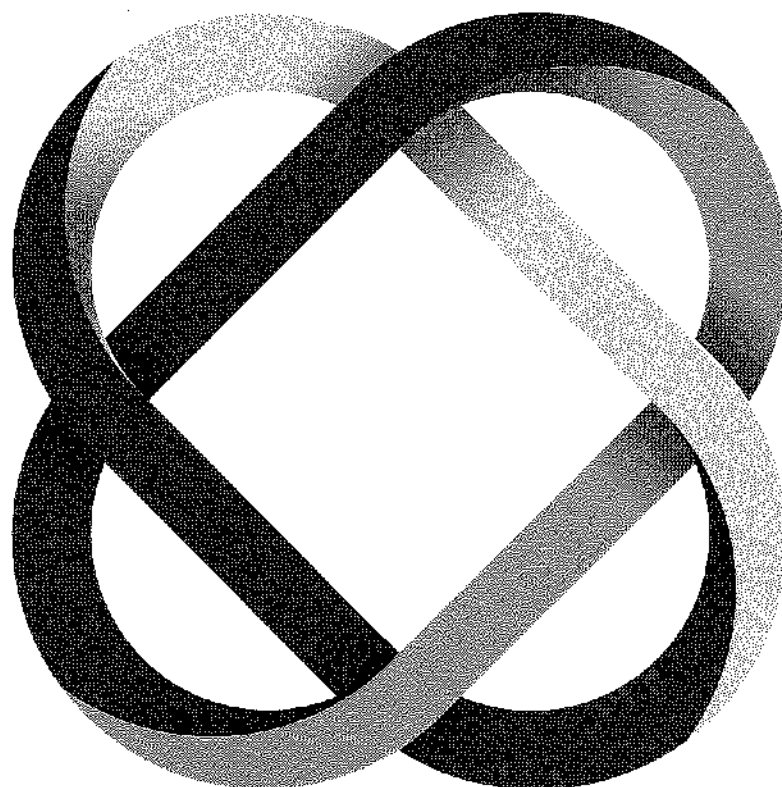


MARITIME BANK (Joint-Stock Company)

IFRS Financial Statements and Independent Auditor's Report

for the year ended 31 December 2017

Moscow | 2018



MARITIME BANK (Joint-Stock Company)
Notes to the Financial Statements for the year ended 31 December 2017

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Independent Auditor's Report [Translation from Russian original]

To the shareholders of
MARITIME BANK
(Joint-Stock Company)

Opinion

We have audited the accompanying annual financial statements of MARITIME BANK (Joint-Stock Company) (hereinafter – MARITIME BANK (JSC), the Bank), which comprise the statement of financial position as at 31 December 2017, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the annual financial statements.

In our opinion, the annual financial statements present fairly, in all material respects, the financial position of MARITIME BANK (JSC) as at 1 January 2018, its financial performance for 2017 and its cash flows for 2017 in accordance with International Financial Reporting Standards (hereinafter – IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Annual Financial Statements* section of our report. We are independent of the audited entity in accordance with the Rules of Independence of the Auditors and Audit Organizations and The Code of Professional Ethics of the Auditors, which are in accordance with International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note 12 of the annual financial statements of the Bank for the period ended 31 December 2017, which comprise information about the reclassification by the Bank of long-term assets held for sale into investment real estate and their revaluation as at 1 January 2018.

Our opinion is not modified in respect of this matter.

Key Audit Matters

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

Impairment of loans to customers - Note 7 to the annual financial statements of the Bank for the period ended 31 December 2017

The audited entity has a material portfolio of loans to customers. Assessment of loans to customers for impairment is performed by the Bank's management in accordance with the IFRS accounting policies approved by the Bank using professional judgement and subjective assumptions. Revealing of impairment indications and determination of recoverable amount are made by applying subjective judgement, using various assumptions and analysing many factors, each of which may affect impairment of the loan portfolio. Due to the uncertainty inherent to impairment assessment we believe that this is a key audit matter.

In respect of this key audit matter our audit procedures included:

- examination of the Bank's internal documents related to calculation of impairment of loans to customers for compliance with IAS 36 "Impairment of Assets";
- analysis of internal control and control environment related to credit risk management processes, including limitation of assumed credit risks, the Bank's credit risk policy and the policy applied to differentiate powers for assumption of credit risk;
- testing (on a sample basis) individually assessed loans for compliance with the provisions of the Bank's internal documents;
- evaluation of whether the disclosures made by the Bank in the notes to the annual financial statements about the models used to calculate impairment losses from loans to customers and approaches to establishment of the allowances are sufficient.

Based on the results of the procedures performed, we found the position of the management related to calculation of impairment of loans to customers to be appropriate.

Other Matter

In order to verify sources of financial aid received by the Bank (Note 31 to the annual financial statements of the Bank for the period ended 31 December 2017) under an Agreement dated 19 May 2017, as at 26 April 2018 MARITIME BANK (JSC) provided the auditors with the bank statements for accounts opened with the Bank that confirmed transfer of MB MARITIME INVESTMENT GROUP LIMITED own funds as an additional contribution to LLC "Agency of investments and development TEK" pursuant to a decision dated 14 May 2017 of the sole participant of MB MARITIME INVESTMENT GROUP LIMITED, which is a sole participant of the Bank's shareholder (99.8403%) being LLC "Agency of investments and development TEK".

The auditors did not audit the financial statements of LLC "Agency of investments and development TEK" and MB MARITIME INVESTMENT GROUP LIMITED for 2017 in order to verify sources of the financial aid received by the Bank under the Agreement dated 19 May 2017.

Other Information

Management of the Bank is responsible for the other information. The other information comprises the information included in the Annual Report approved by the General Meeting of Shareholders, which is expected to be made available to us after the date of this auditor's report, and the Quarterly issuer's report for the fourth quarter of 2017 approved by the Chairman of the Management Board of the Bank and published on the official website of the Bank.

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

In connection with our audit of the annual financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the annual financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. We have nothing to report in regard to the Quarterly issuer's report for the fourth quarter of 2017 approved by Chairman of the Management Board of the Bank. When we read the Annual Report of the Bank, 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 Annual Financial Statements

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

In preparing the annual financial statements, management is responsible for assessing the entity'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 entity or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Annual Financial Statements

Our objectives are to obtain reasonable assurance about whether the annual 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 annual financial statements.

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

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

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

c) evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management of the audited entity;

d) conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the audited entity'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 annual 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 audited entity to cease its ability to continue as a going concern;

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

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

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

Report on audit according to the requirements of Federal Law No. 395-I dated 2 December 1990 "On banks and banking activities"

Management of the Bank is responsible for compliance by the Bank with the mandatory requirements set by the Bank of Russia as well as for internal control and organisation of risk management systems of the Bank to meet the requirements set by the Bank of Russia to the systems like this.

According to Article 42 of Federal Law No. 395-I dated 2 December 1990 "On banks and banking activities" during the audit of the annual financial statements for 2017 we verified whether:

- the Bank was in compliance with the mandatory requirements set by the Bank of Russia as at 1 January 2018;
- internal control and organisation of risk management systems of the Bank were in compliance with the requirements set by the Bank of Russia to the systems like this.

The said audit was limited to such procedures selected based on our judgement as requests, analysis, document examination, comparison of requirements, order and methodologies approved by MARITIME BANK (JSC) with the ones set by the Bank of Russia as well as restatement and comparison of amounts and other information.

The audit has established the following:

1) as for meeting the mandatory requirements set by the Bank of Russia:

- values of the Bank's mandatory ratios set by the Bank of Russia as of 1 January 2018 were within the limits set by the Bank of Russia.

We did not conduct any procedures as to accounting records of MARITIME BANK (JSC) other than procedures we believed were necessary for the purpose of expressing our opinion on whether the annual financial statements of the Bank presented fairly, in all material respects, its financial position as of 1 January 2018, financial performance and cash flows for 2017 in accordance with International Financial Reporting Standards;

2) as for compliance of internal control and organisation of risk management systems of MARITIME BANK (JSC) with the requirements set by the Bank of Russia to the systems like this:

a) in accordance with the requirements and recommendations of the Bank of Russia as at 1 January 2018 the internal audit service of the Bank reported to the Board of Directors of MARITIME BANK (JSC), the risk management departments of the Bank did not report to the departments assuming the respective risks, the chiefs of the internal audit service and the risk management departments of the Bank met the qualifications set by the Bank of Russia;

b) as at 1 January 2018 the effective internal documents of MARITIME BANK (JSC) indicating the methodologies for identification and management of credit, operational, market, interest rate, legal, liquidity and goodwill risks relevant for the Bank, methodologies for stress-testing were approved by the empowered bodies of the Bank in accordance with the requirements and recommendations of the Bank of the Russia;

c) as at 1 January 2018 the Bank had the reporting system for credit, operational, market, interest rate, legal, liquidity and goodwill risks relevant for MARITIME BANK (JSC) as well as for the equity of MARITIME BANK (JSC);

d) frequency and order of reports prepared by the risk management departments and the internal audit service of the Bank during 2017 as to management of credit, operational, market, interest rate, legal, liquidity and goodwill risks of the Bank were in compliance with the Bank's internal documents; the said reports comprised the results of observation of efficiency measurement of the Bank's respective methodologies conducted by the Bank's risk management departments and the internal audit service as well as recommendations to improve them;

e) as at 1 January 2018 the powers of the Board of Directors of MARITIME BANK (JSC) and its executive bodies comprised control over the Bank's compliance with risk limits and capital adequacy set by the Bank's internal documents. For the purpose of control over efficiency of risk management procedures applied in the Bank and order of their application during 2017 the Board of Directors of MARITIME BANK (JSC) and its executive bodies discussed on a regular basis reports prepared by the risk management departments and the internal audit service, and dealt with the offered measures to remove defects.

However, some violations as to credit risk measurement identified in the audit of the annual financial statements can be indicative of internal control weaknesses.

The procedures in respect of internal control and organisation of risk management systems of MARITIME BANK (JSC) have been conducted only to verify whether internal control and organisation of risk management systems of the Bank are in compliance with the requirements set by the Bank of Russia to the systems like this.

President of FBK, LLC



S.M. Shapiguzov
 on the basis of Charter
 audit qualification certificate 01-001230, primary
 registration number of entry 21606043397

Engagement partner

N.P. Mushkarina
 audit qualification certificate 01-000988 dated 19
 November 2012, primary registration number of entry
 21606041880

Date of Independent Auditor's Report:
 26 April 2018



Audited entity

Name:

MARITIME BANK (Joint-Stock Company).

Place of business:

1, bldg. 1-2, Varshavskoye shosse, Moscow, 117105, Russian Federation.

Official registration:

Registered by the Central Bank of the Russian Federation (the Bank of Russia) on 29 March 1989. Registration number: 77. The registration entry was made in the Unified State Register of Legal Entities on 24 December 2002 under primary state registration number (OGRN) 1027700568224.

Auditor

Name:

FBK, LLC

Place of business:

44/1, 2AB, Myasnitskaya St, Moscow, 101990, Russian Federation.

Official registration:

State Registration Certificate series IO3 3 No. 484.583 PT issued by Moscow Registration Chamber on 15 November 1993. The registration entry was made in the Unified State Register of Legal Entities on 24 July 2002 under primary state registration number (OGRN) 1027700058286.


Membership in self-regulatory organization of auditors:

Self-regulatory organization of auditors Association "Sodruzhestvo".

Number in the register of self-regulatory organization of auditors:


Certificate of membership in the self-regulatory organization of auditors Association "Sodruzhestvo" No. 7198, number in the register – 11506030481.

<i>(in thousands of Russian Roubles)</i>	Note	31 December 2017	31 December 2016
ASSETS			
Cash and cash equivalents	5	1,112,671	1,424,415
Mandatory cash balances with the Bank of Russia		241,508	267,320
Due from other banks	6	1,125,746	14,505
Loans and advances to customers	7	6,427,925	7,961,296
Financial assets available for sale	8	2,076,130	1,807,594
Financial assets pledged under repo agreements	9	-	99,614
Long-term assets held for sale	11	-	438,380
Investment property	12	884,139	-
Premises, equipment and intangible assets	13	595,623	613,603
Other financial assets		67	67
Other assets	14	189,277	422,608
Current tax assets		1,130	-
Deferred tax asset	27	276,521	300,408
TOTAL ASSETS		12,930,737	13,349,810
LIABILITIES			
Due to the Bank of Russia		-	100,030
Due to other banks	15	6	19
Customer accounts	16	10,700,108	11,206,850
Debt securities in issue	17	91,118	91,428
Subordinated debt	18	-	448,861
Other financial liabilities	19	10,937	11,740
Other liabilities	20	62,690	65,827
TOTAL LIABILITIES		10,864,859	11,924,755
EQUITY			
Share capital	21	1,755,956	1,406,739
Share premium	21	620,904	548,248
Additional contribution of a shareholder		200,000	150,000
Revaluation reserve for premises		91,437	91,985
Fair value reserve for financial assets available for sale		4,468	21,646
Accrued deficit		(606,887)	(793,563)
TOTAL EQUITY		2,065,878	1,425,055
TOTAL LIABILITIES AND EQUITY		12,930,737	13,349,810


A.B. Gilts
Acting Chairman of the Management Board

26 April 2018




E.V. Antonenko
Chief Accountant



MARITIME BANK (Joint-Stock Company)
Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 2017

UNOFFICIAL TRANSLATION

<i>(in thousands of Russian Roubles)</i>	Note	2017	2016
Interest income	24	1,654,638	2,010,703
Interest expense	24	(684,625)	(1,063,665)
Net interest income		970,013	947,038
Provision for impairment of loans and advances to customers	7	(742,174)	(1,452,231)
Net interest income/(expense) after provision for loan impairment		227,839	(505,193)
Gains less losses from transactions in financial assets at fair value through profit or loss		12	(1,347)
Gains less losses from transactions in financial assets available for sale		59,564	(156,921)
Gains less losses from trading in foreign currencies		(46,022)	(400,004)
Foreign exchange translation gains less losses		26,627	317,344
Fee and commission income	25	223,205	211,131
Fee and commission expense	25	(41,566)	(49,532)
Provision for impairment of other assets	14	(6,224)	(51,750)
Gains from claim assignment	7	13,500	103,723
Gains from sale of collateral obtained into ownership for non-payment		120,003	-
Investment property revaluation		449,553	-
Other operating income		16,479	58,806
Operating income/(expenses)		1,042,970	(473,743)
Administrative and other operating expenses	26	(817,037)	(753,245)
Profit/(loss)before tax		225,933	(1,226,988)
(Expenses)/recovery of income tax	27	(42,429)	64,383
Profit/(loss) for the year		183,504	(1,162,605)


The notes set out on pages 17 to 83 form an integral part of these financial statements.



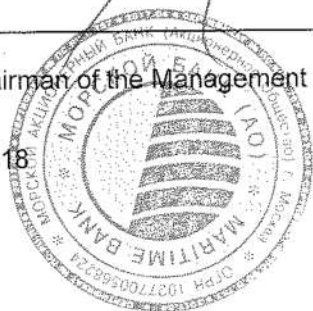
MARITIME BANK (Joint-Stock Company)
Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 2017


UNOFFICIAL TRANSLATION

<i>(in thousands of Russian Roubles)</i>	Note	2017	2016
Other comprehensive income			
Items that might not be reclassified subsequently to profit or loss			
Revaluation of premises and equipment	13	3,280	1,214
Income tax relating to items that might not be subsequently reclassified	27	(656)	(243)
Items that might be reclassified subsequently to profit or loss			
Gains less losses from revaluation of financial assets available for sale		(21,473)	235,844
Income tax relating to items that might be subsequently reclassified	27	4,295	(47,169)
Other comprehensive (expense)/income for the year		(14,554)	189,646
TOTAL COMPREHENSIVE INCOME/(EXPENSE) FOR THE YEAR		168,950	(972,959)


 A.B. Glits
 Acting Chairman of the Management Board

26 April 2018




 E.V. Antonenko
 Chief Accountant



	Share capital	Share premium	Additional contribution of a shareholder	Revaluation reserve for premises	Fair value reserve for financial assets available for sale	Retained earnings	Total
<i>(in thousands of Russian Roubles)</i>							
Balance as at 1 January 2016	1,461,863	100,000	-	94,152	(167,029)	61,753	1,550,739
Loss for the year	-	-	-	-	-	(1,162,605)	(1,162,605)
Other comprehensive income	-	-	-	971	188,675	-	189,646
Total comprehensive (expense) / income for 2016	-	-	-	971	188,675	(1,162,605)	(972,959)
Transfer of depreciation of the revaluation reserve for premises to retained earnings	-	-	-	(3,138)	-	3,138	-
Increase in share capital	249,027	448,248	-	-	-	-	697,275
Additional contribution of a shareholder	-	-	150,000	-	-	-	150,000
Change in nominal value of shares	147,912	-	-	-	-	(147,912)	-
Conversion of shares issued earlier	(452,063)	-	-	-	-	452,063	-
Balance as at 31 December 2016	1,406,739	548,248	150,000	91,985	21,646	(793,563)	1,425,055

The notes set out on pages 17 to 83 form an integral part of these financial statements.



MARITIME BANK (Joint-Stock Company)

Statement of Changes in Equity for the year ended 31 December 2017

UNOFFICIAL TRANSLATION

<i>(in thousands of Russian Roubles)</i>	Share capital	Share premium	Additional contribution of a shareholder	Revaluation reserve for premises	Fair value reserve for financial assets available for sale	Retained earnings	Total
Profit for the year	-	-	-	-	-	183,504	183,504
Other comprehensive (expense)/income	-	-	-	2,624	(17,178)	-	(14,554)
Total comprehensive income/(expense) for 2017	-	-	-	2,624	(17,178)	183,504	168,950
Transfer of depreciation of the revaluation reserve for premises to retained earnings	-	-	-	(3,172)	-	3,172	-
Increase in share capital	349,217	72,656	-	-	-	-	421,873
Additional contribution of a shareholder	-	-	50,000	-	-	-	50,000
Balance as at 31 December 2017	1,755,956	620,904	200,000	91,437	4,468	(606,887)	2,065,878

A.B. Gilts
Acting Chairman of the Management Board

26 April 2018



E.V. Antonenko
Chief Accountant



The notes set out on pages 17 to 83 form an integral part of these financial statements.


<i>(in thousands of Russian Roubles)</i>	Note	2017	2016
Cash flows from operating activities			
Interest received		1,656,751	1,858,040
Interest paid		(729,775)	(958,135)
Gains less losses from transactions in financial assets at fair value through profit or loss		12	(1,347)
Gains less losses from trading in foreign currencies		(46,022)	(400,004)
Fees and commissions received		223,205	211,131
Fees and commissions paid		(41,566)	(49,532)
Other operating income		20,831	58,806
Administrative and other operating expenses		(795,104)	(718,047)
Gains from sale of loans	7	13,500	103,723
Income tax paid		(16,030)	57,261
Cash flows from operating activities before changes in operating assets and liabilities		285,802	161,896
Net (increase)/decrease in operating assets			
Mandatory cash balances with the Bank of Russia		25,812	(178,161)
Due from other banks		(1,112,039)	640,908
Loans and advances to customers		1,195,124	(559,674)
Other assets		(151,128)	(38,044)
Net increase/(decrease) in operating liabilities			
Due to the Bank of Russia		(100,030)	(6,707,169)
Due to other banks		104	(1,247,192)
Customer accounts		(408,759)	236,694
Debt securities in issue		(310)	(472,273)
Other financial liabilities		(803)	1,343
Other liabilities		49,574	(846)
Net cash flow from operating activities		(216,653)	(8,162,518)
Cash flows from investing activities			
Acquisition of financial assets available for sale		(7,654,195)	(4,276,772)
Proceeds from disposal and redemption of financial assets available for sale		7,537,497	10,730,479
Repayment of investments held to maturity		-	1,957,545
Sale of long-term assets held for sale		-	75,000
Acquisition of premises and equipment	13	(23,392)	(11,212)
Proceeds from disposal of premises and equipment	13	-	3,178
Acquisition of intangible assets	13	(1,020)	(22,892)
Net cash flow from investing activities		(141,110)	8,455,326
Cash flows from financing activities			
Additional contribution of a shareholder		50,000	150,000
Net cash flow from financing activities		50,000	150,000

<i>(in thousands of Russian Roubles)</i>	Note	2017	2016
Effect of exchange rate changes on cash and cash equivalents		(3,981)	(504,295)
Net change in cash and cash equivalents		(311,744)	(61,487)
Cash and cash equivalents at the beginning of the year	5	1,424,415	1,485,902
Cash and cash equivalents at the end of the period	5	1,112,671	1,424,415


A.B. Gilts
Acting Chairman of the Management Board

26 April 2018




E.V. Antonenko
Chief Accountant



1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") for the year ended 31 December 2017 for MARITIME BANK (Joint-Stock Company) (the "Bank").

The Bank was established on 17 February 1989 on a unit basis by the decision of founders and registered by the State Bank of the USSR on 29 March 1989. On 19 August 1992, the Bank was reorganized as an open joint-stock company and on 11 May 2017 — as a joint-stock company.

As at 31 December 2017 and at 31 December 2016, the main shareholder of the Bank is LLC Agency of TEK Investments and Development which owns 99.84% of the Bank (2016: 99.80%). The ultimate beneficiary of the Bank is S.V. Generalov (100%) (2016: S.V. Generalov (100%)).

Principal activity: The Bank's principal business activity is commercial banking operations within the Russian Federation. The Bank operates subject to General Banking Licence issued by the Central Bank of the Russian Federation ("the Bank of Russia") on 23 April 2012. In addition, the Bank has licenses for transactions with securities (broker, dealer and depository activities) issued by the Federal Financial Markets Service and a license for operations with precious metals issued by the Bank of Russia.

The Bank participates in the state deposit insurance scheme, which was introduced by Federal Law #177-FZ "Deposits of individuals insurance in the banks of the Russian Federation" dated 23 December 2003. The State Deposit Insurance Scheme guarantees repayment of 100% of individual deposits up to RUB 1,400 thousand per individual in case of the withdrawal of a licence of a bank or a moratorium on payments imposed by the Bank of Russia. To calculate the compensation, foreign currency denominated deposits are restated at the exchange rate set by the Central Bank of the Russian Federation at the date of the insured event, and the amounts due to banks from depositors are deducted from the deposit amount.

The Bank has four (2016: four) branches in Saint Petersburg, Kaliningrad, Vladivostok and Novorossiysk and three (2016: three) operational offices in Murmansk, Volgograd and Nakhodka. As at 31 December 2017, the Bank had 351 employees (2016: 345 employees).

Registered address and place of business: Legal and actual address of the Bank: Varshavskoye shosse, 1, bld. 1-2, Moscow, Russian Federation, 117105.

The Bank's principal places of business are Moscow, Saint Petersburg, Kaliningrad, Vladivostok, Novorossiysk, Volgograd, Nakhodka, Leningrad Region, Murmansk Region, Kaliningrad Region and Moscow Region.

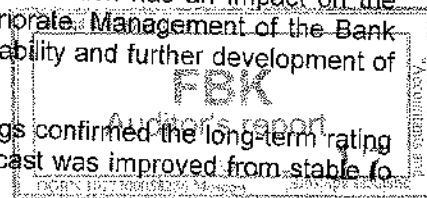
2 Operating environment of the Bank

General characteristics

The economy of the Russian Federation continues to display certain characteristics of an emerging market. These characteristics include, in particular, inconvertibility of Russian Rouble in most countries outside of Russia and relatively high inflation rates. The current Russian tax, currency and customs legislation is subject to varying interpretations and frequent changes. Russia continues development of the legal, tax and administrative framework to comply with the market economy requirements. The economic reforms conducted by the Government are aimed at retooling the Russian economy, development of high-tech productions, enhancement of labour productivity and competitiveness of the Russian products on the world market.

Beginning from March 2014 the USA, the EU and a number of other countries have introduced several packages of sanctions against some Russian civil servants, businessmen and companies. The EU have prolonged the sanctions against RF until 31 July 2018. Those sanctions have limited the access of a certain list of Russian companies to the international capital and export markets. The official exchange rate of USD set by the Bank of Russia decreased from RUB 60.6569 to RUB 57.6002 per USD for 2017. At present it is still uncertain whether the operating environment which has an impact on the future financial position and operating activities of the Bank will deteriorate. Management of the Bank believes it is taking all the necessary measures to support the sustainability and further development of business operations of the Bank in these circumstances.

In September 2017 the International Rating Agency S&P Global Ratings confirmed the long-term rating of Russia on liabilities in foreign currencies at the level BB+, the forecast was improved from stable to positive.



In September 2017 the Agency Fitch Ratings confirmed the long-term credit rating of Russia on liabilities in foreign currencies at the level BBB-, the forecast was improved from stable to positive.

In January 2018 the Rating Agency Moody's Investors Service confirmed the long-term credit rating of Russia on liabilities in foreign currencies at the level Ba1, the forecast was improved from stable to positive.

For 2017 the key rate of CB of RF decreased from 10% to 7.75%.

The future economic development of the Russian Federation is largely dependent upon the effectiveness of economic measures, financial mechanisms and monetary policy undertaken by the Russian Government, together with tax, legal, regulatory and political developments.

Inflation

Russia continues to experience relatively high levels of inflation. The inflation indices for the last five years are given in the table below:

Year ended	Inflation for the period
31 December 2017	2.1%
31 December 2016	5.4%
31 December 2015	12.9%
31 December 2014	11.4%
31 December 2013	6.5%

Currency transactions

Foreign currencies, in particular the US Dollar and EUR, play a significant role in the underlying economics of many business transactions in the Russian Federation. The table below shows the CBR exchange rates of RUB relative to USD and EUR:

Date	USD	EURO
31 December 2017	57.6002	68.8668
31 December 2016	60.6569	63.8111
31 December 2015	72.8827	79.6927
31 December 2014	56.2584	68.3427
31 December 2013	32.7292	44.9699

3 Basis of presentation

General principles. These financial statements of the Bank are prepared in accordance with International Financial Reporting Standards (IFRS). The Bank maintains its accounting records in accordance with the applicable legislation of the Russian Federation. These financial statements have been prepared on the basis of those accounting records and adjusted as necessary in order to comply, in all material respects, with IFRS.

Functional currency and presentation currency. These financial statements are presented in the national currency of the Russian Federation being the functional currency and the presentation currency of the Bank. All amounts in these financial statements have been rounded off to the nearest thousand roubles unless otherwise indicated.

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

Impairment loss on loans and advances to customers. The Bank regularly reviews its loan portfolio to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or

national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Valuation of owner-occupied premises. Premises of the Bank are stated at fair value. In the course of the valuation of real estate the independent appraiser used the cost, income and market approaches.

Going concern. These financial statements reflect the Bank management's current assessment of the impact of the Russian business environment on the operations and the financial position of the Bank. The future economic development of the Russian Federation is largely dependent upon the effectiveness of measures undertaken by the RF Government and other factors, including regulatory and political developments which are beyond the Bank's control. The Bank's management cannot predict the impact of the above factors on the financial position of the Bank in future.

These financial statements were prepared on a going concern assumption.

For prompt management of the liquidity risk the Bank regularly monitors external factors, which could influence the Bank's liquidity level, and forecasts cash flows. For the medium- and long-term liquidity risk management the Bank analyses maturity mismatches of assets and liabilities. To reduce its risk exposure the Bank sets liquidity gap limits.

To maintain the required liquidity level the Bank has a possibility to attract additional funds from the Bank of Russia and in the interbank lending market. Diversification of liquidity sources enables the Bank to minimise its dependence on any particular source and ensure full satisfaction of its liabilities. A sufficient current liquidity cushion accumulated by the Bank and the available sources of additional funding allow the Bank to continue its operations as a going concern in the long term.

Changes in accounting policies. The Bank for the first time applied certain amendments to the standards which become effective for annual periods beginning on or after 1 January 2017. The Bank did not early apply standards, clarifications or amendments that were issued but were not yet effective. Nature and effect of each amendment are described below:

Amendments to IAS 7 Statement of Cash Flows — initiative amendment with regard to information disclosure.

The amendments require that an entity should disclose information on any changes in liabilities related to financial activities, including both any changes attributable and not attributable to cash flows (for example, foreign exchange rate change gains or losses). The Bank provided the information both for the current and the comparative period in Note 36.

Amendments to IAS 12 Income Taxes — Recognition of Deferred Tax Assets for Unrealised Losses.

The amendments clarify that an entity should take into account whether tax legislation restricts sources of taxable profit that can be deducted when restating such deductible temporary difference related to unrealised losses. In addition, the amendments contain instructions how an entity should determine future taxable profit, and describe circumstances, where taxable profit can provide for recovery of some assets in the amount exceeding their carrying amount. Application of the amendments did not have any effect on the Bank's financial position and performance.

Amendments to IFRS 12 Disclosure of Interests in Other Entities — Clarification of Scope of Disclosure Requirements in IFRS 12

The amendments clarify that disclosure requirements in IFRS 12 apply to entity's interest in a subsidiary, joint venture or associate (or a part of interest in joint venture or associate) classified (or included in a disposal group classified) as held for sale. These amendments did not have any effect on the Bank's financial position and performance.



Annual Improvements to IFRS Standards 2014–2016 Cycle (issued in December 2016)

These improvements include:

IFRS 1 First-time Adoption of International Financial Reporting Standards — deletion of short-term exemptions for entities first adopting IFRS

Short-term exemptions provided for in clauses E3 to E7 of IFRS 1 were deleted since they fulfilled their function. These amendments become effective on 1 January 2018. These amendments do not apply to the Bank.

IAS 28 Investments in Associates and Joint Ventures — Clarification that a decision whether to measure investees at fair value through profit or loss should be taken individually for each investment

The amendments clarify as follows:

- Entity focusing on venture investments or any other similar entity may decide to measure investments in associates and joint ventures at fair value through profit and loss. Such decision should be made individually for each investment at initial recognition.
- If an entity that is not an investment company has an interest in an associate or joint venture being investment company, then, when applying equity method, such entity may decide to retain measurement at fair value applied by its associate or joint venture being investment company to its own interests in subsidiaries. Such decision should be taken individually for each associate or joint venture being investment company on the later date of: (a) date of initial recognition of an associate or joint venture being investment company; (b) date when an associate or joint venture becomes investment company, or (c) date when an associate or joint venture being investment company becomes a parent company for the first time.

These amendments apply retroactively and become effective on 1 January 2018. The Bank does not expect any major effect from application of these amendments.

Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

These amendments address problems arising due to application of a new standard for financial instruments IFRS 9 before adoption of IFRS 17 Insurance Contracts superseding IFRS 4. The amendments provide for two options for entities issuing insurance contracts: temporary exemption from applying IFRS 9 and overlay approach. Temporary exemption first applies for reporting periods beginning on or after 1 January 2018. The entity may decide on application of overlay approach when it first applies IFRS 9 and apply it retroactively to financial assets classified at discretion of the entity, when passing to IFRS 9. For this purpose, the entity recalculates comparative data to reflect the overlay approach if and only if it recalculates comparative data, when applying IFRS 9. These amendments are not applicable to the Bank.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

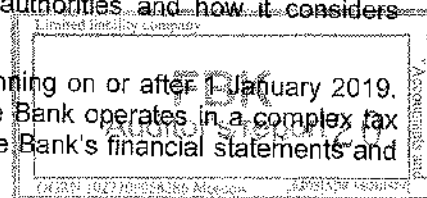
It clarifies that date of the transaction, for the purpose of determining the exchange rate that should be used at initial recognition of the relevant asset, expense or income (or a part thereof) at derecognition of a non-monetary asset or non-monetary liability arising from making or receiving prepayment, is the date of initial recognition of the non-monetary asset or non-monetary liability arising from making or receiving prepayment. The clarification becomes effective for annual reporting periods beginning on or after 1 January 2018. However, as the Bank's current activities comply with the clarification requirements, the Bank does not expect it to have an effect on its financial statements.

IFRIC 23 Uncertainty over Income Tax Treatments

The clarification considers the procedure for accounting income tax, when there is uncertainty over tax treatments, which has an effect on application of IAS 12. The clarification does not apply to taxes and levies that are out of the scope of IAS 12 and does not contain any specific requirements relating to interest and fines due to uncertain tax treatments.

The entity should decide whether to consider each uncertain tax treatment individually or along with one or more other uncertain tax treatments. It is necessary to use an approach that will make it possible to predict, to higher accuracy, an outcome of uncertainty settlement. The clarification also affects assumptions that the entity makes to consider treatments by tax authorities and how it considers changes in facts and circumstances.

The clarification becomes effective for annual reporting periods beginning on or after 1 January 2019. The Bank will apply the clarification from its effective date. Since the Bank operates in a complex tax environment, application of the clarification may have an effect on the Bank's financial statements and



required disclosure. In addition, the Bank may have to set procedures and methods for obtaining information required for timely application of the clarification.

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations — change in disposal method. Assets (or a group of assets) are usually disposed by sale or allocation to owners. The amendment to IFRS 5 clarifies that replacement of any of these methods with another one is considered not a new disposal plan, but continues the original plan. Thus, requirements of IFRS 5 apply consistently. The amendments also clarify that a change in the disposal method does not result in a change in the classification date. This amendment should apply prospectively to changes in the disposal method, which will occur in annual periods beginning on or after 1 January 2016. Early adoption is allowed.

Standards issued, but not yet effective

The standards and interpretations issued but not yet effective as at the date of publication of the Bank's financial statements are presented below. The Bank plans to apply such standards after they become effective.

IFRS 9 Financial Instruments

In July 2014 the IAS Board published IFRS 9 Financial Instruments that replaced IAS 39 Financial Instruments: Recognition and Measurement. The standard introduces new requirements to classification and measurement as well as to impairment and hedge accounting. IFRS 9 becomes effective for annual periods beginning on or after 1 January 2018. In addition to hedge accounting, it should apply retroactively, but no recalculation of the comparative data is required.

(a) Classification and measurement

According to IFRS 9, all debt financial assets that do not meet criterion of being solely payments of principal and interest on the principal amount outstanding (SPPI) are classified at initial recognition as financial assets at fair value through profit and loss (FVTPL). According to such criterion any debt instruments that do not meet the definition of a "basic loan agreement", such as instruments embodying convertibility option, or non-recourse loans are measured at FVTPL. For debt financial instruments meeting SPPI criterion, classification at initial recognition is determined based on a business model by which such instruments are managed:

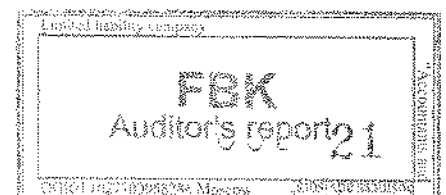
- Instruments held to collect the contractual cash flows are measured at amortised cost;
- Instruments held to collect the contractual cash flows and to sell are classified as measured at fair value through other comprehensive income (FVTOCI);
- Instruments held for other purposes are classified as measured at FVTPL.

Equity financial assets at initial recognition are required to be classified as measured at FVTPL, except when, at own discretion, it is irrevocably decided to classify an equity financial instrument as measured at FVTOCI. For equity financial instruments classified as measured at FVTOCI, all realised and unrealised income and expense other than dividend income are recognised within other comprehensive income without a right to subsequent reclassification into profit or loss.

Classification and measurement of financial liabilities mainly remain unchanged as compared to the existing requirements of IAS 39. Derivative financial instruments will continue to be measured at FVTPL.

(b) Impairment

IFRS 9 requires that the Bank should recognise a provision for expected credit losses (OCL) on all its debt financial assets measured at amortised cost or FVTOCI and commitments to extend loans and financial guarantee agreements. Provision is calculated based on OCL related to the probability of default within next twelve months if there is no significant increase in a credit risk after the recognition of the financial instrument; in the latter case, the provision is calculated based on OCL over the full lifetime of the asset. If the financial asset meets the definition of acquired or originated credit-impaired financial asset, the provision is calculated based on a change in OCL over the full lifetime of the asset.



To create provisions under IFRS, the requirements are divided into 4 stages:

Stage 1: Requirements without significant increase in a credit risk that do not bear evidence of impairment. The provision for them is calculated based on OCL related to the probability of default within next twelve months.

Stage 2: Requirements with significant increase in a credit risk that do not bear evidence of impairment. The provision for them is calculated based on OCL over the full lifetime of the requirement.

Stage 3: Requirements with significant increase in a credit risk that bear objective evidence of impairment (a requirement bears objective evidence of impairment if such requirement is recognised as default in accordance with the "default" definition effective in the Bank). The provision for them is calculated based on OCL over the full lifetime of the requirement.

Stage 4: Purchased or originated credit-impaired requirements (POCI requirements). The provision for them is calculated based on change in OCL over the full lifetime of the requirement.

When calculating impairment, 2 key elements are used: probability of default (PD) and loss given default (LGD). When determining the probability of default, the current and forecast macroeconomic factors are taken into account (using regression models) and 3 possible scenarios (base, negative or positive) are considered.

The Bank plans to apply the new standard, recognising the aggregate effect from transfer within retained profit as at 1 January 2018, and will not recalculate the comparative data. The Bank is assessing quantitatively effects of application of IFRS 9, but reasonable effect assessment currently is not available.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and amended in April 2016. The new standard will supersede all existing IFRS requirements to revenue recognition. It will require full retroactive or modified retroactive application for annual periods beginning on or after 1 January 2018. The Bank plans to apply the new standard, using the modified retroactive approach recognising the aggregate effect from transfer within retained profit as at 1 January 2018 without recalculation of the comparative data.

IFRS 15 provides for a model including five stages, which will be used for revenue from contracts with customers. According to IFRS 15, revenue is recognised in an amount that reflects the consideration, to which an entity expects to be entitled in exchange for transfer of goods or services to customers. However, interest income and fee and commission income being an integral part of financial instruments and lease contracts are beyond the requirements of IFRS 15 and will be governed by other applicable standards (IFRS 9 and IFRS 16 Lease). As a result, application of this standard will have no effect on significant income of the Bank.

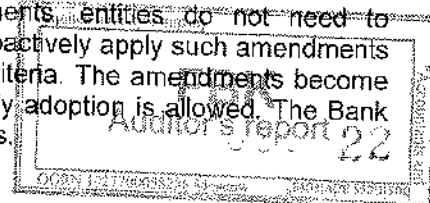
Currently, the Bank does not expect any major effect from application of IFRS 15.

Amendments to IFRS 10 and IAS 28 Sales or Contributions of Assets between an Investor and its Associate/Joint Venture

The amendments consider a contradiction between IFRS 10 and IAS 28 in terms of accounting of loss of control over a subsidiary being sold or contributed to an associate or joint venture. The amendments clarify that gain or loss arising from sale or contribution of an asset constituting business as defined in IFRS 3 in a transaction between an investor and his/her/its associate or joint venture is recognised in full. However, gain or loss resulting from sale or contribution of assets that do not constitute a business is recognised only to the extent of interests held by investors other than the entity in the associate or joint venture. The IAS Board postponed the effective date of these amendments without a date, but any entity applying such amendments early should apply them prospectively. The Bank does not expect any major effect from application of these amendments.

Amendments to IFRS 2 Classification and Measurement of Share-Based Payment Transactions

The IAS Board issued amendments to IFRS 2 Share-Based Payment, where three main aspects are considered: effect of conditions of transfer of rights to assess cash-settled share-based payment transactions; classification of share-based payments settled net of tax withholdings; accounting of a change in conditions of share-based payment, which results in transaction modified from cash-settled transaction to equity-settled transaction. When adopting amendments, entities do not need to recalculate data for the previous periods, however, it is allowed to retroactively apply such amendments subject to their application to all three aspects and subject to other criteria. The amendments become effective for annual period beginning on or after 1 January 2018. Early adoption is allowed. The Bank does not expect any major effect from application of these amendments.



IFRS 16 Lease

IFRS 16 was issued in January 2016 and supersedes IAS 17 Lease, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC 15 Operating Leases — Incentives and SIC 27 Evaluating the Substance of Transactions in the Legal Form of a Lease. IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases and requires that lessees should reflect all leases using a single lessee accounting model in a balance sheet similarly to the accounting procedure provided for in IAS 17 for financial lease. The standard provides for two exemptions from recognition for lessees in case of a low-value asset and short-term lease (leases with a lease term of 12 months or less). As at the lease beginning date, a lessee will recognise an obligation to pay rentals (i.e. lease obligation) and an asset presenting a right to use underlying asset during a lease term (i.e. a right-of-use asset). Lessees shall recognise interest expense on lease obligation separately from right-of-use asset amortisation expense.

Lessees shall also reevaluate lease obligation in case of certain event (for example, change in a lease term, changes in future rentals due to changes in index or rate used to determine such payments). In most cases, a lessee will take into account revaluation amounts for lease obligation as adjustment to the right-of-use asset.

The accounting procedure for a lessor in accordance with IFRS 16 is nearly the same as compared to the currently effective requirements of IAS 17. Lessors will continue classify leases using the same classification principles as in IAS 17, distinguishing two lease types: operating and financial leases.

In addition, IFRS 16 requires that lessors and lessees should disclose more data as compared to IAS 17.

IFRS 16 becomes effective for annual periods beginning on or after 1 January 2019. Early adoption is allowed, but not earlier than an entity applies IFRS 15. A lessee may apply this standard using retroactive approach or modified retroactive approach. Transitional provisions of the standard provide for certain exemptions. In 2018 the Bank will continue assessing possible effect from IFRS 16 on its financial statements.

IFRS 17 Insurance Contracts

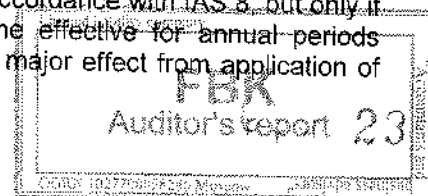
In May 2017 the IAS Board issued IFRS 17 Insurance Contracts, which is a new overall financial reporting standard for insurance contracts providing for recognition, measurement, presentation and disclosure issues. When IFRS 17 is effective, it will supersede IFRS 4 Insurance Contracts issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e. life and non-life insurance, primary insurance and reinsurance), regardless of the entity type issuing it, and to certain guarantees and financial instruments with discretionary participation conditions.

There are several exceptions from the scope. The main objective of IFRS 17 is to provide an accounting model for insurance contracts, which is more effective and consistent for insurers. As against to the requirements of IFRS 4, which are mainly based on the previous local accounting policies, IFRS 17 provides an overall model for accounting of insurance contracts covering all relevant accounting aspects.

IFRS 17 becomes effective for reporting periods beginning on or after 1 January 2021, and comparative data is required. Early adoption is allowed, provided that an entity also applies IFRS 9 and IFRS 15 at the date of the first application, and the Bank will assess an effect from application of IFRS 17 on its financial statements and non-financial guarantee agreements issued by the Bank.

Amendments to IAS 40 Transfers of Investment Property from One to Another Category

The amendments clarify when an entity should transfer real estate, including real property in construction or development, to or from investment property category. The amendments specify that nature of use changes when real estate begins or ceases to meet the definition of investment property and changes in the nature of its use are evidenced. Changes in the management's intention with regard to use of real estate itself does not evidence a change in the nature of its use. Entities should apply these amendments prospectively to changes in the nature of use occurring as at or after the beginning date of the annual reporting period, in which an entity first applies these amendments. An entity should again review classification of real estate held as at such date and, if applicable, transfer it to reflect the conditions existing on such date. Retroactive application is allowed in accordance with IAS 8, but only if it is possible without using the later data. The amendments become effective for annual periods beginning on or after 1 January 2018. The Bank does not expect any major effect from application of these amendments.



4 Summary of significant Accounting policies

Financial instruments - key measurement terms. Depending on their classification financial instruments are carried at fair value, cost, or amortised cost as described below (Note 34).

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

The Bank must have access to the principal or most advantageous market.

An entity shall measure the fair value of an asset or a liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

Fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

All assets and liabilities for which fair value is recognised or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - quoted market prices in an active market (that are unadjusted) for identical assets or liabilities;
- Level 2 - valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable in a market;
- Level 3 - valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable in a market.

For assets and liabilities that are measured in the financial statements on a recurring basis, the Bank determines whether transfers are necessary between Levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Bank's securities portfolio comprises equity securities traded on the organized market - MICEX SE CJSC. Transactions on MICEX SE CJSC are conducted on a regular basis and information on the current quotations of the active market is publicly available. Active market quotations are the best evidence for determining the current fair value of financial instruments being assessed.

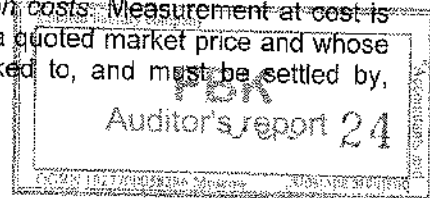
The Bank engages external valuers to measure material assets, such as property. A decision to engage external valuers is taken annually by the Bank's Management Board. It is governed by such selection criteria as market knowledge, reputation, independence and professional compliance.

At each reporting date the Department for Processing and Registration of Financial Instruments Transactions analyses movements in the values of financial assets and liabilities which are required to be re-measured or re-assessed in accordance with the Bank's accounting policies. For this analysis, the Department for Processing and Registration of Financial Instruments Transactions verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above (Note 33).

Valuation techniques such as discounted cash flow models or models based on similar arm's length transactions or consideration of financial data of the investees, are used to measure at fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Reasonable changes in any such assumptions will result in significantly different profit, income, total assets or total liabilities.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes *transaction costs*. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured and derivatives that are linked to, and must be settled by, delivery of such unquoted equity instruments (Notes 8 and 9).



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

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

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

Initial recognition of financial instruments. Derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

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

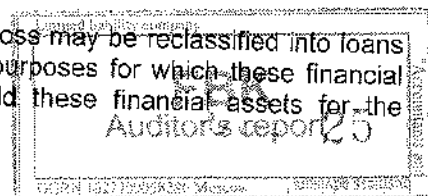
The Bank uses discounted cash flow model to determine the fair value of currency swaps and currency forwards that are not traded in an active market. Differences may arise between the fair value at initial recognition, which is considered to be the transaction price, and the amount determined at initial recognition using the valuation technique. Any such differences are amortised on a straight-line basis over the term of the currency swaps and currency forwards.

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

Reclassification of financial assets. The Bank shall not reclassify out of the fair value through profit or loss category a derivative financial instrument while it is held or issued or any financial instrument classified at initial recognition as at fair value through profit or loss.

Non-derivative trading financial assets at fair value through profit or loss may be reclassified out of the fair value through profit or loss category only in rare circumstances arising from a single event that is unusual and non-standard if these assets are no longer held for the purpose of selling or repurchasing them in the near term.

Non-derivative trading financial assets at fair value through profit or loss may be reclassified into loans and receivables or investments held to maturity depending on the purposes for which these financial assets are held, if the Bank has intention and the ability to hold these financial assets for the foreseeable future or until maturity.



MARITIME BANK (Joint-Stock Company)
Notes to the Financial Statements for the year ended 31 December 2017

Financial assets available for sale may be reclassified into loans and receivables if the Bank has a positive intention and the ability to hold these financial assets for the foreseeable future or until maturity.

If financial assets are reclassified into loans and receivables or investments held to maturity, the fair value on the date of reclassification will become the new cost of these financial assets; subsequently these assets are measured at amortised cost using the effective interest rate method.

If, as a result of a change in the Bank's intention or ability, it is no longer appropriate to classify an investment as held to maturity, it shall be reclassified as financial assets available for sale and remeasured at fair value. Unrealised gains and losses arising from changes in the fair value of financial assets available for sale are recorded in the statement of profit and loss and other comprehensive income as other comprehensive income.

The Bank shall not classify any financial assets as investments held to maturity if the Bank has, during the current financial year or during the two preceding financial years, sold or reclassified more than an insignificant amount of held-to-maturity financial assets before maturity (more than insignificant in relation to the total amount of held-to-maturity investment portfolio) other than sales or reclassifications that:

- are so close to maturity or the financial asset's call date (for example, less than three months before maturity) that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- occur after the Bank has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or
- are attributable to an isolated event that is beyond the Bank's control, is non-recurring and could not have been reasonably anticipated by the Bank.

Whenever sales or reclassifications of more than an insignificant amount of held-to-maturity investments do not meet any of the conditions of the classification, any remaining held-to-maturity investments shall be reclassified as financial assets available for sale.

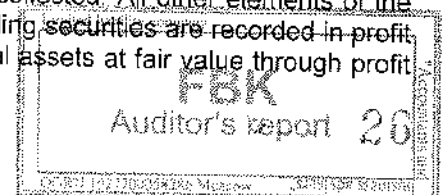
Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include cash on hand, balances with the Bank of Russia, balances on correspondent accounts in other banks and settlements with currency and stock exchanges. Funds restricted on origination are excluded from cash and cash equivalents. (Note 5).

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

Financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss include trading securities.

Trading securities are financial assets which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Bank classifies securities into trading securities if it has an intention to sell them within a short period after purchase. The Bank may choose to reclassify a non-derivative trading financial asset out of the fair value through profit or loss category if the asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of fair value through profit or loss category only in rare circumstances arising from a single event that is unusual and highly unlikely to reoccur in the near term. Financial assets that would meet the definition of loans and receivables may be reclassified if the Bank has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

Trading securities are carried at fair value. Interest earned on trading securities calculated using the effective interest method is presented in the statement of profit and loss and other comprehensive income as interest income. Dividends are included in statement of profit and loss and other comprehensive income within other operating income when the Bank's right to receive the relevant payment is established and it is probable that the dividends will be collected. All other elements of the changes in the fair value and gains or losses on derecognition of trading securities are recorded in profit or loss for the year as gains less losses from transactions in financial assets at fair value through profit or loss in the period in which they arise.



Due from other banks. Amounts due from other banks are recorded when the Bank advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost (Note 6).

Loans and advances to customers. Loans and advances to customers are recorded when the Bank advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost (Note 7).

Impairment of due from other banks and loans and advances to customers. Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Bank determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics, and collectively assesses them for impairment. The primary factors that the Bank considers in determining whether a financial asset is impaired are its overdue status and realizability of related collateral, if any (Notes 6 and 7).

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

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

In 2013 the Bank revised its estimates of expected loan losses relying on its accumulated experience in credit risk assessment and management. For making provisions for loans, issued on non-standard terms, the Bank uses a credit risk approach based on internal ratings.

The system of credit ratings provides a differentiated assessment of probability of default/improper execution by the counterparties of their obligations by analyzing quantitative (financial) and qualitative factors of credit risk, materiality of their impact on the ability of the counterparty to serve and repay their obligations.

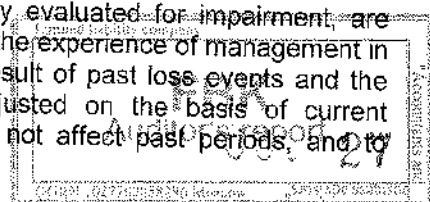
The Bank's internal regulations provide for a multi-factor approach, the factor list being standardized depending on the counterparty category. Risk factors related to counterparty's creditworthiness and its volatility, ownership structure, business reputation, credit history, cash flow and financial risks control system, information transparency, position of the client in the industry and the region, strength of support from local administration and parent companies (in case of a holding) are subject to mandatory assessment. Based on the analysis of these risk factors the probability of default is assessed and graded by counterparty with their subsequent classification ratings.

Assets that are individually assessed for impairment and for which an impairment loss is recognised shall not be included in a collective assessment of impairment.

If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

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

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



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If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms.

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

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

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

Repossessed collateral represents financial and non-financial assets acquired by the Bank in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in premises and equipment, other financial assets or inventories within other assets depending on their nature and the Bank's intention in respect of recovery of these assets, and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Impairment of financial assets available for sale. The Bank assesses at each closing date whether there is objective evidence that an investment or a group of investments available for sale is impaired.

In case of equity investments classified as available for sale, objective evidence of impairment would include significant financial difficulty of the issuer supported by financial information at the Bank's disposal. To assess whether there is any indication of impairment the Bank shall analyse the issuer's activities taking into account the influence of economic factors, including consequences of changes in the technical, market, economic or legal environment in which the issuer operates. The Bank also assesses other factors such as volatility of price per share. The cumulative impairment loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss — is reclassified from other comprehensive income to profit or loss.

Impairment losses on equity instruments are not reversed through profit or loss and any increase in fair value after the impairment is directly recognised in other comprehensive income.

Impairment of investments held to maturity. The Bank assesses whether objective evidence of impairment exists individually for financial assets held to maturity. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of profit and loss. If, in the next year, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is recognised as income in the statement of profit and loss.

Credit related commitments. The Bank issues financial guarantees and commitments to provide loans. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties, and carry the same credit risk as loans.

Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight-line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period (Note 32).

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Financial assets available for sale. This classification includes investment securities which the Bank intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices (Notes 8 and 9).

Financial assets available for sale are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss for the year. Dividends on available-for-sale equity instruments are recognised in profit or loss for the year when the Bank's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired, at which time the cumulative gain or loss is reclassified from other comprehensive income to profit or loss for the year.

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of financial assets available for sale. A significant or prolonged decline in the fair value of an equity security below its acquisition cost is an indicator that it is impaired. The cumulative impairment loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss — is reclassified from other comprehensive income to profit or loss for the year. Impairment losses on equity instruments are not reversed and any subsequent gains are recognised in other comprehensive income. If, in a subsequent reporting period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss for the year.

Sale and repurchase agreements and lending of securities. Sale and repurchase agreements ("repo agreements"), which effectively provide a lender's return to the counterparty, are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognised. Securities sold under sale and repurchase agreements are recorded in the statement of financial position in financial assets pledged under repo agreements. The corresponding liability is presented within amounts due to the Bank of Russia, due to other banks or customer accounts.

Securities purchased under agreements to resell ("reverse repo agreements"), which effectively provide a lender's return to the Bank, are recorded as due from other banks or loans and advances to customers, depending on a counterparty. The difference between the sale and repurchase price is treated as interest income and accrued over the life of repo agreements using the effective interest method.

Promissory notes purchased. Promissory notes purchased are included in due from other banks or in loans and advances to customers, depending on their substance. Subsequently the promissory notes purchased are accounted for in accordance with the above accounting policies for these categories of assets (Notes 6 and 7).

Investments held to maturity. This category of financial assets represents non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity. The Bank's management determines the appropriate classification of financial assets at the time of purchase.

The Bank assesses its intention and ability to hold its held-to-maturity financial assets to maturity not only when those financial assets are initially recognised, but also at each closing date.

Initially, financial assets held to maturity are recorded at fair value (that includes transaction costs) and are subsequently carried at amortised cost. Gains and losses on financial assets held to maturity are recognised in the statement of profit and loss when such assets are impaired, as well as through the amortisation process.

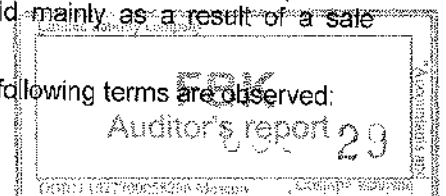
If the Bank sells a significant portion of its portfolio of investments held to maturity before their maturity, the remaining financial assets from this category shall be reclassified as financial assets available for sale.

Interest earned on investments held to maturity is recognised in the statement of profit and loss.

Long-term assets held for sale. Long-term assets are accounted for in the statement of financial position as long-term assets held for sale if their carrying value is to be repaid mainly as a result of a sale transaction within 12 months from the end of the reporting period.

Financial and non-financial assets are reclassified into this category if the following terms are observed:

(a) assets are available for immediate sale in their current condition;



- (b) management of the Bank approved and started implementing the program on the buyer search;
- (c) assets are offered for sale at the price being reasonable;
- (d) sale is expected within 1 year;
- (e) significant changes in the plan of asset sale or rejection of this plan are hardly probable.

Long-term assets held for sale in the statement of financial position of the current period are not reclassified in the comparison statement of financial position.

Premises and equipment, investment property, intangible assets held for sale are in general measured at the lower of carrying value and fair value less sale costs. Premises, equipment and intangible assets held for sale are not depreciated. The Bank accounts for loss from impairment at the initial and subsequent write-off of their cost up to fair value less sale costs. The cost of reclassified non-current financial instruments, deferred taxes and investment property accounted for at fair value is not decreased to the lower of the carrying value and fair value less sale costs.

Investment property

Investment property is property held by the Bank to earn rentals or for capital appreciation or both, rather than for: (a) use in the Bank's ordinary course of business or for administrative purposes; or (b) sale in the ordinary course of business.

Investment property is initially recognised at acquisition cost and subsequently recognised at acquisition cost or remeasured at fair value based on its market value. As at 31 December 2017 the market value of the Bank's investment property is obtained from valuation of an independent appraiser, who holds a recognised and relevant professional qualification and who has professional experience in valuation of property of similar location and category. Valuation is based on measurement at fair value. Changes in the fair value of investment property are recorded in profit or loss in the statement of profit and loss and other comprehensive income and presented separately. Initial direct costs incurred by lessors under an operating lease contract shall be added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

If the investment property is used by the Bank for its own operating activities, it is reclassified to premises and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

Premises and equipment. Except for premises, these are stated at acquisition cost, restated to the equivalent purchasing power of the Russian Rouble as at 31 December 2002 for assets acquired prior to 1 January 2003 less accumulated depreciation and provision for impairment, where required (Note 13).

Premises of the Bank are recorded at the fair value subject to revaluation to market value on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the premises and equipment being revalued.

The revaluation reserve for premises included in other comprehensive is transferred directly to retained earnings when the surplus is realised, i.e. either on the retirement or disposal of the asset, or as the asset is used by the Bank.

In the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

Premises have been revalued to market value as at 31 December 2017. Revaluation is based on the report of an independent appraiser, who holds a recognised and relevant professional qualification and who has recent experience in valuation of property of similar location and category. The basis used for the appraisal was fair value.

Management has updated the carrying value of the premises measured in accordance with the revaluation model at the end of the reporting period using market-based evidence and is satisfied that sufficient market-based evidence of fair value is available to support the updated fair values.

Construction in progress is carried at cost less provision for impairment where required. Upon completion, assets are transferred to the respective category of premises and equipment at their carrying amount at transfer. Construction in progress is not depreciated until the asset is available for use.

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



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

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

Depreciation. Construction in progress is not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their following estimated useful lives:

	Useful life, years
Premises	32
Premises' engineering systems, including power supply	5
Office equipment	4
Computer equipment	2.5
Other equipment	5

The residual value of an asset is the estimated amount that the Bank would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Bank expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date (Note 13).

Intangible assets. Intangible assets of the Bank include trade mark (service mark), licenses and software. The trade mark is amortised on a straight-line basis over expected useful life of 10 years. Licenses and software are amortized on a straight-line basis over 5 years (Note 13).

Impairment of non-financial assets. Non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use. Costs to sell are the costs associated with disposal of an asset tested for impairment, less finance costs. Value in use of an asset reviewed for impairment is the present value of the future cash flows expected to be derived by the Bank from the use of an asset and its subsequent disposal. If there is no evidence of impairment of an asset reviewed for impairment, its recoverable amount is not determined. The Bank assesses indications of possible impairment using internal and external data sources.

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

Financial liabilities carried at amortised cost. Financial liabilities carried at amortised cost include due to other banks, customer accounts and debt securities in issue.

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Bank by counterparty banks (Note 15).

Customer accounts. Customer accounts are non-derivative financial liabilities to individuals, state or corporate customers (Note 16).

Debt securities in issue. Debt securities in issue include bonds and promissory notes issued by the Bank (Note 17).

Subordinated debt. Subordinated debt received by the Bank is reflected when funds are advanced to the Bank.

Income tax. Tax expenses have been provided for in the financial statements in accordance with Russian legislation using tax rates and legislative provisions enacted or substantively enacted by the reporting date. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year except if it is recognised outside profit or loss, either in other comprehensive income

or directly in equity because it relates to transactions that are also recognised, in the same or a different period in other comprehensive income or directly in equity (Note 27).

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes other than on income are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction if the transaction, when initially recorded, affects neither accounting nor taxable profit.

Deferred tax assets and liabilities are measured at tax rates enacted or substantively enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised.

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

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

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

Share capital. Ordinary shares and discretionary dividends are classified as equity (Note 21). The share capital contributed before 1 January 2003 is restated for the effects of inflation. The share capital contributed after the above date is stated at cost.

Share premium. Share premium represents the excess of contributions to the share capital over the nominal value of the shares issued.

Dividends. Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the financial statements are authorised for issue, are disclosed in the subsequent events note. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations (Note 28).

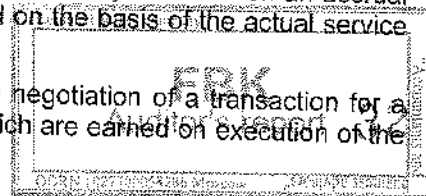
Income and expense recognition. Interest income and expense are recorded for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts (Note 24).

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability (for example fees for issuing loans and maintaining a loan account). The Bank does not designate loan commitments as financial liabilities at fair value through profit or loss.

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

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Commission and fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the acquisition of shares and other securities, which are earned on execution of the



underlying transaction are recorded on its completion. Other management and advisory services are recognised based on the applicable service contracts, usually on a time-proportion basis. The same principle is applied for depository services that are continually provided over an extended period of time.

Foreign currency translation. The functional currency of the Bank is the currency of the primary economic environment in which the Bank operates, i.e. the currency of the Russian Federation — the Russian Rouble.

Monetary assets and liabilities are translated into Russian Roubles at the official exchange rate of the Bank of Russia at the end of the respective reporting period. Foreign exchange gains and losses resulting from the translation of monetary assets and liabilities into the Russian roubles at year-end official exchange rates of the Bank of Russia are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity instruments. Effects of exchange rate differences on the fair value of equity securities are recorded as part of the fair value revaluation gain or loss.

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

Staff costs and related contributions. Wages, salaries, contributions to the state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Bank. The Bank has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme (Note 26).

Segment reporting. An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

The Bank shall report separately in its financial statements information about an operating segment that meets any of the following quantitative thresholds:

- its reported revenue, including both sales to external customers and intersegment sales or transfers, is 10 per cent or more of the combined revenue, internal and external, of all operating segments;
- the absolute amount of its reported profit or loss is 10 per cent or more of the greater, in absolute amount, of:
 - the combined reported profit of all operating segments that did not report a loss in the reporting period; and
 - the combined reported loss of all operating segments that reported a loss in the reporting period;
- its assets are 10 per cent or more of the combined assets of all operating segments.

Operating segments that do not meet any of the quantitative thresholds may be considered reportable, and separately disclosed, if management believes that information about the segment would be useful to users of the financial statements.

As the information is available from management reporting and can differ from the IFRS financial statements, reconciliations shall be made and reasons for such differences disclosed:

- the total of the reportable segments' revenues to the Bank's revenue.
- the total of the reportable segments' measures of profit or loss to the Bank's profit or loss before income tax expense (recovery) and discontinued operations. However, if the Bank allocates to reportable segments items such as income tax expense (recovery), the Bank may reconcile the total of the segments' measures of profit or loss to the Bank's profit or loss after those items.
- the total of the reportable segments' assets to the Bank's assets.
- the total of the reportable segments' liabilities to the Bank's liabilities.



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- the total of the reportable segments' amounts for every other material item of information disclosed to the corresponding amount for the Bank.

5 Cash and cash equivalents

<i>(in thousands of Russian Roubles)</i>	31 December 2017	31 December 2016
Cash balances with the Bank of Russia, other than mandatory reserve deposits	418,975	346,292
Cash on hand	268,750	247,213
Settlements with currency and stock exchanges	243,309	36,963
Correspondent accounts with other banks	181,637	793,947
Total cash and cash equivalents	1,112,671	1,424,415

As at 31 December 2017 the Bank had cash balances above 10% of the Bank capital with one counterparty commercial bank except balances with the Bank of Russia (2016: one counterparty commercial bank except balances with the Bank of Russia). The aggregate amount of these balances was RUB 243,214 thousand or 21.9% of the total amount of cash and cash equivalents (2016: RUB 533,256 thousand 37.4% of the total amount of cash and cash equivalents).

The Bank analyses cash and cash equivalents quality based on Moody's Investors Service ratings. If an issuer does not have this type of rating the Bank uses ratings of Fitch Ratings or S&P Global Ratings, reconciling them to the rating categories through an adjustment table.

Geographical, currency, maturity and interest rate analyses of cash and cash equivalents are disclosed in Note 30.

Refer to Note 33 for the fair value of each class of cash and cash equivalents.

6 Due from other banks

<i>(in thousands of Russian Roubles)</i>	31 December 2017	31 December 2016
Repo agreements with other banks	609,286	-
Due from the Bank of Russia	500,424	-
Loans and deposits with other banks	16,036	14,505
Total due from other banks	1,125,746	14,505

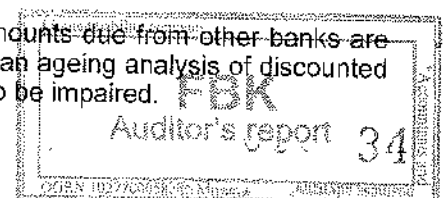
As at 31 December 2017 amounts due from other banks amounting to RUB 609,286 thousand (2016: none) were actually collateralised with securities purchased under reverse repo agreements at fair value amounting to RUB 614,293 thousand, of which the Bank was entitled to sell or repawn securities for RUB 614,293 thousand.

Amounts due from other banks are not collateralised.

The Bank analyses the credit quality of due from other banks based on Moody's Investors Service ratings. If an issuer does not have this type of rating, the Bank uses ratings of Fitch Ratings or S&P Global Ratings, reconciling them to the rating categories through an adjustment table.

As of 31 December 2017, due from other banks in the total amount of RUB 1,125,746 thousand (2016: RUB 14,505 thousand) is current and non-impaired.

The primary factor that the Bank considers in determining whether amounts due from other banks are impaired is their overdue status. As a result, the Bank presents above an ageing analysis of discounted promissory notes of credit institutions that are individually determined to be impaired.



The Bank does not have renegotiated balances representing the carrying amount of due from other banks that would otherwise be past due, whose terms have been renegotiated.

During 2017 and 2016, the Bank did not make provisions for impairment of due from other banks.

As at 31 December 2017 the Bank had cash balances exceeding 10% of the Bank's capital with 1 counterparty bank (2016: none). The total amount of such balances was RUB 609,286 thousand, or 54.1% of the total due from other banks.

Geographical, currency, maturity and interest rate analyses of due from other banks are disclosed in Note 30.

Refer to Note 33 for the fair value of each class of due from other banks.

7 Loans and advances to customers

<i>(in thousands of Russian Roubles)</i>	31 December 2017	31 December 2016
Corporate loans	8,435,506	9,586,866
Loans to individuals	263,914	304,443
Less: provision for impairment of loans and advances to customers	(2,271,495)	(1,930,013)
Total loans and advances to customers	6,427,925	7,961,296

Corporate loans comprise loans to legal entities. Loans are granted for current needs (working capital financing, acquisition, repair, modernization of movable property and real estate, portfolio investments in securities, expansion and consolidation of business, etc.). Loans are provided for periods of up to 5 years depending on the borrowers' risk assessment. Commercial lending also includes overdraft lending and export-import transactions. The repayment source is cash flow from current operating or financial activities of the borrower.

Loans to individuals are issued for housing acquisition, construction and reconstruction of real estate, mortgages, consumer loans and overdrafts.

Loans to state and municipal organisations comprise corporate loans to federal state unitary enterprises (FGUP).

As at 31 December 2017, loans and advances to customers of RUB 31,151 thousand (2016: RUB 46,202 thousand) are secured with the Bank's own promissory notes with the collateral value of RUB 47,850 thousand (2016: RUB 47,200 thousand) (Note 17).



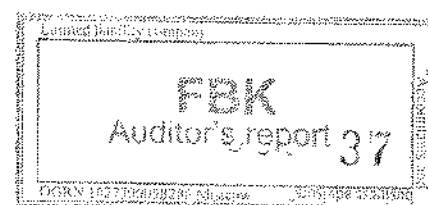
Analysis by credit quality of loans outstanding as at 31 December 2016 is as follows:

<i>(in thousands of Russian Roubles)</i>	Corporate loans	Loans to individuals	Total
<i>Neither past due nor impaired</i>			
- Large borrowers	1,106,786	-	1,106,786
- Loans to medium size entities	966,152	-	966,152
- Small borrowers	439,252	102,382	541,634
Total neither past due nor impaired loans and advances to customers	2,512,190	102,382	2,614,572
<i>Past due but not impaired</i>			
- without delays in payment	6,595,638	201,358	6,796,996
- 31 to 90 days overdue	78,125	-	78,125
- over 91 days overdue	400,913	703	401,616
Total individually impaired loans and advances to customers	7,074,676	202,061	7,276,737
Total loans and advances to customers (before provision for impairment of loans and advances to customers)	9,586,866	304,443	9,891,309
Less: provision for impairment of loans and advances to customers	(1,905,150)	(24,863)	(1,930,013)
Total loans and advances to customers	7,681,716	279,580	7,961,296

The Bank applied the portfolio provisioning methodology for impairment of loans and advances to customers prescribed by IAS 39, Financial Instruments: Recognition and Measurement, and booked portfolio provisions for incurred impairment losses from loans and advances to customers. The Bank's policy is to classify each loan as 'neither past due nor impaired' until specific objective evidence of impairment of the loan is identified. The impairment provisions may exceed the total gross amount of individually impaired loans as a result of this policy and the portfolio impairment methodology.

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

Neither past due nor impaired loans include three classes: loans to large borrowers, loans to medium size entities and loans to small entities. Loans to borrowers with outstanding loan amount above RUB 170,000 thousand as at 31 December 2017 (2016: RUB 170,000 thousand) are recognised as loans to large borrowers. Loans to borrowers or a group of related borrowers with outstanding loan amount from RUB 70,000 to RUB 170,000 thousand (2016: from RUB 70,000 to RUB 170,000 thousand) are recognised as loans to medium size entities. Loans to borrowers or a group of related borrowers with outstanding loan amount below RUB 70,000 thousand (2016: below RUB 70,000 thousand) are recognised as loans to small borrowers.



Provision for impairment of loans and advances to customers. Movements in the provision for impairment of loans and advances to customers during 2017 and 2016 are as follows:

<i>(in thousands of Russian Roubles)</i>	Corporate loans	Loans to individuals	Loans to state and municipal organisations	Total
Provision for impairment of loans and advances to customers as at 1 January 2016	1,575,050	27,101	138,861	1,741,012
Accrual (Reversal) of provision for impairment of loans and advances to customers during 2016	1,482,188	452	(30,409)	1,452,231
Disposal of provision of loans and advances to customers	(1,152,088)	(2,690)	-	(1,154,778)
Loans and advances to customers written off during 2016 as uncollectible	-	-	(108,452)	(108,452)
Provision for impairment of loans and advances to customers as at 31 December 2016	1,905,150	24,863	-	1,930,013
Accrual of provision for impairment of loans and advances to customers during 2017	660,982	81,192	-	742,174
Disposal of provisions of sold loans and advances to customers	(395,001)	-	-	(395,001)
Loans and advances to customers written off during 2017 as uncollectible	(5,481)	(210)	-	(5,691)
Provision for impairment of loans and advances to customers as at 31 December 2017	2,165,650	105,845	-	2,271,495

Provisions for disposed loans in the amount of RUB 395,001 thousand (2016: RUB 1,154,778 thousand) relate to loans for which there was an assignment of claim. The statement of profit and loss and other comprehensive income reflects gains from sale of loans of RUB 13,500 thousand (2016: RUB 103,723 thousand).

Loan security. As a rule, the Bank requires collateral or guarantees for loans to corporate entities and federal state unitary enterprises. Acceptable collateral includes real estate, securities (within the Bank's risk limits for such securities), promissory notes of the Bank, transport and production equipment, inventory, certain contract rights and certain personal property. Guarantees can be provided by controlling shareholders (or other controlling persons), government entities, banks and other solvent legal entities (all within risk limits for such guarantees) as collateral. A guarantor (surety) is evaluated as to a credit risk on the same basis as the borrower itself. The Bank assesses the collateral value based on an internal expert valuation performed by the Bank's specialists, an independent appraiser's valuation or on the basis of discounted carrying amount of the collateral. In accordance with the Bank's policy, the value of collateral for loans to legal entities should cover the principal and interest on loan accrued for a period of at least three months. Borrowers must insure the collateral or make an additional payment to the Bank reflecting the increase in credit risk.

The Bank provided uncollateralised loans or partially collateralised loans to major borrowers or borrowers associated with the lowest level of risk. These loans were provided to the clients with stable financial position and good credit history with the Bank for the last three years.

The Bank usually requires collateral and/or guarantees for loans to individuals. Acceptable collateral for loans includes real estate, personal property, government and the Bank's securities, motor vehicles and other liquid assets. The Bank accepts guarantees and sureties from its clients, both individuals and legal entities as collateral for loans to individuals. According to the Bank's policy, the value of collateral

MARITIME BANK (Joint-Stock Company)**Notes to the Financial Statements for the year ended 31 December 2017**

or the amount of guarantee must cover the principal and interest on the loan for a period of at least a year. The Bank determines the value of collateral based on internal or independent valuation. The discounted carrying amount of the pledged property can be also a basis for its valuation. Individual guarantors (sureties) are evaluated as to a credit risk on the same basis as the borrower itself.

Collateral held by the Bank for past due loans, assessed for impairment on a collective basis, is similar to collateral received for other loans (see description above). According to the Bank's assessment the fair value of collateral received for past due loans, assessed for impairment on a collective basis, to individuals exceeds the carrying amount of such loans.

Fair value of collateral for past due individually impaired loans as at 31 December 2017 and 31 December 2016 was estimated by the Bank's Credit Department using its internal methodology.

Actual net realisable value of collateral may differ from the value disclosed in the financial statements due to potential difficulties during the foreclosure which cannot be predicted.

Information about collateral for loans and advances to customers as at 31 December 2017 is as follows:

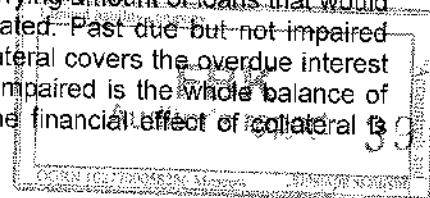
<i>(in thousands of Russian Roubles)</i>	Corporate loans	Loans to individuals	Total
Unsecured loans and advances to customers	1,593,206	88,907	1,682,113
Loans and advances to customers collateralised by:			
- non-residential real estate (including vessels)	1,701,513	23,248	1,724,761
- surety of legal entities and individuals	1,246,966	4,062	1,251,028
- goods in turnover	974,917	-	974,917
- vehicles	503,217	1,007	504,224
- equipment	176,711	-	176,711
- residential real estate	72,313	10,707	83,020
- promissory notes of the Bank	1,013	30,138	31,151
Total loans and advances to customers	6,269,856	158,069	6,427,925

Information about collateral for loans and advances to customers as at 31 December 2016 is as follows:

<i>(in thousands of Russian Roubles)</i>	Corporate loans	Loans to individuals	Total
Unsecured loans and advances to customers	2,458,917	127,216	2,586,133
Loans and advances to customers collateralised by:			
- non-residential real estate (including vessels)	1,859,812	77,376	1,937,188
- goods in turnover	1,155,412	1,771	1,157,183
- vehicles	1,091,796	-	1,091,796
- surety of legal entities and individuals	1,021,942	4,947	1,026,889
- residential real estate	62,087	-	62,087
- equipment	31,750	22,068	53,818
- promissory notes of the Bank	-	46,202	46,202
Total loans and advances to customers	7,681,716	279,580	7,961,296

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

Neither past due nor impaired, but renegotiated loans represent the carrying amount of loans that would otherwise be past due or impaired whose terms have been renegotiated. Past due but not impaired loans primarily include collateralised loans where the fair value of collateral covers the overdue interest and principal repayments. The amount reported as past due but not impaired is the whole balance of such loans, not only the individual instalments that are past due. The financial effect of collateral is



MARITIME BANK (Joint-Stock Company)**Notes to the Financial Statements for the year ended 31 December 2017**

presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets").

The effect of collateral as at 31 December 2017:

	Over-collateralised loans and advances to customers		Under-collateralised loans and advances to customers	
	Carrying value of the assets	Fair value of the collateral	Carrying value of the assets	Fair value of the collateral
<i>(in thousands of Russian Roubles)</i>				
Corporate loans	4,609,513	21,521,689	3,825,993	344,591
Loans to individuals	68,728	234,715	195,186	13,689
Total	4,678,241	21,756,404	4,021,179	358,280

The effect of collateral as at 31 December 2016:

	Over-collateralised loans and advances to customers		Under-collateralised loans and advances to customers	
	Carrying value of the assets	Fair value of the collateral	Carrying value of the assets	Fair value of the collateral
<i>(in thousands of Russian Roubles)</i>				
Corporate loans	5,472,951	25,052,245	4,113,915	395,486
Loans to individuals	81,310	245,631	223,133	20,101
Total	5,554,261	25,297,876	4,337,048	415,587

The fair value of collateral represented by residential and non-residential real estate at the end of the reporting period approximated its market value. The fair value of other collateral was determined by the Bank's Credit Department based on its internal methodology and considering location of the assets accepted as collateral.

Economic sector risk concentrations within the customer loan portfolio are as follows:

<i>(in thousands of Russian Roubles)</i>	31 December 2017		31 December 2016	
	Amount	%	Amount	%
Trade	3,622,713	41.6	3,871,274	39.1
Manufacturing	1,363,876	15.7	717,571	7.3
Cargo transport service	1,269,253	14.6	2,523,006	25.5
Infrastructure construction	507,555	5.8	595,977	6.0
Lease of non-residential property	462,446	5.3	338,753	3.4
Construction	293,331	3.4	209,398	2.1
Individuals	263,914	3.0	304,443	3.1
Consultancy	201,039	2.3	591,610	6.0
Shipbuilding	160,362	1.8	300,100	3.0
Transport and communication	107,244	1.2	166,391	1.7
Other	447,687	5.1	272,786	2.8

Total loans and advances to customers (before provision for impairment of loans and advances to customers)

8,699,420

100.0

9,891,309

100.0

As at 31 December 2017 the Bank had 3 borrowers (2016: 19 borrowers) with the total amount of loans outstanding above 10% of the Bank's capital. The gross amount of these loans was RUB

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1,193,320 thousand or 13.7% of the total amount of loans and advances to customers before provision for impairment of loans and advances to customers (2016: RUB 4,196,858 thousand or 42.4% of the total amount of loans and advances to customers before provision for impairment of loans and advances to customers).

Refer to Note 33 for the fair value of each class of loans and advances to customers.

Geographical, currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 30. The information on related party transactions is disclosed in Note 35.

8 Financial assets available for sale

<i>(in thousands of Russian Roubles)</i>	31 December 2017	31 December 2016
Government debt securities		
- Bonds of the Bank of Russia	2,001,040	-
- Russian Federation bonds (OFZ)	75,090	1,149,407
- Municipal bonds	-	14,208
Corporate debt securities		
- Corporate euro bonds	-	519,673
- Corporate bonds	-	124,306
Total financial assets available for sale	2,076,130	1,807,594

Bonds of the Bank of Russia in the Bank's portfolio as at 31 December 2017 have maturity dates from January to March 2018 and the coupon rates amounting to 7.75% (2016: none).

Russian Federation bonds (OFZ) represent RUB-denominated government securities issued by the Ministry of Finance of the Russian Federation. OFZ in the Bank's portfolio as at 31 December 2017 have maturity dates in September 2031 (2016: maturity dates from January 2023 to September 2031) and the coupon rates amounting to 8.5% p.a. (2016: coupon rate from 7.0% to 8.5% p.a. depending on the issue).

Municipal bonds are presented by interest bearing securities denominated in the currency of the Russian Federation issued by the Government of Moscow and traded at MICEX. Municipal bonds in the Bank's portfolio as at 31 December 2016 had the maturity in June 2022 and the coupon yield from 7.0% per annum.

Corporate euro bonds are presented by interest bearing securities denominated in USD issued by large Russian commercial banks and companies and traded at the international market. Corporate euro bonds in the Bank's portfolio as at 31 December 2016 had the maturities from July 2020 to December 2022 and the coupon yield from 4.2% to 6.9% per annum depending on the issue.

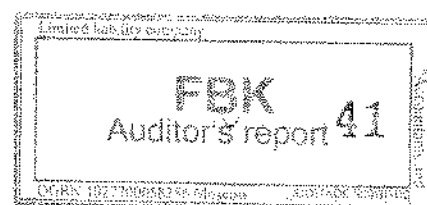
As at 31 December 2016, corporate bonds are represented by Rouble-denominated securities issued by Russian commercial banks and companies. These bonds in the Bank's portfolio had maturity dates from February 2017 to October 2023 and the coupon rates from 7.55% to 11.1% p.a. depending on the issue.

Debt securities available for sale are not collateralised.

For traded investments, the fair value is determined by reference to the current market value at the close of business on 31 December 2017 and 31 December 2016.

The primary factor that the Bank considers in determining whether a debt security available for sale is impaired is its overdue status or the existence of the facts of overdue payments under earlier issues of securities.

The Bank analyses debt securities available for sale based on Moody's Investors Service ratings. If an issuer does not have this type of rating the Bank uses ratings of Fitch Ratings or S&P Global Ratings, reconciling them to the rating categories through an adjustment table.



MARITIME BANK (Joint-Stock Company)
Notes to the Financial Statements for the year ended 31 December 2017

Credit quality analysis of debt securities available for sale as at 31 December 2017 is as follows:

<i>(in thousands of Russian Roubles)</i>	Government debt securities
<i>Neither past due nor impaired</i>	
<i>(at fair value)</i>	
- Baa3 rated	2,076,130
Total debt securities available for sale	2,076,130

Credit quality analysis of debt securities available for sale as at 31 December 2016 is as follows:

<i>(in thousands of Russian Roubles)</i>	Government debt securities	Corporate debt securities	Total
<i>Neither past due nor impaired</i>			
<i>(at fair value)</i>			
- Baa1 rated	-	393,887	393,887
- Baa2 rated	404,710	121,693	526,403
- Baa3 rated	758,905	-	758,905
- BBB- rated	-	128,399	128,399
Total debt securities available for sale	1,163,615	643,979	1,807,594

Refer to Note 33 for the fair value of each category of financial assets available for sale.

Geographical, currency, interest rate and maturity analyses of financial assets available for sale are disclosed in Note 30.



9 Financial assets pledged under repo agreements

<i>(in thousands of Russian Roubles)</i>	31 December 2016
Financial assets available for sale	
Government debt securities	
- Russian Federation bonds (OFZ)	99,614
Total financial assets available for sale	99,614
Total financial assets pledged under repo agreements	99,614

Financial assets available for sale pledged under repo agreements as at 31 December 2016 comprise the following securities.

Russian Federation bonds (OFZ) represent RUB-denominated government securities issued by the Ministry of Finance of the Russian Federation. OFZ in the Bank's portfolio as at 31 December 2016 had maturity dates in September 2031 and the coupon rates ranging 8.5% p.a.

Financial assets available for sale pledged under repo agreements are recorded at fair value, that is also reflected by write-offs due to credit risk. As trading securities are carried at their fair values based on observable market data, the Bank does not analyze or monitor impairment indicators.

The Bank analyses debt securities based on Moody's Investors Service ratings. If an issuer does not have this type of rating the Bank uses ratings of Fitch Ratings or S&P Global Ratings, reconciling them to the rating categories through an adjustment table.

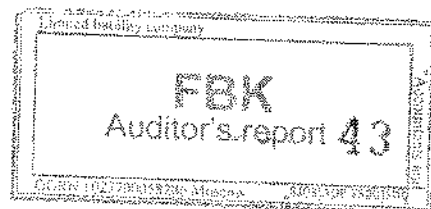
Credit quality analysis of financial assets pledged under repo agreements as at 31 December 2016 is as follows:

<i>(in thousands of Russian Roubles)</i>	Government debt securities
<i>Neither past due nor impaired (at fair value)</i>	
- Baa3 rated	99,614
Total financial assets pledged under repo agreements	99,614

Information on the fair value of each of the categories of financial assets pledged under repo agreements is presented in Note 33.

Interest rate analysis of financial assets pledged under repo agreements is disclosed in Note 30.

The Bank holds a license of the Russian Federation Federal Commission for Securities Market to carry our operations with securities.



10 Investments held to maturity

<i>(in thousands of Russian Roubles)</i>	31 December 2017	31 December 2016
Corporate debt securities		
- Corporate Eurobonds	11,630	11,630
Less: provision for impairment of investments held to maturity	(11,630)	(11,630)
Total investments held to maturity	-	-

As at 31 December 2017 and 31 December 2016, corporate Eurobonds are represented by Rouble-denominated securities issued by a Russian company. These bonds in the Bank's portfolio have maturity date in June 2019 (2016: June 2019) and the coupon rate of 2.0% p.a. (2016: 2.0% p.a.).



11 Long-term assets held for sale

The table below shows key categories of long-term assets held for sale:

<i>(in thousands of Russian Roubles)</i>	31 December 2016
Plot of land, cadastral number 47:07:0605001:485	297,460
Plot of land, cadastral number 47:07:0605001:486	129,623
Plot of land, cadastral number 47:07:0605001:108	11,297
Total long-term assets held for sale	438,380

Long-term assets held for sale were received by the Bank during 2016 on settlement agreements.

During 2017 long-term assets held for sale were transferred into investment property.

12 Investment property

Information of change in fair value of investment property is given below:

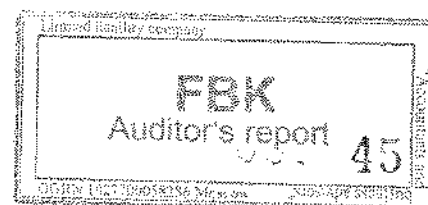
<i>(in thousands of Russian Roubles)</i>	31 December 2017	31 December 2016
Cost at 1 January	-	67,548
Transfer into long-term assets held for sale	-	(67,548)
Transfer from long-term assets held for sale	438,380	-
Positive revaluation	449,553	-
Mark-down	(3,794)	-
Cost at 31 December	884,139	-

As at 31 December 2017 investment property is represented by the plots of land located in Leningrad Region.

In August 2016 the plot of land representing investment property as at 31 December 2015 was transferred into long-term assets held for sale and sold to other party for RUB 75,000 thousand. As a result of this transaction the Bank received an income of RUB 7,452 thousand.

As at 31 December 2017 the fair value of plots of land is based on valuation of the certified independent appraiser.

There were no direct operating expenses and rental income relating to investment property during 2017 and 2016.

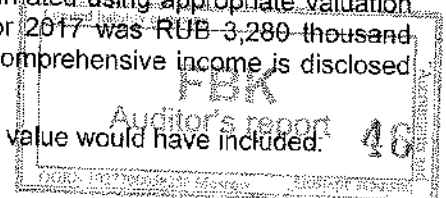


13 Premises, equipment and intangible assets

<i>(in thousands of Russian Roubles)</i>	Note	Premises	Technical systems of premises including power supply	Office and computer equipment	Total premises and equipment	Intangible assets	Total
Cost or valuation as at 31 December 2015		583,353	36,318	63,065	682,736	41	682,777
Accumulated depreciation and amortisation		-	(15,724)	(46,092)	(61,816)	(41)	(61,857)
Carrying amount as at 31 December 2015		583,353	20,594	16,973	620,920	-	620,920
Additions		-	-	11,212	11,212	22,892	34,104
Revaluation	23	1,214	-	-	1,214	-	1,214
Disposals		-	-	(9,078)	(9,078)	(26)	(9,104)
Depreciation and amortisation	26	(20,006)	(5,753)	(7,424)	(33,183)	(2,023)	(35,206)
Disposals - accumulated depreciation and amortisation		-	-	1,670	1,670	5	1,675
Carrying amount as at 31 December 2016		564,561	14,841	13,353	592,755	20,848	613,603
Cost or valuation as at 31 December 2016		564,561	36,318	65,199	666,078	22,907	688,985
Accumulated depreciation and amortisation		-	(21,477)	(51,846)	(73,323)	(2,059)	(75,382)
Carrying amount as at 31 December 2016		564,561	14,841	13,353	592,755	20,848	613,603
Additions		-	-	23,392	23,392	1,020	24,412
Revaluation	23	3,280	-	-	3,280	-	3,280
Disposals		-	-	(4,449)	(4,449)	(116)	(4,565)
Depreciation and amortisation	26	(20,188)	(5,707)	(12,812)	(38,707)	(4,048)	(42,755)
Disposals - accumulated depreciation and amortisation		-	-	1,603	1,603	45	1,648
Carrying amount as at 31 December 2017		547,653	9,134	21,087	577,874	17,749	595,623
Cost or valuation as at 31 December 2017		547,653	36,318	84,142	668,113	23,811	691,924
Accumulated depreciation and amortisation		-	(27,184)	(63,055)	(90,239)	(6,062)	(96,301)
Carrying amount as at 31 December 2017		547,653	9,134	21,087	577,874	17,749	595,623

Premises were revalued to market value as at 31 December 2017 and 31 December 2016. Revaluation is based on the report of an independent appraiser, who holds a recognised and relevant professional qualification and who has recent experience in valuation of property of similar location and category. The basis used for the appraisal was fair value. Fair value was estimated using appropriate valuation techniques and market prices. Revaluation surplus on premises for 2017 was RUB 3,280 thousand (2016: RUB 1,214 thousand). Tax effect recorded directly in other comprehensive income is disclosed in Note 27.

Had the premises been appraised using the cost model, the net book value would have included:



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<i>(in thousands of Russian Roubles)</i>	31 December 2017	31 December 2016
Initial cost	515,984	515,984
Accumulated depreciation and impairment	(82,952)	(66,308)
Net book value	433,032	449,676

14 Other assets

<i>(in thousands of Russian Roubles)</i>	31 December 2017	31 December 2016
Collateral obtained into ownership for non-payment	121,787	380,016
Cash on hand deficit	87,634	87,634
Settlements on agreements of assignment of claims	79,601	76,101
Prepayment for goods and services	33,623	28,006
Security deposit paid with the stock exchange	30,000	14,000
Outstanding credit card settlements	7,043	5,039
Outstanding tax settlements (other than on income tax)	5,885	2,711
Precious metals in coins	2,515	2,563
Fee due for issuance of a bank guarantee	1,849	2,177
Receivables on state charges, accrued fines and penalties	364	1,502
Claims to charge overdue debt	-	156
Other	3,743	6,879
Less: provision for impairment of other assets	(184,767)	(184,176)
Total other assets	189,277	422,608

Movements in the provision for impairment of other assets during 2017 and 2016 are as follows:

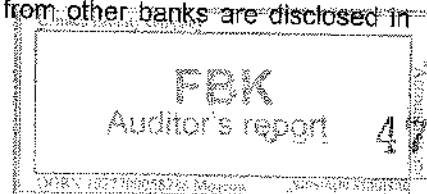
<i>(in thousands of Russian Roubles)</i>	2017	2016
Provision for impairment of other assets as at 1 January	184,176	132,426
Movements in the provision for impairment of other assets during the year	6,224	51,750
Other assets written off during the year as uncollectible	(5,633)	-
Provision for impairment of other assets as at 31 December	184,767	184,176

15 Due to other banks

<i>(in thousands of Russian Roubles)</i>	31 December 2017	31 December 2016
Correspondent accounts of other banks	6	19
Total Due to other banks	6	19

The information on the fair value of each of due to other banks' categories is presented in Note 33.

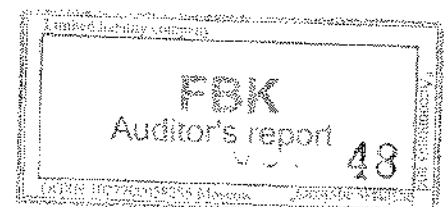
Geographical, currency, maturity and interest rate analyses of due from other banks are disclosed in Note 30.



MARITIME BANK (Joint-Stock Company)
Notes to the Financial Statements for the year ended 31 December 2017

16 Customer accounts

<i>(in thousands of Russian Roubles)</i>	31 December 2017	31 December 2016
State and public organisations		
- Current/settlement accounts	215,624	109,831
- Term deposit	-	29,967
Other legal entities		
- Current/settlement accounts	1,706,631	1,930,761
- Term deposit	2,961,576	2,339,978
Individuals		
- Current/settlement accounts	348,557	373,331
- Term deposit	5,467,720	6,422,982
Total customer accounts	10,700,108	11,206,850



Economic sector concentrations within customer accounts are as follows:

<i>(in thousands of Russian Roubles)</i>	31 December 2017		31 December 2016	
	Amount	%	Amount	%
Individuals	5,816,277	54.4	6,796,313	60.7
Fishing	2,543,257	23.8	2,019,232	18.0
Trade	656,560	6.1	601,260	5.4
Services	401,593	3.8	194,716	1.7
Transport	366,161	3.4	258,089	2.3
Manufacturing	229,383	2.1	640,611	5.7
Construction	146,754	1.4	272,641	2.4
Finance	120,964	1.1	76,063	0.7
Real estate	58,817	0.5	94,912	0.8
Other	360,342	3.4	253,013	2.3
Total customer accounts	10,700,108	100.0	11,206,850	100.0

As at 31 December 2017, the Bank had cash balances of 5 customers (2016: 6 customers) above 10% of the Bank's capital. The aggregate amount of these balances was RUB 1,986,401 thousand or 18.6% of total customer accounts (2016: RUB 1,589,634 thousand or 14.2% of total customer accounts).

Refer to Note 33 for the disclosure of the fair value of each class of customer accounts.

Geographical, currency, maturity and interest rate analyses of customer accounts are disclosed in Note 30.

17 Debt securities in issue

<i>(in thousands of Russian Roubles)</i>	31 December 2017	31 December 2016
Promissory notes	91,118	91,428
Total debt securities in issue	91,118	91,428

Promissory notes are discount promissory notes issued by the Bank are denominated in Russian Roubles (2016: in Russian Roubles).

As at 31 December 2017, loans and advances to customers in the amount of RUB 31,151 thousand (2016: RUB 46,202 thousand) are secured with the Bank's own promissory notes with the collateral value of RUB 47,850 thousand (2016: RUB 47,200 thousand) (Note 7).

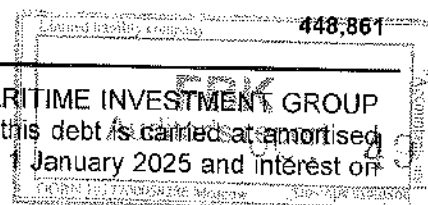
Refer to Note 33 for the disclosure of the fair value of each class of debt securities in issue.

Geographical, currency, maturity and interest rate analyses of promissory notes issued are disclosed in Note 30.

18 Subordinated debt

<i>(in thousands of Russian Roubles)</i>	31 December 2016
Subordinated debt	448,861
Total subordinated debt	448,861

On 22 June 2012 the Bank attracted a subordinated loan from MB MARITIME INVESTMENT GROUP LIMITED (Cyprus) of USD 4,000 thousand. As at 31 December 2016, this debt is carried at amortised cost of RUB 242,628 thousand. The loan was determined to mature on January 2025 and interest on



this subordinated debt was paid on a quarterly basis at 6.4% p.a. In September 2017 by exchange of claims under subordinated loan the Bank increased its share capital.

On 7 June 2012 the Bank attracted a subordinated loan from MB MARITIME INVESTMENT GROUP LIMITED of USD 3,400 thousand. As at 31 December 2016, this debt is carried at amortised cost of RUB 206,233 thousand. The loan was determined to mature on 1 January 2025 and interest was paid on this subordinated debt on a quarterly basis at 6.4% p.a. In September 2017 by exchange of claims under subordinated loan the Bank increased its share capital.

For fair value of subordinated debt refer to Note 30.

Geographical, currency, maturity and interest rate analyses of subordinated debt are disclosed in Note 30.

The information on subordinated debt transactions with related parties is disclosed in Note 35.

19 Other financial liabilities

Other financial liabilities comprise the following:

<i>(in thousands of Russian Roubles)</i>	Note	31 December 2017	31 December 2016
Deferred fees on bank guarantees		10,937	11,740
Total other financial liabilities		10,937	11,740

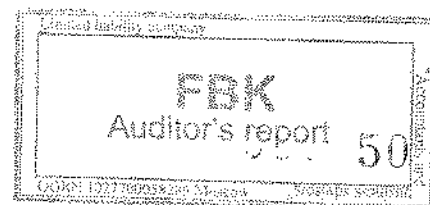
Refer to Note 33 for the disclosure of the fair value of each class of other financial liabilities.

Geographical, currency, maturity and interest rate analyses of other financial liabilities are disclosed in Note 30.

20 Other liabilities

Other liabilities comprise the following:

<i>(in thousands of Russian Roubles)</i>	Note	31 December 2017	31 December 2016
Accrued employee benefit costs		26,861	27,192
Taxes payable other than income tax		15,387	14,102
Liabilities under claim assignment agreements		11,520	12,131
Amounts payable		2,349	7,437
Liabilities on transfer of balances from closed settlement accounts		2,196	2,010
Provision for contingent liabilities		1,021	-
Dividends payable		450	450
Other	28	2,906	2,505
Total Other liabilities		62,690	65,827



21 Share capital and share premium

(in thousands of Russian Roubles), except for number of shares	31 December 2017		31 December 2016	
	Number of outstanding shares	Nominal value	Number of outstanding shares	Nominal value
Ordinary shares	15,713,254	1,755,956	12,588,271	1,406,739
Total share capital		1,755,956	-	1,406,739

The total authorised number of ordinary shares is 15,713 thousand shares (2016: 12,588 thousand shares) with a par value of RUB 111.75 per share (2016: RUB 111.75 per share).

In September 2017 the Bank's share capital was increased by exchange of claims on subordinated loans/deposits of principal amount without unpaid interests by the Bank's shares. As a result of exchange the Bank placed 3,124,983 ordinary voting shares with par value of RUB 111.75, and that caused the increase of the Bank's share capital by RUB 349,217 thousand. As a result of exchange, the Bank's share capital comprised RUB 1,755,956 thousand and was divided into 15,713,254 ordinary uncertified registered shares. The increase of the Bank's share capital was registered according to the requirements of the Russian legislation. The acquirer of shares was LLC "Agency of investments and development TEK".

As a result of exchange of the Bank's shares the share of LLC "Agency of investments and development TEK" was 99.8403% as at 31 December 2017.

In June 2016 the Bank's share capital was increased by exchange of claims on subordinated loans/deposits of principal amount without unpaid interests by the Bank's shares. As a result of exchange, the Bank placed 2,490,268 ordinary voting shares with par value of RUB 100, and that caused the increase of the Bank's share capital by RUB 249,027 thousand. As a result of exchange, the Bank's share capital comprised RUB 1,710,890 thousand and was divided into 12,588,271 ordinary uncertified registered shares. The increase of the Bank's share capital was registered according to the requirements of the Russian legislation. The acquirer of shares was LLC "Agency of investments and development TEK".

In October 2016 the Bank placed 12,588,271 ordinary voting shares with par value of RUB 111.75 by converting ordinary registered uncertified Bank's shares issued earlier with par value of RUB 100 each totalling 12,588,271 items and also at the expense of retained earnings in the amount of RUB 147,912.184 thousand. As a result of conversion, the Bank's share capital was RUB 1,406,739 thousand.

As a result of exchange and conversion of the Bank's shares the share of LLC "Agency of investments and development TEK" as at 31 December 2016 was 99.8006%.

Share premium is the amount by which the contributions to the capital exceed the nominal value of shares issued. As at 31 December 2017, share premium amounted to RUB 620,904 thousand (2016: RUB 548,248).

22 Retained earnings

In accordance with Russian legislation, the Bank distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of accounting (financial) statements prepared in accordance with Russian Accounting Rules. The Bank's uncovered losses and funds recognised in the financial statements under Russian Accounting Rules as at 31 December 2017 are RUB 650,901 thousand (2016: RUB 842,146 thousand).

Retained earnings reflected in the Bank's Russian statutory records includes a reserve fund in the amount of RUB 256,486 thousand (2016: RUB 256,486 thousand) that represents funds provided, as required by the regulations of the Russian Federation, in respect of the Bank's general banking risks, including future losses and other unforeseen risks or contingent liabilities.



23 Other comprehensive income recognized in equity

An analysis of other comprehensive income by item for each component of equity is as follows:

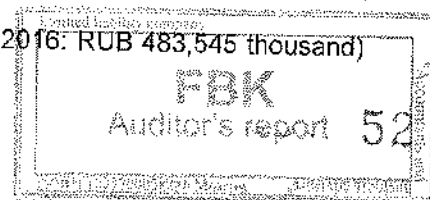
	Note	Revaluation reserve for premises	Fair value reserve for financial assets available for sale	Total
Year ended 31 December 2016				
Revaluation of financial assets available for sale		-	235,844	235,844
Revaluation of premises and equipment	13	1,214	-	1,214
Income tax recorded directly in other comprehensive income	27	(243)	(47,169)	(47,412)
Total other comprehensive income		971	188,675	189,646
Year ended 31 December 2017				
Revaluation of financial assets available for sale		-	(21,473)	(21,473)
Revaluation of premises and equipment	13	3,280	-	3,280
Income tax recorded directly in other comprehensive income	27	(656)	4,295	3,639
Total other comprehensive income		2,624	(17,178)	(14,554)

24 Interest income and expense

(in thousands of Russian Roubles)

	2017	2016
Interest income		
Loans and advances to customers		
Financial assets available for sale	1,469,251	1,778,340
Loans and deposits with other banks	127,745	224,924
Correspondent accounts with other banks	57,436	1,520
Investments held to maturity	206	633
Financial assets at fair value through profit or loss	-	5,269
	-	17
Total interest income	1,654,638	2,010,703
Interest expense		
Term deposits of individuals	518,841	669,659
Term deposits of legal entities	108,794	163,136
Current and settlement accounts	27,295	19,659
Subordinated debt	19,223	41,332
Due to the Bank of Russia	5,496	138,967
Promissory notes issued	4,604	12,656
Term placements of other banks	372	17,817
Bonds issued	-	439
Total interest expense	684,625	1,063,665
Net interest income	970,013	947,038

Interest income on impaired financial assets is RUB 416,654 thousand (2016: RUB 483,545 thousand) and is recorded within loans and advances to customers (Note 7).

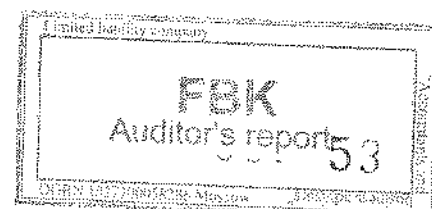


25 Fee and commission income and expense

<i>(in thousands of Russian Roubles)</i>	2017	2016
Fee and commission income		
Settlement transactions	114,056	102,332
Guarantees issued	60,367	65,250
Currency control	41,365	38,392
Cash transactions	6,873	3,811
Other	544	1,346
Total fee and commission income	223,205	211,131
Fee and commission expense		
Plastic cards	16,060	11,723
Settlement transactions	10,996	10,833
Cost of attracting new customers for the Bank under agency agreements	6,757	17,880
Services of depository	5,701	6,303
Delivery and accompanying of cash	1,924	2,238
Other	128	555
Total fee and commission expense	41,566	49,532
Net fee and commission income	181,639	161,599

26 Administrative and other operating expenses

<i>(in thousands of Russian Roubles)</i>	Note	2017	2016
Staff costs		466,167	462,832
Mandatory insurance of deposits		122,760	70,616
Depreciation of premises and equipment and amortisation of intangible assets	13	42,755	35,206
Operating lease expense		26,164	29,175
Taxes other than income tax		24,891	30,539
Professional services		21,591	14,341
Other costs of premises and equipment		13,714	12,799
Expense on property disposal		8,730	19,747
Communication, telecommunication and information system services		8,726	12,236
Advertising and marketing services		7,551	2,765
Security services		7,300	8,245
Software maintenance expenses		6,807	7,754
Expense on support of issue and servicing of bank cards		4,203	3,985
Insurance		1,800	1,348
Other		53,878	41,657
Total administrative and other operating expenses		817,037	753,245



MARITIME BANK (Joint-Stock Company)
Notes to the Financial Statements for the year ended 31 December 2017

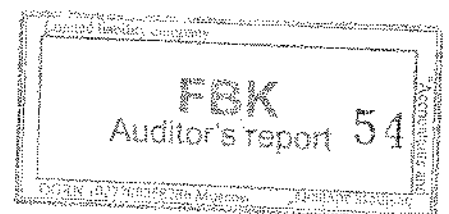
27 Income tax

Income tax recovery comprises the following components:

<i>(in thousands of Russian Roubles)</i>	2017	2016
Current income tax expense	14,903	19,866
Deferred taxation movement relating to origination and reversal of temporary differences	23,887	(36,837)
Less: deferred taxation recognized directly in other comprehensive income	3,639	(47,412)
Expense on/(recovery for) income tax for the year	42,429	(64,383)

The current income tax rate applicable to the majority of the Bank's 2017 profit is 20.0% (2016: 20.0%). A reconciliation between the expected and the actual taxation charge is provided below:

<i>(in thousands of Russian Roubles)</i>	2017	2016
Profit/(loss) before taxation	225,933	(1,226,988)
Theoretical tax charge/(recovery) at statutory rate (2017: 20.0%; 2016: 20.0%)	45,187	(245,398)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-deductible (income)/expenses	(2,013)	182,008
- Income on government securities taxed at different rates	(745)	(993)
Expense on/(recovery for) income tax for the year	42,429	(64,383)



MARITIME BANK (Joint-Stock Company)
Notes to the Financial Statements for the year ended 31 December 2017

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Differences between IFRS and statutory taxation regulations in Russia give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below, and is recorded at the rate of 20.0% (2016: 20.0%).

	31 December 2016	Credited/ (charged) to profit or loss	Credited/ (charged) to other comprehensive income	31 December 2017
<i>(in thousands of Russian Roubles)</i>				
Tax effect of deductible/(taxable) temporary differences				
Loans and advances to customers	15,350	8,381	-	23,731
Financial assets available for sale	(5,412)	-	4,295	(1,117)
Translation of financial assets available for sale at the applicable foreign exchange rate	10,683	(9,656)	-	1,027
Provision for financial assets available for sale in tax records	(3,259)	5,585	-	2,326
Premises and equipment	2,525	(124,419)	(656)	(122,550)
Other liabilities	13,165	(627)	-	12,538
Other assets	55,059	(17,390)	-	37,669
Tax loss according to the Russian legislation	212,297	110,600	-	322,897
Net deferred tax assets	300,408	(27,526)	3,639	276,521



MARITIME BANK (Joint-Stock Company)
Notes to the Financial Statements for the year ended 31 December 2017

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	31 December 2015	Credited/ (charged) to profit or loss	Credited/ (charged) to other comprehensive income	31 December 2016
<i>(in thousands of Russian Roubles)</i>				
Tax effect of deductible/(taxable) temporary differences				
Loans and advances to customers	83,920	(68,570)	-	15,350
Financial assets available for sale	41,757	-	(47,169)	(5,412)
Translation of financial assets available for sale at the applicable foreign exchange rate	(92,522)	103,205	-	10,683
Provision for financial assets available for sale in tax records	(12,378)	9,119	-	(3,259)
Premises and equipment	(50,172)	52,940	(243)	2,525
Debt securities issued	18,208	(18,208)	-	-
Other liabilities	13,528	(363)	-	13,165
Other assets	48,933	6,126	-	55,059
Tax loss according to the Russian legislation	212,297	-	-	212,297
Net deferred tax assets	263,571	84,249	(47,412)	300,408

As at 31 December 2017, a tax loss of RUB 1,614,485 thousand (2016: RUB 1,061,485 thousand) is reflected in the Bank's statutory tax records prepared in accordance with the Russian legislation. Under the current Russian tax legislation, organisations can utilise the tax loss carryforwards against the profits of future reporting periods.

28 Dividends

	2017	2016
<i>(in thousands of Russian Roubles)</i>		
Dividends payable as at 1 January	450	450
Dividends declared during the year	-	-
Dividends paid during the year	-	-
Dividends payable as at 31 December	450	450

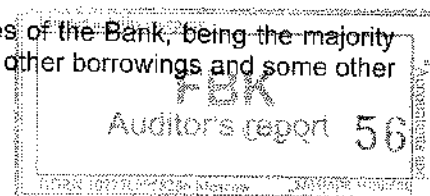
29 Segment analysis

The Bank has identified the following operating segments in its activities:

Main banking operations. This segment includes operations of the Bank's head office and branches. This segment provides a full range of services for acceptance of deposits and issuance of loans to corporate clients, individuals, small- and medium-size businesses, and private entrepreneurs, as well as other banking services such as rendering of settlement and cash services, money transfers, currency exchange services, servicing of debit and credit cards of individuals.

Treasury operations. This segment includes operations of the Bank's head office, such as stock exchange and money market operations, trading and brokerage services on the securities and foreign exchange markets, including 'repo' deals, transactions with derivatives, liquidity management operations, raising and origination of loans, centralized risk management activities through borrowings, issues of debt securities, investing in liquid assets such as short-term placements.

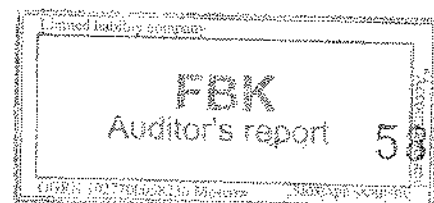
Segment assets and liabilities comprise operating assets and liabilities of the Bank, being the majority of the Bank's assets and liabilities but exclude such items as taxation, other borrowings and some other items as stated below.



MARITIME BANK (Joint-Stock Company)
Notes to the Financial Statements for the year ended 31 December 2017

Segment information on main reportable segments of the Bank as at 31 December 2016 is disclosed in the table below:

	Banking operations	Treasury operations	Non-allocated	Total
ASSETS				
Cash and cash equivalents	1,387,452	36,963	-	1,424,415
Mandatory cash balances with the Bank of Russia	-	-	267,320	267,320
Due from other banks	-	14,505	-	14,505
Loans and advances to customers	7,961,296	-	-	7,961,296
Financial assets available for sale	-	1,807,594	-	1,807,594
Financial assets pledged under repo agreements	-	99,614	-	99,614
Long-term assets held for sale	-	-	438,380	438,380
Premises, equipment and intangible assets	-	-	613,603	613,603
Other financial assets	-	-	67	67
Other assets	382,349	14,000	26,259	422,608
Deferred tax asset	-	-	300,408	300,408
Total assets	9,731,097	1,972,676	1,646,037	13,349,810
LIABILITIES				
Due to the Bank of Russia	-	100,030	-	100,030
Due to other banks	19	-	-	19
Customer accounts	11,206,850	-	-	11,206,850
Debt securities in issue	-	91,428	-	91,428
Subordinated debt	-	448,861	-	448,861
Other financial liabilities	11,740	-	-	11,740
Other liabilities	-	12,131	53,696	65,827
Total liabilities	11,218,609	652,450	53,696	11,924,755



MARITIME BANK (Joint-Stock Company)
Notes to the Financial Statements for the year ended 31 December 2017

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The table below shows a breakdown of statement of profit and loss and other comprehensive income of the Bank by operating segments for the year ended 31 December 2017:

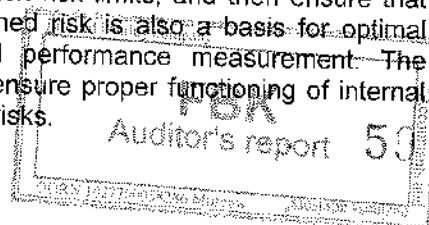
	Banking operations	Treasury operations	Non-allocated	Total
Net interest income	814,527	155,486	-	970,013
Provision for impairment of interest-bearing assets	(742,174)	-	-	(742,174)
Gains less losses from transactions with financial assets and liabilities	-	73,076	569,556	642,632
Gains less losses from trading in foreign currencies	-	(46,022)	-	(46,022)
Foreign exchange translation gains less losses	-	-	26,627	26,627
Fee and commission income	67,240	155,965	-	223,205
Fee and commission expenses	(33,813)	(7,753)	-	(41,566)
Provision for impairment of other assets	-	-	(6,224)	(6,224)
Other operating income	16,479	-	-	16,479
Operating expenses	(742,115)	(4,203)	(70,719)	(817,037)
Income tax expenses	-	-	(42,429)	(42,429)
NET PROFIT/(LOSS)	(619,856)	326,549	476,811	183,504
Other comprehensive income components	-	-	(14,554)	(14,554)
COMPREHENSIVE INCOME/(EXPENSE)	(619,856)	326,549	462,257	168,950

The table below shows a breakdown of statement of profit and loss and other comprehensive income of the Bank by operating segments for the year ended 31 December 2016:

	Banking operations	Treasury operations	Non-allocated	Total
Net interest income	926,519	20,519	-	947,038
Provision for impairment of interest-bearing assets	(1,452,231)	-	-	(1,452,231)
Gains less losses from transactions with financial assets and liabilities	103,723	(158,268)	-	(54,545)
Gains less losses from trading in foreign currencies	-	(400,004)	-	(400,004)
Foreign exchange translation gains less losses	-	-	317,344	317,344
Fee and commission income	69,061	142,070	-	211,131
Fee and commission expenses	(40,436)	(9,096)	-	(49,532)
Provision for impairment of other assets	-	-	(51,750)	(51,750)
Other operating income	58,806	-	-	58,806
Operating expenses	(675,253)	(12,236)	(65,756)	(753,245)
Income tax recovery	-	-	64,383	64,383
NET PROFIT/(LOSS)	(1,009,811)	(417,015)	264,221	(1,162,605)
Other comprehensive income	-	-	189,646	189,646
COMPREHENSIVE INCOME/(EXPENSE)	(1,009,811)	(417,015)	453,867	(972,959)

30 Financial risk management

The risk management function within the Bank is carried out in respect of financial risks (credit, market, currency, liquidity and interest rate), operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and equity risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. Assessment of assumed risk is also a basis for optimal allocation of risk-weighted capital, pricing of transactions and performance measurement. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures, in order to minimise operational and legal risks.



The Bank's Management Board sets the Bank's general risk policy as well as specific policies for managing each type of major risk. Proposals on setting limits for consideration of the Management Board are prepared by a risk-controlling department. The risk-controlling department operates separately from business departments involved in operations creating exposure.

Credit risk. The Bank takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation under an agreement. Exposure to credit risk arises as a result of the Bank's lending and other transactions with counterparties giving rise to financial assets. The Bank's maximum exposure to credit risk is usually reflected in the carrying amounts of financial assets on the statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitments. Refer to Note 32.

The Bank 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. Limits on the level of credit risk by product and industry sector are approved regularly by management. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, as well as an ad hoc review.

Loan applications originated by the relevant client relationship managers are passed on to the Credit Department for approval of credit limit and subsequently are submitted for consideration to the Credit Committee. The Credit Committee holds meetings on a weekly basis. The Credit Committee in the Head Office in Moscow also reviews loan applications from all branches. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees. The Bank usually requires collateral and/or guarantees for loans. Acceptable collateral includes real estate, securities, transportation and production equipment, inventory, precious metals, contract rights and personal property. The Bank accepts guarantees from controlling shareholders (or other controlling persons) of small businesses, government entities, banks, other solvent legal entities, individuals (for loans to individuals). In order to limit credit risk, several types of collateral may be used simultaneously.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual compliance with limits with regard to accepted risk is monitored on a permanent basis.

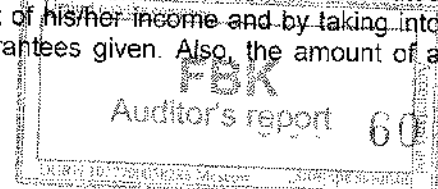
In order to monitor credit risk exposures, regular reports are produced by the credit department's officers based on a structured analysis focusing on the customer's business and financial performance. Any significant exposures to customers with deteriorating creditworthiness are reported to, and reviewed by, the Board of Directors. Management monitors and follows up past due balances.

The Credit Department of the Bank analyses loans by their maturities and carries out subsequent control of overdue balances. Management of the Department considers it appropriate to provide ageing and other information about credit risk as disclosed in Note 7.

Exposure Limits. To manage its credit risk, the Bank places its counterparties into credit risk groups, which reflect the possibility of default on their obligations. Counterparties placed into particular credit risk groups are assigned exposure limits. The Bank has developed credit risk limit calculation and monitoring procedures for the following categories of borrowers: corporate customers, resident banks and non-resident banks. Credit risk exposure limits are also set for single and related borrowers and banking operations subject to credit risk.

Exposure limits for corporate clients are set on the basis of their ownership structure, business reputation, credit history, financial condition, future financial trends, quality of financial management, transparency, industry and regional position and facilities and modern equipment quality. Exposure limits for counterparty banks are set on the basis of their financial condition, position among comparable banks, transparency of asset and liability structure and operations, operating environment (for non-resident banks), capital structure, concentration of banking operations, credit history, business reputation and relationship with the Bank. Branch and/or banking group structure is also taken into account in setting exposure limits for a particular counterparty bank.

The amount of a loan granted to an individual is limited by his/her creditworthiness, which is calculated individually for each client by using reducing ratios to the amount of his/her income and by taking into account the amount of his/her previous loans received and guarantees given. Also, the amount of a loan depends on collateral provided by the private client.



Risk Concentration. In order to reduce and diversify its credit risk, the Bank monitors its credit risk concentration, sets exposure limits for single borrowers and groups of related borrowers that are lower than those set by the standards of the Bank of Russia and sets limits for loans and bank guarantees made to related parties of the Bank. Concentration and exposure limits for large credit operations and related borrowers and high-risk credit operations are approved at the Bank's Central Head Office level.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Bank uses the same credit policies for contingent liabilities as it does for balance sheet financial instruments, including approvals of transaction, risk mitigating limits and monitoring procedures.

Market risk. The Bank takes on exposure to market risks arising from open positions in interest rate, currency and equity instruments, all of which are exposed to general and specific market movements. The Assets and Liabilities Management Committee sets limits on the level of exposure. The Treasury Department and the Market Risk Function monitor them on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements. The main goal of market risk management is to optimise risk/return ratio, minimise loss given unfavourable developments and to reduce the deviation of actual financial result from the expected result.

The Bank categorises market risk into:

- interest rate risk;
- equity risk;
- currency risk

The Bank manages its market risks through controlling open positions in bonds, stock, currencies and derivatives. For this purpose, the Bank sets open position, stop-loss and other limits. Market risk limits are updated at least once a year and controlled constantly. The Bank develops a market risk management methodology and sets limits for specific operations.

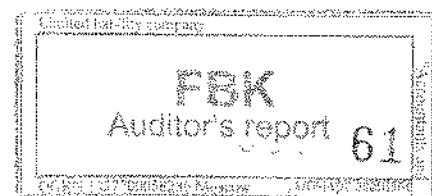
Currency risk. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of exchange rates on its financial position and cash flows. The Assets and Liabilities Management Committee sets limits on the level of exposure by currency and in total for both overnight and intra-day positions. The Treasury Department and the Risk Department monitor them on a daily basis.

The Bank issued loans in foreign currency. Depending on cash flows received by the borrower, changes in foreign exchange rates against Russian Rouble may affect the borrowers' repayment ability and it, in turn, increases the possibility of incurrance of loan losses.

The Treasury Department of the Bank's Head Office undertakes daily aggregation of the open currency position of the Bank and takes measures for maintaining of the Bank's open currency position on a minimum level. The Bank uses swaps, forwards and USD futures contracts tradable on the MICEX as the main instruments for hedging currency risks.

In respect of currency risk, management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

The table below summarises the Bank's exposure to foreign currency exchange rate risk as at 31 December 2017 and 31 December 2016.



MARITIME BANK (Joint-Stock Company)**Notes to the Financial Statements for the year ended 31 December 2017**

(in thousands of Russian Roubles)	As at 31 December 2017				As at 31 December 2016		
	Monetary financial assets	Monetary financial liabilities	Net position		Monetary financial assets	Monetary financial liabilities	Net position
RUB	10,015,848	(7,336,494)	2,679,354	RUB	9,136,852	(8,902,915)	233,937
USD	621,638	(2,823,581)	(2,201,943)	USD	2,145,288	(2,597,289)	(452,001)
EUR	344,670	(642,066)	(297,396)	EUR	283,898	(356,794)	(72,896)
Other	1,891	(28)	1,863	Other	8,773	(1,930)	6,843
Total	10,984,047	(10,802,169)	181,878	Total	11,574,811	(11,858,928)	(284,117)

Financial derivative instruments presented above are monetary financial assets or monetary financial liabilities, but are presented separately in order to show the Bank's gross exposure.

Amounts disclosed in respect of derivatives represent the fair value, at the reporting date, of the respective currency that the Bank agreed to buy (positive amount) or sell (negative amount) before netting of positions and payments with the counterparty. The net total represents the fair value of the currency derivatives. The above analysis includes only monetary assets and liabilities. Investments in equities and non-monetary assets are not considered by the Bank to give rise to any material currency risk.

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the Bank.

The following table presents movements of financial result and capital due to possible changes in exchange rates applied at the end of the reporting period, with all other variables held constant. Reasonably possible changes for each currency were estimated based on the analysis of historical data on utmost exchange rate fluctuations for December 2017:

(in thousands of Russian Roubles)	As at 31 December 2017	
	Impact on profit before taxation	Impact on comprehensive income
US Dollar strengthening by 20%	(440,389)	(352,311)
US Dollar weakening by 20%	440,389	352,311
Euro strengthening by 20%	(59,479)	(47,583)
Euro weakening by 20%	59,479	47,583

The following table presents movements of financial result and comprehensive income due to possible changes in exchange rates applied at the end of the reporting period, with all other variables held constant. Reasonably possible changes were estimated based on the analysis of historical data on daily exchange rate fluctuations for December 2016:

(in thousands of Russian Roubles)	As at 31 December 2016	
	Impact on profit before taxation	Impact on comprehensive income
US Dollar strengthening by 20%	(90,400)	(72,320)
US Dollar weakening by 20%	90,400	72,320
Euro strengthening by 20%	(14,579)	(11,663)
Euro weakening by 20%	14,579	11,663

The Bank issued loans and advances to customers in foreign currency. Movements in foreign currency exchange rates may negatively affect the ability of borrowers to repay loans, which will in turn increase the probability of loan loss. To reduce the currency risk the Bank may take a decision on possible conversion of currency loans of individuals into Russian Roubles at their request.

Interest rate risk. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may reduce or create losses in the event that unexpected movements of interest rates arise. Management sets limits on the level of mismatch of interest rate repricing that may be undertaken and monitors such limits on a regular basis.

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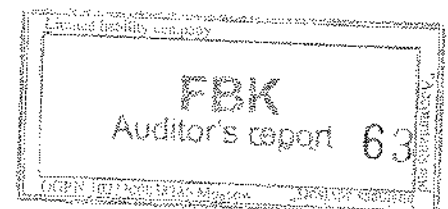
MARITIME BANK (Joint-Stock Company)
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The table below summarises the Bank's general exposure to interest rate risks. The table presents the aggregated amounts of the Bank's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

<i>(in thousands of Russian Roubles)</i>	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Interest-free	Total
31 December 2017						
Total financial assets	3,515,590	1,152,892	2,232,159	2,766,561	1,316,845	10,984,047
Total financial liabilities	1,255,731	1,321,940	1,662,121	4,557,017	2,005,360	10,802,169
Net interest rate gap as at 31 December 2017	2,259,859	(169,048)	570,038	(1,790,456)	(688,515)	181,878
Cumulative net interest rate gap as at 31 December 2017	2,259,859	2,090,811	2,660,849	870,393	181,878	
31 December 2016						
Total financial assets	2,362,747	1,085,422	4,556,541	1,916,454	1,653,647	11,574,811
Total financial liabilities	1,894,552	588,174	2,062,009	5,297,823	2,016,370	11,858,928
Net interest rate gap as at 31 December 2016	468,195	497,248	2,494,532	(3,381,369)	(362,723)	(284,117)
Cumulative net interest rate gap as at 31 December 2016	468,195	965,443	3,459,975	78,606	(284,117)	

The assets and liabilities of the Bank are mostly presented by the instruments with the fixed interest rate. The table below shows analysis of the Bank's exposure to interest rate risk as at the reporting date in case of interest rate fluctuations.

Interest rate risk management is aimed at minimising net gap established by analysis of assets and liabilities sensitive to interest rate changes. Depending on the amount of net gap, the Bank's Treasury Department takes decision to issue or attract resources at certain rates for a certain period in order to minimise potential losses as a result of movements in market interest rate.



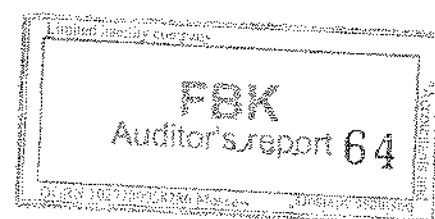
The Bank monitors interest rates of its financial instruments. The table below summarises interest rates based on reports reviewed by key management personnel of the Bank:

% p.a.	2017				2016			
	RUB	USD	EUR	Other	RUB	USD	EUR	Other
Assets								
Due from other banks	7.43%	-	-	-	-	-	-	-
Loans and advances to customers	14.00%	6.00%	7.50%	-	14.00%	7.72%	6.57%	-
Financial assets available for sale	7.86%	-	-	-	7.77%	5.53%	-	-
Financial assets pledged under repo agreements	-	-	-	-	6.5%	-	-	-
Liabilities								
Due to the Bank of Russia	-	-	-	-	11.0%	-	-	-
Customer accounts								
- current/settlement accounts of individuals	0.01%	0.01%	0.01%	-	0.01%	0.01%	0.01%	-
- term deposits of legal entities	7.83%	2.26%	1.8%	-	9.97%	3.03%	2.05%	-
- term deposits of individuals	8.46%	2.61%	2.35%	-	1.24%	0.75%	0.99%	-
Subordinated debt	-	-	-	-	-	6.4%	-	-

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

Equity risk. The Bank has limited exposure to equity price risk. The Assets and Liability Management Committee monitors and authorises equity transactions. In 2017 and 2016 the Bank did not perform equity transactions.

The Bank is exposed to prepayment risk through providing fixed rate loans, including mortgage loans, which give the borrower the right to early repay the loans. The Bank's current year profit (loss) and equity at the current reporting date are not significantly impacted by changes in prepayment rates because such loans are carried at amortised cost and the prepayment right is at, or close to, the amortised cost of the loans to customers.



Notes to the Financial Statements for the year ended 31 December 2017

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

<i>(in thousands of Russian Roubles)</i>	Russia	OECD countries	Other countries	Total
ASSETS				
Cash and cash equivalents	1,061,366	51,305	-	1,112,671
Due from other banks	1,125,746	-	-	1,125,746
Loans and advances to customers	6,427,925	-	-	6,427,925
Financial assets available for sale	2,076,130	-	-	2,076,130
Other financial assets	67	-	-	67
Total financial assets	10,691,234	51,305	-	10,742,539
Liabilities				
Due to other banks	6	-	-	6
Customer accounts	10,656,453	33,183	10,472	10,700,108
Debt securities in issue	91,118	-	-	91,118
Other financial liabilities	10,937	-	-	10,937
Total financial liabilities	10,758,514	33,183	10,472	10,802,169
Net balance sheet position	(57,280)	18,122	(10,472)	(59,630)
Credit related commitments	3,593,120	-	-	3,593,120



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

<i>(in thousands of Russian Roubles)</i>	Russia	OECD countries	Other countries	Total
ASSETS				
Cash and cash equivalents	874,201	550,214	-	1,424,415
Due from other banks	14,505	-	-	14,505
Loans and advances to customers	7,961,296	-	-	7,961,296
Financial assets available for sale	1,807,594	-	-	1,807,594
Financial assets pledged under repo agreements	99,614	-	-	99,614
Other financial assets	67	-	-	67
Total financial assets	10,757,277	550,214	-	11,307,491
Liabilities				
Due to the Bank of Russia	100,030	-	-	100,030
Due to other banks	19	-	-	19
Customer accounts	11,168,137	11,353	27,360	11,206,850
Debt securities in issue	91,428	-	-	91,428
Subordinated debt	-	-	448,861	448,861
Other financial liabilities	11,740	-	-	11,740
Total financial liabilities	11,371,354	11,353	476,221	11,858,928
Net balance sheet position	(614,077)	538,861	(476,221)	(551,437)
Credit related commitments	3,118,575	-	-	3,118,575

Liquidity risk. Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash-settled derivative instruments. The Bank does not maintain cash resources to meet all of these needs, as based on the accumulated experience, it is possible to forecast with a sufficient degree of certainty the required level of cash funds necessary to meet the above obligations. Liquidity risk is managed by the Assets and Liabilities Management Committee of the Bank.

The Bank seeks to maintain a stable funding base primarily consisting of amounts due to other banks, corporate and retail customer deposits and securities. The Bank invests the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The Bank's liquidity management requires analysis of the level of liquid assets necessary to settle liabilities when due; access to various funding sources; availability of plans in case of funding problems and control over compliance of the balance sheet liquidity ratios with the statutory requirements. The Bank calculates liquidity ratios on a daily basis in accordance with the requirements of the Bank of Russia. These ratios are:



- Instant liquidity ratio (H2), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand. The ratio was 113.0% at 31 December 2017 (2016: 83.8%);
- Current liquidity ratio (H3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days. The ratio was 100.8% at 31 December 2017 (2016: 70.9%);
- Long-term liquidity ratio (H4), which is calculated as the ratio of assets maturing after one year to regulatory capital and liabilities maturing after one year. The ratio was 95.6% at 31 December 2017(2016: 63.8%).

The Treasury Department receives information about the liquidity profile of the financial assets and liabilities. The Securities Department provides for an adequate portfolio of short-term liquid assets, largely made up of short-term liquid trading securities, deposits with banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Department.

The table below shows liabilities by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, prices specified in deliverable forward agreements to purchase financial assets for cash, contractual amounts to be exchanged under gross settled currency swaps, and gross loan commitments. Such undiscounted cash flows differ from the amounts included in the statement of financial position because the carrying amount is based on discounted cash flows. Net settled derivatives are included at the net amounts expected to be paid.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the reporting date.

The analysis of financial liabilities based on the contractual undiscounted cash flows as at 31 December 2017 is as follows:

<i>(in thousands of Russian Roubles)</i>	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Total
Liabilities					
Due to other banks	6	-	-	-	6
Customer accounts	3,233,696	1,405,713	1,730,294	4,549,833	10,919,536
Debt securities in issue	29,958	5,446	37,294	18,420	91,118
Other financial liabilities	10,937	-	-	-	10,937
Total potential future payments under financial obligations	3,274,597	1,411,159	1,767,588	4,568,253	11,021,597



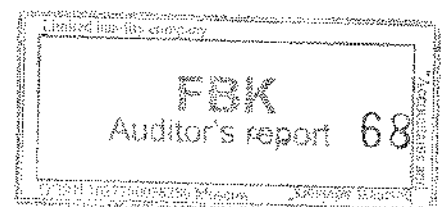
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The analysis of financial liabilities based on the contractual undiscounted cash flows as at 31 December 2016 is as follows:

<i>(in thousands of Russian Roubles)</i>	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	More than 5 years	Total
Liabilities						
Due to the Bank of Russia	100,301	-	-	-	-	100,301
Due to other banks	19	-	-	-	-	19
Customer accounts	3,800,017	578,671	2,104,683	4,797,062	-	11,280,433
Debt securities in issue	5,492	22,753	501	62,682	-	91,428
Subordinated debt	-	14,245	14,482	114,987	535,200	678,914
Other financial liabilities	11,740	-	-	-	-	11,740
Total potential future payments under financial obligations	3,917,569	615,669	2,119,666	4,974,731	535,200	12,162,835

Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with the Russian Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest at rates of term deposits.



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Remaining expected and contractual maturities as at 31 December 2016 are summarised as follows:

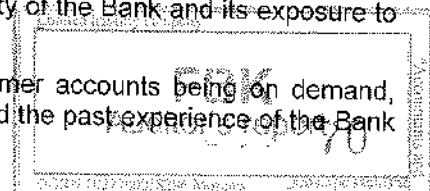
<i>(in thousands of Russian Roubles)</i>	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 12 months	Total
ASSETS					
Cash and cash equivalents	1,424,415	-	-	-	1,424,415
Mandatory cash balances with the Bank of Russia	267,320	-	-	-	267,320
Due from other banks	14,505	-	-	-	14,505
Loans and advances to customers	402,879	1,085,422	4,556,541	1,916,454	7,961,296
Financial assets available for sale	1,807,594	-	-	-	1,807,594
Financial assets pledged under repo agreements	99,614	-	-	-	99,614
Other financial assets	67	-	-	-	67
Total financial assets	4,016,394	1,085,422	4,556,541	1,916,454	11,574,811
Liabilities					
Due to the Bank of Russia	100,030	-	-	-	100,030
Due to other banks	19	-	-	-	19
Customer accounts	3,793,641	565,421	2,061,508	4,786,280	11,206,850
Debt securities in issue	5,492	22,753	501,00	62,682	91,428
Subordinated debt	-	-	-	448,861	448,861
Other financial liabilities	11,740	-	-	-	11,740
Total financial liabilities	3,910,922	588,174	2,062,009	5,297,823	11,858,928
Liquidity gap arising from financial instruments	105,472	497,248	2,494,532	(3,381,369)	(284,117)
Cumulative liquidity gap as at 31 December 2016	105,472	602,720	3,097,252	(284,117)	

The portfolio of available-for-sale financial assets as at 31 December 2017 and 31 December 2016 is classified by contractual maturity except for the instruments included in the Lombard List of the Bank of Russia and Eurobonds of issuers whose liabilities are included in the Lombard List of the Bank of Russia. The securities included in the above list are recognised not only as highly marketable liquidity instruments but also as the instruments providing immediate access to the monetary funds of the Bank of Russia via lombard credit transactions or REPO transactions. Financial assets available for sale included in the Lombard List of the Bank of Russia and the above Eurobonds as at 31 December 2017 and 31 December 2016 are recorded within "On demand and less than one month" in these financial statements.

The Bank classifies customer accounts based on their contractual maturity. Expected maturities for the customer accounts usually exceed the contractual maturities. The portfolio of financial assets available for sale also includes liquid securities, which could be converted into cash in a short time period.

Management believes that matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

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 Bank



would indicate that these customer accounts provide a long-term and stable source of funding for the Bank.

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

Operational risk. Operational risk is risk to incur losses due to discrepancy and defects in the Bank's internal management, failure in informational and other systems or due to effect of external events on the Bank's activities.

The Bank classifies events of operational risk which can lead to financial losses due to event types of operational risk offered by the Basel Committee.

Operational risk management in the Bank is aimed at minimizing losses occurred in the Bank's activities and caused by internal and external factors.

The Bank monitors operational risk and special attention is paid to the occurred tendencies for change (increase) of the Bank's operational risk level which enables it to focus on operational risk management on the identified bad areas of the Bank's activities.

Minimization of operational risk is performing a set of measures to decrease the possibility of occurrence of events or circumstances leading to operational losses and (or) to decrease (to limit) the size of potential operational losses.

The key method to minimize operational risk controlled in the Bank is designing the organizational structure, internal rules and procedures to perform banking operations and other transactions so that to rule out (minimize) the possibility of occurrence of factors of operational risk. Special attention is paid to observation of division of powers principles, the order of approval (agreement) and reporting relationships on the performed banking operations and other transactions.

In order to limit the level of operational risk and to limit the possibility of occurrence of operational risk factors the Bank has designed the "Plan of activities to secure going concern and (or) business recovery of MARITIME BANK (OJSC)" and "Plan to secure ongoing operation of the automated banking system of MARITIME BANK (OJSC)"

Prudential risk. Prudential risk is risk to incur losses due to incompliance with the legislation, internal documents, and also as a result of imposing sanctions and (or) other treatments from supervisory bodies. Prudential risk is monitored by the Bank based on the legislations and regulations, internal regulations of the Bank.

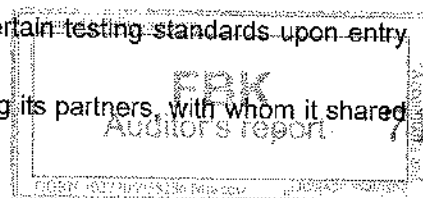
Reputational risk. Reputational risk is a risk of the Bank's losses incurred due to the public opinion existing as a result of violations in the Bank's operation.

The source of higher reputational risk is sensitive information on the Bank's activities and financial position.

In its operation, the Bank adheres to a strategy of minimising the reputational risk, including by:

- Accurate performance by the Bank of its current obligations;
- Enhancement of the reliable Bank image for customers (counterparties), creation of a friendly Bank image through continuous improvement of the service quality and range of offered banking products;
- Advertising and PR events in the mass media, participation in industry exhibitions to raise awareness of the Bank;
- Monitoring of the information on the Bank, its employees, shareholders and affiliates in the mass media;
- Appraisal of business reputation of its counterparties when the Bank participates in investment, loan and other projects;
- Compliance with the know your employee principle ensuring certain testing standards upon entry into employment at the Bank.

One of the factors of low risk is the Bank's strategic customers being its partners, with whom it shared experience in effective and long-term cooperation.



Strategic risk. Strategic risk is a risk of the Bank's losses due to the errors (deficiencies) made in the course of making decisions determining the Bank's development strategy (strategic management) and expressed in neglecting or insufficient accounting of potential hazards, which may threaten the Bank's activities, improper or ill-founded determination of prospects for the activities, where the Bank may obtain advantages over its competitors, unavailability or insufficient availability of necessary (financial, material and technical, human) resources and organizational measures (managerial decisions) that should facilitate achievement of the Bank's strategic objectives.

In its activities, the Bank minimises the strategic risk, including through use of planning system, including preparation of strategic development plan, current and operating plans, monitoring of their fulfilment and analysis of factors affecting such fulfilment.

The Bank's strategic development plans adopted should be mandatorily monitored on a regular basis and, if necessary, adjusted to the changing external and internal factors.

31 Management of capital

The Bank's objectives when managing capital are (i) to comply with the capital requirements set by the Bank of Russia, (ii) to safeguard the Bank's ability to continue as a going concern and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio equal to 8.0% (2016: 8.0%) in accordance with prudential supervision requirements of the Bank of Russia. The amount of capital that the Bank managed as at 31 December 2017 totalled RUB 1,877,012 thousand (2016: RUB 1,652,327 thousand). Compliance with capital adequacy ratios set by the Bank of Russia is monitored monthly with reports outlining their calculation reviewed and signed by the Bank's Chairman of the Management Board and Chief Accountant in order to present them to the Bank of Russia.

Under the current capital requirements set by the Bank of Russia banks have to maintain the ratio of regulatory capital to risk weighted assets H1.0 ("statutory capital ratio") above the prescribed minimum level.



The table below shows the regulatory capital based on the Bank's reports prepared according to the requirements of the Russian legislation (Basel III).

<i>(in thousands of Russian Roubles)</i>	31 December 2017	31 December 2016
Core capital	1,479,725	1,047,231
Additional capital	397,287	605,096
Total regulatory capital	1,877,012	1,652,327

The level of capital adequacy ratio as at 31 December 2017 and 31 December 2016 is presented in the table below:

<i>(in thousands of Russian Roubles)</i>	31 December 2017	31 December 2016
Base capital adequacy ratio (H1.1)	11.2%	6.8%
Allowable value (H1.1)	not less than 4.5%	not less than 4.5%
Key capital adequacy ratio (H1.2)	11.2%	6.8%
Allowable value (H1.2)	not less than 6.0%	not less than 6.0%
Equity (capital) adequacy ratio (H1.0)	14.0%	10.6%
Allowable value (H1.0)	not less than 8.0%	not less than 8.0%

Also, in accordance with existing requirements to capital set by the Bank of Russia the Bank cannot exceed the maximum exposure per one borrower or a group of related borrowers (H6), which is set as a percentage of the Bank's capital. The level of capital adequacy ratio as at 31 December 2017 and 31 December 2016 is presented in the table below:

	31 December 2017	31 December 2016
Maximum risk per one borrower or a group of related borrowers (H6)	21.1%	24.1%
Acceptable ratio (H6)	Not more than 25.0%	Not more than 25.0%

During 2017 the Bank received a voluntary contribution from the shareholder being LLC "Agency of investments and development TEK" in the amount of RUB 50,000 thousand which was accounted for in the equity (2016: RUB 150,000 thousand).

32 Contingencies and commitments

Legal proceedings. In the normal course of business, lawsuits and claims against the Bank are received. Management believes that probable obligations (if any) arising from such lawsuits or claims will not have a significant negative effect on financial position or performance of the Bank in the future. Based on its own estimate management of the Bank believes that legal proceedings on them will not result in significant losses for the Bank and therefore no provision for legal proceedings has been made in the financial statements.



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

As at 31 December 2017 management believes it follows proper interpretation of the respective legislation and the Bank's view of tax, currency and customs issues will be supported by regulatory bodies.

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

	2017	2016
Less than 1 year	17,092	15,358
From 1 to 5 years	12,262	9,043
Total operating lease commitments	29,354	24,401

In 2017 and 2016 the Bank did not sublease the premises rented by the Bank to any third party.

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments, if the unused amounts were to be drawn down. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific creditworthiness standards. The Bank monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. Outstanding credit related commitments are as follows:

<i>(in thousands of Russian Roubles)</i>	31 December 2017	31 December 2016
Guarantees issued	1,537,584	1,549,637
Unused limits on bank guarantee issue	1,308,445	1,074,061
Undrawn credit lines	747,091	494,877
Total credit related commitments	3,593,120	3,118,575



As at 31 December 2017 and 31 December 2016 the Bank did not form any provision for losses on credit related commitments.

The total outstanding contractual amount of undrawn credit lines and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

Assets pledged and restricted

The Bank had assets pledged as collateral with the following carrying value:

<i>(in thousands of Russian Roubles)</i>	Note	31 December 2017		31 December 2016	
		Pledged assets	Related liability	Pledged assets	Related liability
Financial assets available for sale	9	-	-	99,614	100,030
Total		-	-	99,614	100,030

As at 31 December 2016 financial assets available for sale in the amount of RUB 99,614 thousand were pledged on REPO transactions with the Bank of Russia.

Restricted assets of the Bank include mandatory cash balances with the Bank of Russia of RUB 241,508 thousand (2016: RUB 267,320 thousand) and represent mandatory reserve deposits with the Bank of Russia which are not available to finance the Bank's day-to-day operations.



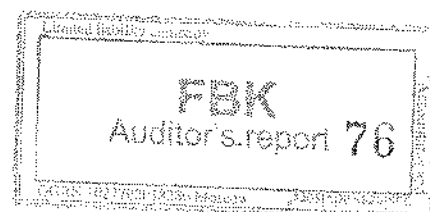
33 Fair value of financial instruments

(a) Fair value of financial instruments carried at amortised cost.

In accordance with the IFRS fair value hierarchy, all of the Bank's financial instruments carried at amortised cost as at 31 December 2017 and 31 December 2016 belong to Level 3.

Fair values of financial instruments carried at amortised cost are as follows:

<i>(in thousands of Russian Roubles)</i>	31 December 2017		31 December 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
FINANCIAL ASSETS				
Due from other banks	1,125,746	1,125,746	14,505	14,505
Loans and advances to customers	6,427,925	6,427,925	7,961,296	7,961,296
Other financial assets	67	67	67	67
TOTAL FINANCIAL ASSETS CARRIED AT AMORTISED COST	7,553,738	7,553,738	7,975,868	7,975,868



(b) Analysis by fair value hierarchy of financial assets carried at fair value.

Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

In accordance with the IFRS fair value hierarchy all Bank's financial assets as at 31 December 2017 and 31 December 2016 belong to Level 1, since quoted prices in an active market are used for their measurement.

<i>(in thousands of Russian Roubles)</i>	31 December 2017		31 December 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
FINANCIAL ASSETS				
Financial assets available for sale	2,076,130	2,076,130	1,807,594	1,807,594
Financial assets pledged under repo agreements	-	-	99,614	99,614
TOTAL FINANCIAL ASSETS CARRIED AT FAIR VALUE	2,076,130	2,076,130	1,907,208	1,907,208

(c) The methods and assumptions applied in determining fair values

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price. Where quoted market prices are not available, the Bank uses different valuation techniques. The fair value of floating rate derivative instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated 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.

(d) Fair value of non-financial assets

In accordance with the IFRS fair value hierarchy, all of the Bank's non-financial instruments carried at fair value as at 31 December 2017 and 31 December 2016 belong to Level 3.

The fair value of investment property and the category "premises" of the Bank's premises and equipment was determined using the method described in the accounting policies. The valuation was performed by an independent appraiser who applied different adjustment factors to market prices of items comparable to investment property, land and premises of the Bank under valuation in order to derive the market value of the items being valued. The adjustment factors comprise factors for the quality of the property, its location and environment, transport accessibility and other individual physical characteristics, approximating the used analogues to property under valuation. Data on the value of investment property and premises and equipment in the category "land and premises" are approved by the Bank's financial director who considers the relevance of inputs used for valuation purpose and the results obtained, using various valuation methods and techniques. The approved valuation results are reported by the financial director to the Bank's management.

As at 31 December 2017, if the adjustment factor increases by 10%, the cost of investment property will increase by RUB 88,414 thousand (2016: none) and the cost of premises and equipment (buildings) will increase by RUB 54,765 thousand (2016: RUB 56,456 thousand). If the adjustment factor decreases by 10%, the cost of investment property will decrease by RUB 88,414 thousand (2016: none) and the cost of premises and equipment (land and premises) will decrease by RUB 54,765 thousand (2016: RUB 56,456 thousand). These adjustments may cause a 6.9 % (2016: 3.8 %) change in capital, which will not have a significant impact on capital adequacy.



Below is reconciliation of opening and closing balances of assets carried at fair value which are classified in Level 3 of the fair value hierarchy:

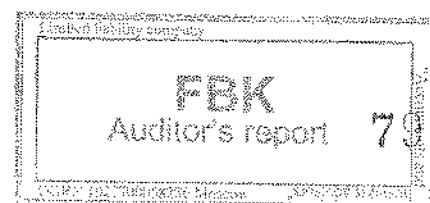
<i>(in thousands of Russian Roubles)</i>	31 December 2016	Depreciation (Note 26)	Transfer to long-term assets held for sale (Note 12)	Revaluation (Notes 12 and 23)	31 December 2017
Investment property	-	-	438,380	445,759	884,139
Premises and equipment (premises and land)	564,561	(20,188)	-	3,280	547,563

In 2017 and 2016 there were no transfers of financial instruments between the levels of the fair value hierarchy.

34 Presentation of financial instruments by measurement category

Under IAS 39, Financial Instruments: Recognition and Measurement, the Bank classifies financial assets into the following categories: (a) loans and receivables; (b) financial assets available for sale; and (c) financial assets at fair value through profit and loss account. The following table provides a reconciliation of financial assets with these measurement categories as at 31 December 2017:

<i>(in thousands of Russian Roubles)</i>	Loans and receivables	Financial assets at fair value through profit or loss	Financial assets available for sale	Total
FINANCIAL ASSETS				
Cash and cash equivalents	-	1,112,671	-	1,112,671
- Correspondent accounts with other banks	-	181,637	-	181,637
- Cash balances with the Bank of Russia, other than mandatory reserve deposits	-	418,975	-	418,975
- Cash on hand	-	268,750	-	268,750
- Settlements with currency and stock exchanges	-	243,309	-	243,309
Due from other banks	1,125,746	-	-	1,125,746
- Repo agreements with other banks	609,286	-	-	609,286
- Loans from the Bank of Russia	500,424	-	-	500,424
- Loans and deposits from other banks	16,036	-	-	16,036
Loans and advances to customers	6,427,925	-	-	6,427,925
- Corporate loans	8,435,506	-	-	8,435,506
- Loans to individuals	263,914	-	-	263,914
- Less: provision for impairment	(2,271,495)	-	-	(2,271,495)
Financial assets available for sale	-	-	2,076,130	2,076,130
- Bonds of the Bank of Russia	-	-	2,001,040	2,001,040
- Russian Federation bonds (OFZ)	-	-	75,090	75,090
Other financial assets	67	-	-	67
Total financial assets	7,553,738	1,112,671	2,076,130	10,742,539
Non-financial assets	-	-	-	2,188,198
Total assets	-	-	-	12,930,737



The following table provides a reconciliation of financial assets with these measurement categories as at 31 December 2016:

<i>(in thousands of Russian Roubles)</i>	Loans and receivables	Financial assets at fair value through profit or loss	Financial assets available for sale	Total
FINANCIAL ASSETS				
Cash and cash equivalents	-	1,424,415	-	1,424,415
- Correspondent accounts with other banks	-	793,947	-	793,947
- Cash balances with the Bank of Russia, other than mandatory reserve deposits	-	346,292	-	346,292
- Cash on hands	-	247,213	-	247,213
- Settlements with currency and stock exchanges	-	36,963	-	36,963
Due from other banks	14,505	-	-	14,505
- Loans and deposits with other banks	14,505	-	-	14,505
Loans and advances to customers	7,961,296	-	-	7,961,296
- Corporate loans	9,586,866	-	-	9,586,866
- Loans to individuals	304,443	-	-	304,443
- Less: provision for impairment	(1,930,013)	-	-	(1,930,013)
Financial assets available for sale	-	-	1,807,594	1,807,594
- Russian Federation bonds (OFZ)	-	-	1,149,407	1,149,407
- Municipal bonds	-	-	14,208	14,208
- Corporate Eurobonds	-	-	519,673	519,673
- Corporate bonds	-	-	124,306	124,306
Financial assets pledged under repo agreements	-	-	99,614	99,614
- Russian Federation bonds (OFZ)	-	-	99,614	99,614
Other financial assets	67	-	-	67
Total financial assets	7,975,868	1,424,415	1,907,208	11,307,491
Non-financial assets	-	-	-	2,042,319
Total assets	-	-	-	13,349,810

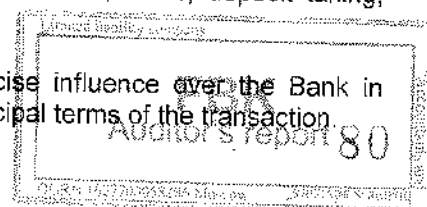
As at 31 December 2017 and 31 December 2016, all of the Bank's financial liabilities except for derivatives were carried at amortised cost.

35 Related party transactions

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

Transactions with related parties are entered into in the normal course of business with the Bank's significant shareholders, ultimate beneficiaries, directors and companies with which the Bank has significant shareholders in common. These transactions included settlements, loans, deposit taking, guarantees, trade finance and foreign currency transactions.

Other related parties of the Bank include individuals who can exercise influence over the Bank in making decisions on executing transactions with risk, including the principal terms of the transaction.



As at 31 December 2017, the outstanding balances with related parties were as follows:

	Shareholders	Entities under common control	Key management personnel	Other related parties
<i>(in thousands of Russian Roubles)</i>				
Gross amount of loans and advances to customers	-	-	744	570
Customer accounts	-	4,179	13,621	165,949

The income and expense items with related parties for 2017 were as follows:

	Shareholders	Entities under common control	Key management personnel	Other related parties
<i>(in thousands of Russian Roubles)</i>				
Interest income	-	-	80	34,474
Interest expense	(19,223)	-	-	-
Gains less losses from trading in foreign currencies	-	-	1,024	2,883
Fee and commission income	-	61	-	3,632
Other operating income	-	-	6,598	167,381

As at 31 December 2017, other rights and obligations arising from transactions with related parties were as follows:

	Shareholders	Entities under common control	Key management personnel	Other related parties
<i>(in thousands of Russian Roubles)</i>				
Other contingent obligations	-	-	3,937	142,443

Aggregate amounts lent to and repaid by related parties during 2017 and changes in customer accounts of related parties are as follows:

	Shareholders	Entities under common control	Key management personnel	Other related parties
<i>(in thousands of Russian Roubles)</i>				
Change lent to related parties during the year	-	-	570	(413)
Changes in customer accounts of related parties during the year	-	3,135	(15,667)	(302,676)

As at 31 December 2016, the outstanding balances with related parties were as follows:

	Shareholders	Entities under common control	Key management personnel	Other related parties
<i>(in thousands of Russian Roubles)</i>				
Gross amount of loans and advances to customers	-	-	174	983
Customer accounts	-	1,044	29,288	468,625
Subordinated debt	448,861	-	-	-



MARITIME BANK (Joint-Stock Company)
Notes to the Financial Statements for the year ended 31 December 2017

The income and expense items with related parties for 2016 were as follows:

<i>(in thousands of Russian Roubles)</i>	Shareholders	Entities under common control	Key management personnel	Other related parties
Interest income	-	-	59	133
Interest expense	(41,332)	-	(804)	(341)
Gains less losses from trading in foreign currencies	-	51	1,331	1,942
Fee and commission income	-	162	-	568
Other operating income	-	295,185	31,391	796,325

As at 31 December 2016, other rights and obligations arising from transactions with related parties were as follows:

<i>(in thousands of Russian Roubles)</i>	Shareholders	Entities under common control	Key management personnel	Other related parties
Other contingent obligations	-	-	4,069	2,486

Aggregate amounts lent to and repaid by related parties during 2016 and changes in customer accounts of related parties are as follows:

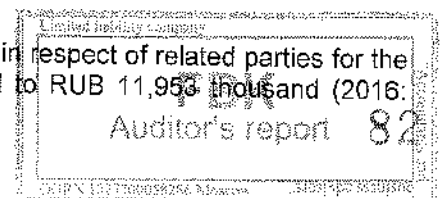
<i>(in thousands of Russian Roubles)</i>	Entities under common control	Key management personnel	Other related parties
Change lent to related parties during the year	-	(1,429)	64
Changes in customer accounts of related parties during the year	(5,264)	(13,602)	430,543

Remuneration of key management personnel is presented below:

<i>(in thousands of Russian Roubles)</i>	2017		2016	
	Expense	Accrued liability	Expense	Accrued liability
<i>Short-term benefits:</i>				
- Salaries	70,419	-	104,032	-
- Short-term bonuses	10,720	-	16,717	-
- Benefits in-kind	11	-	36	-
- Payments based on the decision of the shareholders' meeting	2,143	1,071	2,160	1,071
- Payments as agreed by the parties	4,940	-	5,184	-
Total	88,233	1,071	128,129	1,071

Short-term bonuses fall due wholly within twelve months after the end of the period in which management rendered the related services.

In 2017 contributions to the Pension Fund of the Russian Federation in respect of related parties for the compensation of the Bank's key management personnel amounted to RUB 11,956 thousand (2016: RUB 24,670 thousand).



MARITIME BANK (Joint-Stock Company)
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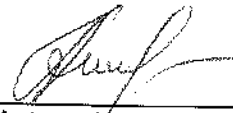
36 Changes in circumstances relating to financial activities

<i>(in thousands of Russian Roubles)</i>	Subordinated debt
Carrying amount as at 31 December 2015	1,308,905
Exchange differences	(162,769)
Non-monetary transactions	(697,275)
Carrying amount as at 31 December 2016	448,861
Exchange differences	(26,988)
Non-monetary transactions	(421,873)
Carrying amount as at 31 December 2017	-

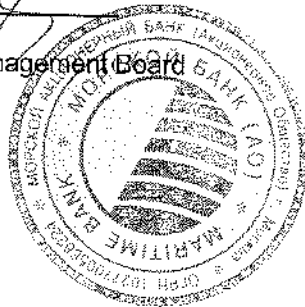
Non-monetary transactions item includes claims on subordinated loans transferred to increase the Bank's share capital by exchange.



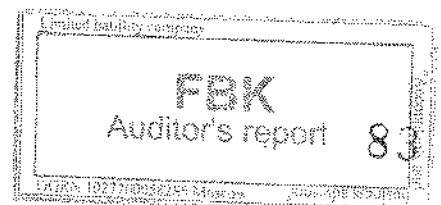
A.B. Gilts
Acting Chairman of the Management Board



E.V. Antonenko
Chief Accountant



MARITIME BANK (JSC)
Moscow
26 April 2018



Numbered and situated
up in total

(Eighty five)

President of APB

Engagement partner

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