607
<b>TOTAL FINANCIAL ASSETS</b>	<b>127 656 103</b>	<b>164 119</b>	<b>3 829 992</b>	<b>131 650 214</b>
<b>FINANCIAL LIABILITIES</b>				
Financial liabilities at fair value through profit or loss	42 854	-	-	42 854
Due to banks and other financial institutions	1 209 332	2 131	43 529	1 254 992
Customer accounts	113 937 964	654 588	103 839	114 696 391
Debt securities issued	2 073 655	-	-	2 073 655
Other financial liabilities	1 925 734	-	-	1 925 734
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>119 189 539</b>	<b>656 719</b>	<b>147 368</b>	<b>119 993 626</b>

# Public Joint-Stock Company MTS Bank

**Notes to the Consolidated Financial Statements (continued)**  
**for the Year Ended December 31, 2017**  
*(in thousands of Russian Rubles, unless otherwise indicated)*

## 37. Risk management policies (continued)

	RF	Non-OECD countries	OECD countries	December 31, 2016
<b>FINANCIAL ASSETS</b>				
Cash and balances with the Central Banks	8 372 219	-	9 513 342	17 885 561
Financial assets at fair value through profit or loss	21 764 442	-	-	21 764 442
Due from banks	2 298 224	276 565	11 725 590	14 300 379
Loans to customers	58 272 884	2 418 223	7 766 188	68 457 296
Available-for-sale financial assets	7 985 426	102 441	4 412 244	12 500 111
Investments held to maturity	17 163 134	-	-	17 163 134
Other financial assets	113 655	-	1 085	114 740
<b>TOTAL FINANCIAL ASSETS</b>	<b>115 969 984</b>	<b>2 797 229</b>	<b>33 418 449</b>	<b>152 185 662</b>
<b>FINANCIAL LIABILITIES</b>				
Financial liabilities at fair value through profit or loss	1 170 914	-	48 496	1 219 410
Due to banks and other financial institutions	2 731 585	1 762	189 167	2 922 514
Customer accounts	101 989 879	13 237 909	5 862 011	121 089 799
Debt securities issued	2 029 515	-	-	2 029 515
Other financial liabilities	1 261 183	-	326 777	1 587 959
Subordinated debt	6 903 189	-	-	6 903 189
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>116 086 265</b>	<b>13 239 671</b>	<b>6 426 451</b>	<b>135 752 386</b>

**Liquidity risk.** 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.

The ALMC controls these types of risks by means of maturity analysis, determining the Group's strategy for the next financial period. Current liquidity is managed by the Treasury Department, which deals in the money markets for current liquidity support and cash flow optimization.

In order to manage liquidity risk, the Group performs daily monitoring of future expected cash flows on clients' and Banking operations, which is a part of assets/liabilities management process.

Analysis of cash flow forecasts is the key tool used by the Group to monitor liquidity risk. Cash flow forecasts contain a detailed breakdown by maturity of all assets and liabilities based on agreements and commitments entered into by the Group. In order to better manage liquidity, the Group regularly requests from its major corporate customers a schedule of upcoming changes in their deposit and loan balances.

The Group aims to match the terms of loans and deposits. A daily analysis of mismatch between assets and liabilities is performed to monitor liquidity. A maximum gap is set and monitored for a liquidity deficit. For liquidity management purposes, the Group calculates expected liquidity surpluses/shortfalls over various time periods both on the basis of contractual maturity of assets and liabilities and on the basis of cash flow forecasts under "business as usual scenario" assuming the behavior of depositors is similar to the trends observed in the previous period and there are no significant credit losses or withdrawals of customer deposits.

Stress testing is also carried out regularly based on the three hypothetical scenarios. The use of these scenarios provides the opportunity to analyze the impact of a combination of negative factors on the Group's liquidity position including the assessment of the survival period of the Group. The resulting assessment of the survival period is then compared to the minimum limits set by the internal regulations.

# Public Joint-Stock Company MTS Bank

## Notes to the Consolidated Financial Statements (continued) for the Year Ended December 31, 2017 (in thousands of Russian Rubles, unless otherwise indicated)

### 37. Risk management policies (continued)

The following tables, based on information provided to key management personnel of the Bank, reflect the structure of assets and liabilities in accordance with contractual maturities, except for:

- OFZ loans received from the GK "ASV", reflected on off-balance accounts, but recorded in the report as stable sources of financing with a maturity of up to 1 month (15% discount from the current market price was also applied to them);
- Investments in debt securities. Investments included in the CBR Lombard List, are adjusted for the 15% discount and charged for up to 1 month. Other investments are split by maturity / nearest offer;
- Time deposits of individuals: part of the amounts of planned withdrawal of deposits is reflected in the article of stable sources of financing, as the Bank expects that they will be prolonged or replaced. Share is determined in accordance with a conservative estimate based on scenario modeling, and does not contradict historical statistics;
- Stable balances on customer accounts. Conservative estimate stability of balance was used for periods up to 1 year. The evaluation is based on historical statistics of account behavior, as well as scenario modeling.
- Deposits placed with the CBR as obligatory reserve deposits. Obligatory reserve deposits are allocated by age pro rate to customer accounts.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined/ overdue	December 31, 2017
<b>FINANCIAL ASSETS</b>							
Financial assets at fair value through profit or loss	16 246 713	-	-	-	-	-	16 246 713
Due from banks	2 529 412	-	-	-	-	-	2 529 412
Loans to customers	1 853 303	3 402 530	16 879 884	24 743 845	7 651 979	3 050 765	57 582 306
Available-for-sale financial assets	-	357 106	-	-	-	-	357 106
Investments held to maturity	1 490 372	1 126 432	2 185 035	20 150 628	2 393 620	-	27 346 087
<b>Total interest-bearing financial assets</b>	<b>22 119 800</b>	<b>4 886 068</b>	<b>19 064 919</b>	<b>44 894 473</b>	<b>10 045 599</b>	<b>3 050 765</b>	<b>104 061 624</b>
Cash and balances with the Central Banks	13 931 848	69 143	344 335	12 751	-	-	14 358 077
Financial assets at fair value through profit or loss	3 054 164	-	244 519	-	-	-	3 298 683
Due from banks	2 778 848	-	1 176 237	-	-	-	3 955 085
Available-for-sale financial assets	-	-	-	-	-	5 809 138	5 809 138
Other financial assets	158 472	7 061	-	-	-	2 074	167 607
<b>Total financial assets</b>	<b>42 043 132</b>	<b>4 962 272</b>	<b>20 830 010</b>	<b>44 907 224</b>	<b>10 045 599</b>	<b>8 861 977</b>	<b>131 650 214</b>
<b>FINANCIAL LIABILITIES</b>							
Due to banks and other financial institutions	27 000	-	-	-	-	-	27 000
Customer accounts	14 764 170	9 074 924	45 193 683	1 673 568	-	-	70 706 345
Debt securities issued	31 948	10 354	365 961	758 296	907 096	-	2 073 655
<b>Total interest-bearing financial liabilities</b>	<b>14 823 118</b>	<b>9 085 278</b>	<b>45 559 644</b>	<b>2 431 864</b>	<b>907 096</b>	<b>-</b>	<b>72 807 000</b>
Financial liabilities at fair value through profit or loss	-	-	42 854	-	-	-	42 854
Due to banks and other financial institutions	1 227 992	-	-	-	-	-	1 227 992
Customer accounts	43 990 046	-	-	-	-	-	43 990 046
Other financial liabilities	790 047	94 189	1 041 498	-	-	-	1 925 734
<b>Total financial liabilities</b>	<b>60 831 203</b>	<b>9 179 467</b>	<b>46 643 996</b>	<b>2 431 864</b>	<b>907 096</b>	<b>-</b>	<b>119 993 626</b>
<b>Liquidity gap</b>	<b>(18 788 071)</b>	<b>(4 217 195)</b>	<b>(25 813 986)</b>	<b>42 475 360</b>	<b>9 138 503</b>		
<b>Stable sources of funding</b>	<b>48 515 696</b>	<b>34 858</b>	<b>20 265 110</b>	<b>(24 370 128)</b>	<b>(44 445 536)</b>		
<b>Net liquidity gap</b>	<b>29 727 625</b>	<b>(4 182 337)</b>	<b>(5 548 876)</b>	<b>18 105 232</b>	<b>(35 307 033)</b>		
<b>Cumulative liquidity gap</b>	<b>29 727 625</b>	<b>25 545 288</b>	<b>19 996 412</b>	<b>38 101 644</b>	<b>2 794 611</b>		
<b>Cumulative interest sensitivity gap</b>	<b>29 727 625</b>	<b>55 272 913</b>	<b>75 269 325</b>	<b>113 370 969</b>	<b>116 165 580</b>		
<b>Cumulative interest sensitivity gap as a percentage of total financial assets,%</b>	<b>22.58%</b>	<b>41.98%</b>	<b>57.17%</b>	<b>86.12%</b>	<b>88.24%</b>		

# Public Joint-Stock Company MTS Bank

## Notes to the Consolidated Financial Statements (continued) for the Year Ended December 31, 2017 (in thousands of Russian Rubles, unless otherwise indicated)

### 37. Risk management policies (continued)

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined/ overdue	December 31, 2016
<b>FINANCIAL ASSETS</b>							
Financial assets at fair value through profit or loss	18 544 752	-	-	-	-	-	18 544 752
Due from banks	2 821 349	1 106 649	-	-	-	-	3 927 998
Loans to customers	2 266 561	3 197 424	13 853 208	26 112 101	10 295 397	12 732 605	68 457 296
Available-for-sale financial assets	-	290 110	53 444	6 224 122	1 816 814	-	8 384 490
Investments held to maturity	-	85 590	4 860 935	12 207 950	8 659	-	17 163 134
<b>Total interest-bearing financial assets</b>	<b>23 632 662</b>	<b>4 679 773</b>	<b>18 767 587</b>	<b>44 544 173</b>	<b>12 120 870</b>	<b>12 732 605</b>	<b>116 477 670</b>
Cash and balances with the Central Banks	17 334 203	61 885	442 081	47 392	-	-	17 885 561
Financial assets at fair value through profit or loss	3 073 099	-	146 591	-	-	-	3 219 690
Due from banks	9 229 986	1 142 188	-	-	-	207	10 372 381
Available-for-sale financial assets	-	-	-	-	-	4 115 621	4 115 621
Other financial assets	96 976	1 299	336	-	-	16 129	114 740
<b>Total financial assets</b>	<b>53 366 926</b>	<b>5 885 145</b>	<b>19 356 595</b>	<b>44 591 565</b>	<b>12 120 870</b>	<b>16 864 562</b>	<b>152 185 663</b>
<b>FINANCIAL LIABILITIES</b>							
Due to banks and other financial institutions	2 000 561	-	-	123 181	-	-	2 123 742
Customer accounts	11 067 724	6 845 493	48 839 941	5 887 005	-	-	72 640 163
Debt securities issued	28 548	10 925	301 220	579 193	1 109 629	-	2 029 515
Subordinated debt	6 903 189	-	-	-	-	-	6 903 189
<b>Total interest-bearing financial liabilities</b>	<b>20 000 022</b>	<b>6 856 418</b>	<b>49 141 161</b>	<b>6 589 379</b>	<b>1 109 629</b>	<b>-</b>	<b>83 696 609</b>
Financial liabilities at fair value through profit or loss	48 496	-	1 170 914	-	-	-	1 219 410
Due to banks and other financial institutions	798 772	-	-	-	-	-	798 772
Customer accounts	48 449 636	-	-	-	-	-	48 449 636
Other financial liabilities	350 822	106 251	1 110 564	20 322	-	-	1 587 959
<b>Total financial liabilities</b>	<b>69 647 748</b>	<b>6 962 669</b>	<b>51 422 639</b>	<b>6 609 701</b>	<b>1 109 629</b>	<b>-</b>	<b>135 752 386</b>
<b>Liquidity gap</b>	<b>(16 280 822)</b>	<b>(1 077 524)</b>	<b>(32 066 044)</b>	<b>37 981 864</b>	<b>11 011 241</b>		
<b>Stable sources of funding</b>	<b>39 836 479</b>	<b>(25 822)</b>	<b>20 266 761</b>	<b>(17 956 110)</b>	<b>(42 121 308)</b>		
<b>Net liquidity gap</b>	<b>23 555 657</b>	<b>(1 103 346)</b>	<b>(111 799 283)</b>	<b>20 025 754</b>	<b>(31 110 067)</b>		
<b>Cumulative liquidity gap</b>	<b>3 632 640</b>	<b>(2 176 645)</b>	<b>(30 373 574)</b>	<b>37 954 794</b>	<b>11 011 241</b>		
<b>Cumulative interest sensitivity gap</b>	<b>3 632 640</b>	<b>1 455 995</b>	<b>(28 917 579)</b>	<b>9 037 215</b>	<b>20 048 456</b>		
<b>Cumulative interest sensitivity gap as a percentage of total financial assets,%</b>	<b>2.39%</b>	<b>0.96%</b>	<b>-19%</b>	<b>5.94%</b>	<b>13.17%</b>		

Management believes that in spite of a substantial portion of customer accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide a stable source of funding for the Group. Customer accounts on demand are split into the groups by type of client and allocated per expected time of funds outflow on the basis of statistical data accumulated during the previous year.

Significant part of the Group's current accounts refers to related parties. Management believes that these accounts (including term deposits) will remain within the Group and support the Group's liquidity position.

Securities classified as available-for-sale financial assets and investments held to maturity are included in the analysis of the liquidity based on expected contractual maturities. Most of these categories securities are included in the Lombard list of the Central Bank of the Russian Federation and, if necessary, can be used to obtain financing in the form of repurchase agreements from the Central Bank of the Russian Federation.

The Group's medium-term liquidity needs are managed through interbank and customer deposits (new borrowings and renewal of existing deposits), repurchase agreements and in the form of collateralised loans.

# Public Joint-Stock Company MTS Bank

## Notes to the Consolidated Financial Statements (continued) for the Year Ended December 31, 2017 (in thousands of Russian Rubles, unless otherwise indicated)

### 37. Risk management policies (continued)

Further analysis of the liquidity and interest rate risks is presented in the following tables. The amounts in the tables below are not the same as the amounts in the statement of financial position, as the tables include future aggregate undiscounted cash flows.

	Weighted average interest rate	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	December 31, 2017
Due to banks and other financial institutions	6%	27 042	-	-	-	-	27 042
Customer accounts	7%	14 462 150	9 492 942	47 293 059	1 739 715	-	72 987 866
Debt securities issued	10%	31 954	10 354	311 697	972 180	1 084 959	2 411 144
<b>Total interest-bearing financial liabilities</b>		<b>14 521 146</b>	<b>9 503 296</b>	<b>47 604 756</b>	<b>2 711 895</b>	<b>1 084 959</b>	<b>75 426 052</b>
Financial liabilities at fair value through profit or loss		-	-	42 854	-	-	42 854
Due to banks and other financial institutions		1 227 992	-	-	-	-	1 227 992
Customer accounts		43 990 046	-	-	-	-	43 990 046
Other financial liabilities		790 047	94 189	1 025 214	16 284	-	1 925 734
<b>Total financial liabilities</b>		<b>60 529 230</b>	<b>9 597 485</b>	<b>48 672 824</b>	<b>2 728 179</b>	<b>1 084 959</b>	<b>122 612 678</b>

	Weighted average interest rate	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	December 31, 2016
Due to banks and other financial institutions	10%	2 005 818	-	-	125 398	-	2 131 217
Customer accounts	8%	10 816 170	7 579 730	51 271 674	6 201 043	-	75 868 616
Debt securities issued	8%	28 548	10 925	394 411	739 110	1 137 989	2 310 982
Subordinated debt	7%	7 216 507	-	-	-	-	7 216 507
<b>Total interest-bearing financial liabilities</b>		<b>20 067 043</b>	<b>7 590 655</b>	<b>51 666 084</b>	<b>7 065 551</b>	<b>1 137 989</b>	<b>87 527 322</b>
Financial liabilities at fair value through profit or loss		48 496	-	1 104 910	-	-	1 153 406
Due to banks and other financial institutions		798 772	-	-	-	-	798 772
Customer accounts		48 449 636	-	-	-	-	48 449 636
Other financial liabilities		350 822	106 251	1 110 564	20 322	-	1 587 959
<b>Total financial liabilities</b>		<b>69 714 769</b>	<b>7 696 906</b>	<b>53 881 558</b>	<b>7 085 873</b>	<b>1 137 989</b>	<b>139 517 095</b>

A maturity analysis for financial guarantees issued, commitments on loans and unused credit lines and contracted capital expenditure is presented in the following tables.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	December 31, 2017
Guarantees issued, letters of credit and other similar commitments	260 718	1 340 646	375 838	3 599 804	3 443	5 580 449
Commitments on loans and unused credit lines	802 543	1 605 086	4 815 257	8 827 970	-	16 050 855
<b>Total contingent liabilities</b>	<b>1 063 260</b>	<b>2 945 731</b>	<b>5 191 094</b>	<b>12 427 775</b>	<b>3 443</b>	<b>21 631 304</b>

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	December 31, 2016
Guarantees issued, letters of credit and other similar commitments	1 226 232	130 637	1 770 732	793 561	-	3 921 162
Commitments on loans and unused credit lines	344 417	688 835	2 066 504	3 788 591	-	6 888 348
<b>Total contingent liabilities</b>	<b>1 570 649</b>	<b>819 472</b>	<b>3 837 237</b>	<b>4 582 152</b>	<b>-</b>	<b>10 809 510</b>

# Public Joint-Stock Company MTS Bank

## Notes to the Consolidated Financial Statements (continued) for the Year Ended December 31, 2017 (in thousands of Russian Rubles, unless otherwise indicated)

### 37. Risk management policies (continued)

**Market risk.** Market risk covers interest rate risk, currency risk and other pricing risks to which the Group is exposed. There have been no material changes as to the way the Group manages these risks or the risks it is exposed to. At the same time, the Group somewhat extended the range of measurement techniques which are used by the Risk Management Department to assess these types of risks, and the composition and contents of management reports presented to the Group's management bodies.

The Limit Committee of MTS Bank sets stop-loss limits on securities portfolios and foreign currency operations, and limits on open foreign currency positions. The open foreign currency position limits are fully in compliance with the requirements of the CBR. Compliance with the market risk limits of MTS Bank is monitored on a daily basis.

**Interest rate sensitivity.** Interest rate sensitivity analysis was performed with two different methods. For the analysis of trading securities (except for held to maturity) and derivative financial instruments the Basis point value method was used (hereinafter, BPV100), which reflects changes in fair value of current security position in response to changes in interest rates by 100 basis points.

For the interest rate sensitivity analysis of other financial instruments the banking book interest rate risk was calculated using the earnings at risk method (hereinafter, EaR100), which reflects sensitivity of annual net interest income to the parallel shift of interest rates and constant balance sheet assumption. The banking book interest rate risk includes:

- The risk resulting from the mismatch of assets and liabilities maturities (interest rate repricing) sensitive to interest rate changes;
- Basic risk resulting from a mismatch in the degree of interest rate sensitivity of assets and liabilities with similar maturity (repricing period);
- Risk of early repayment (repricing) of interest rate sensitive assets and liabilities.

The following table presents a sensitivity analysis of interest rate risk. The level of these changes is determined by the management and is contained within the risk reports provided to key management personnel.

	December 31, 2017	December 31, 2017	December 31, 2016	December 31, 2016
Change in interest rates, bps, BPV100	100	(100)	100	(100)
Change in fair value of securities	(215 190)	215 190	(571 181)	571 181
Change in interest rates of banking book, bps, EaR100	100	(100)	100	(100)
Change in annual net interest income of banking book	(223 096)	223 096	(277 565)	277 565

**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.

The following table presents a sensitivity analysis of interest rate risk, which has been determined based on "reasonably possible changes in the risk variable". The level of these changes is determined by the management and is contained within the risk reports provided to key management personnel.



# Public Joint-Stock Company MTS Bank

## Notes to the Consolidated Financial Statements (continued) for the Year Ended December 31, 2017 (in thousands of Russian Rubles, unless otherwise indicated)

### 37. Risk management policies (continued)

As at December 31, 2017, the Group's breakdown of non-derivative financial assets and liabilities by currencies is presented in the table below:

	RUB	USD USD 1 = RUB 57.6002	EUR EUR 1 = RUB 68.8668	Other currencies	December 31, 2017
<b>Non-derivative financial assets</b>					
Cash and balances with the Central Banks	14 115 291	117 382	112 457	12 947	14 358 077
Financial assets at fair value through profit or loss	16 002 920	3 011 519	286 438	-	19 300 877
Due from banks	3 797 921	1 594 863	1 036 902	54 811	6 484 497
Loans to customers	55 997 368	1 060 376	524 562	-	57 582 306
Available-for-sale financial assets	5 809 139	357 105	-	-	6 166 244
Investments held to maturity	27 030 703	315 384	-	-	27 346 087
Other financial assets	167 577	30	-	-	167 607
<b>Total non-derivative financial assets</b>	<b>122 920 919</b>	<b>6 456 659</b>	<b>1 960 359</b>	<b>67 758</b>	<b>131 405 695</b>
<b>Non-derivative financial liabilities</b>					
Due to banks and other financial institutions	1 235 956	9 715	7 195	2 126	1 254 992
Customer accounts	101 424 442	10 344 864	2 859 724	67 361	114 696 391
Debt securities issued	2 072 215	1 440	-	-	2 073 655
Other financial liabilities	1 925 608	82	44	-	1 925 734
<b>Total non-derivative financial liabilities</b>	<b>106 658 221</b>	<b>10 356 101</b>	<b>2 866 963</b>	<b>69 487</b>	<b>119 950 772</b>
<b>Financial assets less financial liabilities</b>	<b>16 262 698</b>	<b>(3 899 442)</b>	<b>(906 604)</b>	<b>(1 729)</b>	
	RUB	USD 1 USD = 57.6002 RUB			December 31, 2017
Receivables on spot deals	362 853	4 377 615			4 740 468
Payables on spot deals	(4 378 156)	(363 158)			(4 741 314)
<b>NET POSITION ON SPOT DEALS</b>	<b>(4 015 303)</b>	<b>4 014 457</b>			<b>(846)</b>

In accordance with IFRS 7, foreign currency risk is computed for each functional currency separately. The functional currency of the Group is the Russian Ruble ("RUB").

As at December 31, 2017, the Group's foreign currency short position of the Group (functional currency – Russian ruble) was RUB 3 899 442 thousand for US dollars and RUB 906 604 thousand for Euro. As at December 31, 2017, the foreign currency long position of the Group was RUB 882 704 thousand for other currencies.

**Notes to the Consolidated Financial Statements (continued)**  
**for the Year Ended December 31, 2017**  
*(in thousands of Russian Rubles, unless otherwise indicated)*

As at December 31, 2016, the Group's breakdown of non-derivative financial assets and liabilities by currencies is presented in the table below:

In accordance with IFRS 7, foreign currency risk is computed for each functional currency separately. The functional currency of the Group, except for East-West United Bank S.A. is the Russian ruble. The functional currency of East-West United Bank S.A. is Euro.

As at December 31, 2016, the Group's foreign currency short position, net of balances of East-West United Bank S.A. (functional currency – Russian ruble), was RUB 334 055 thousand for US dollars, RUB 945 090 thousand for Euro and RUB 3 473 thousand for other currencies.

As at December 31, 2016, the foreign currency short position of East-West United Bank S.A. (functional currency – Euro) was RUB 174 960 thousand for US dollars. As at December 31, 2016, the foreign currency long position of East-West United Bank S.A. was RUB 210 736 thousand for RUB and RUB 347 626 thousand for other currencies.

# Public Joint-Stock Company MTS Bank

## Notes to the Consolidated Financial Statements (continued) for the Year Ended December 31, 2017 (in thousands of Russian Rubles, unless otherwise indicated)

### 37. Risk management policies (continued)

**Derivatives.** Transactions using the derivative financial instruments ("derivative instruments") include swaps and forward contracts linked to interest rates and currencies. Derivative instruments are defined as contracts or agreements, the value of which is calculated based on the cost of assets stipulated within the contract or agreement that do not require any initial net investment or require investment in small amount and with respect to which the calculation is made as at the future date.

The following tables present further analysis of currency risk by types of derivative financial instruments contracts as at December 31, 2017 and 2016:

	<b>RUB</b>	<b>USD</b> USD 1 = RUB 57.6002	<b>EUR</b> EUR 1 = RUB 68.8668	<b>Other currencies</b>	<b>December 31, 2017</b>
Accounts receivable on derivative contracts	244 519	-	-	-	244 519
Accounts payable on derivative contracts	(42 854)	-	-	-	(42 854)
<b>NET DERIVATIVE FINANCIAL INSTRUMENTS POSITION</b>	<b>201 665</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>201 665</b>

	<b>RUB</b>	<b>USD</b> USD 1 = RUB 60.6569	<b>EUR</b> EUR 1 = RUB 63.8111	<b>Other currencies</b>	<b>December 31, 2016</b>
Accounts receivable on derivative contracts	2 053 158	1 323 564	472 493	354 534	4 203 749
Accounts payable on derivative contracts	(550 203)	(3 139 683)	(1 276 222)	(290 763)	(5 256 871)
<b>NET DERIVATIVE FINANCIAL INSTRUMENTS POSITION</b>	<b>1 502 955</b>	<b>(1 816 119)</b>	<b>(803 729)</b>	<b>63 771</b>	<b>(1 053 122)</b>

**Currency risk sensitivity.** The following table details the Group's sensitivity to increase and decrease in the USD and EUR against the RUB. This sensitivity rate was used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign currency exchange rates as at December 31, 2017 and 2016. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for the specified change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower.

Impact on net profit and equity based on asset values as at December 31, 2017 and 2016:

	<b>December 31, 2017</b>		<b>December 31, 2016</b>	
	<b>RUB/USD 30.00%</b>	<b>RUB/USD -30.00%</b>	<b>RUB/USD 30.00%</b>	<b>RUB/USD -30.00%</b>
Impact on profit/loss before tax	(1 169 833)	1 169 833	(62 138)	62 138
Impact on equity	(935 866)	935 866	(49 710)	49 710
	<b>RUB/EUR 30.00%</b>	<b>RUB/EUR -30.00%</b>	<b>RUB/EUR 30.00%</b>	<b>RUB/EUR -30.00%</b>
Impact on profit/loss before tax	(284 412)	284 412	2 422 063	(2 422 063)
Impact on equity	(227 530)	227 530	1 937 650	(1 937 650)

# Public Joint-Stock Company MTS Bank

## Notes to the Consolidated Financial Statements (continued) for the Year Ended December 31, 2017 (in thousands of Russian Rubles, unless otherwise indicated)

### 37. Risk management policies (continued)

**Limitations of sensitivity analysis.** The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the Group's assets and liabilities are actively managed. Additionally, the financial position of the Group may vary at the time that any actual market movement occurs. For example, the Group's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value on the balance sheet. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in shareholder equity.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Group's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

**Price risk.** Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market.

The Group manages price risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements.

In 2016, the Group's policy was aimed at minimizing the price risk which arises from stock market instruments. There have been no changes in the Group policy since 2016.

The table below represents an analysis of sensitivity to price risk based on the balance sheet position for equity investments at the reporting date.

The results of the analysis of the sensitivity of the Group's profit before tax and equity for the year to changes in prices of securities on a simplified scenario of symmetrical increase or decrease in all securities prices are given in the table below:

	December 31, 2017		December 31, 2016	
	2% increase in securities price	2% decrease in securities price	2% increase in securities price	2% decrease in securities price
Impact on profit/loss before tax	-	-	-	-
Impact on equity	70 209	(70 209)	63 604	(63 604)

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