

CREDIT UNION “PAYMENT CENTER” (LTD.)

Financial Statements
Prepared in accordance with the International Financial
Reporting Standards (IFRS)
as at December 31, 2017

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AUDIT REPORT

To the Shareholders of the Credit Union “Payment Center” (Ltd.)

Opinion

We have audited the accompanying annual financial statements of the Credit Union “Payment Center” (Limited Liability Company) (OGRN 1025400002968, 630102 Russian Federation, Novosibirsk, Kirov Str., 86) which comprise the statement of financial position as of December 31, 2017 and the statement of profit or loss, changes in equity and cash flows for 2017, and notes comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Credit Union “Payment Center” (Ltd.) as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Accounting Standards.

Basis for opinion

We have performed our audit in accordance with the International standards on auditing (ISA). Our responsibility in accordance therewith is defined in section “Auditor’s responsibility for audit of the annual financial statements” hereof. We are independent as to the audited person in accordance with the Rules of independent auditors and audit organizations and Code of professional ethics for auditors corresponding to the Code of professional accountants elaborated by the Council for international ethics standards for professional accountants and we have performed other obligations in accordance with such requirements of professional ethics. We suppose that audit evidences are sufficient and proper enough to serve as a basis for our opinion.

Management’s Responsibility for the Annual Financial Statements

Management is responsible for the preparation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Upon preparation of annual financial statements, management is responsible for estimation of ability of an audited company to continue as a going concern, for disclosure of information related to a going concern and for the preparation of financial statements on the basis of a going concern assumption, except for the cases when management intends to liquidate an audited person or terminate its business or it has no alternative but to liquidate it or cancel its business.

Responsibility of an Auditor for Audit of the Financial Statements

Our objective is 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 ISA 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 ISA, we exercise professional judgment and maintain professional skepticism 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 internal control of the audited person.
- c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management of the audited person.
- 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 person’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 person to cease 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 consolidated 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 governance of the audited person 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.

Opinion based on requirements of Article 42 of the Federal Law “On Banks and Banking Business” No. 395-1 dated December 2, 1990 (amended and restated).

Management of the Credit Union is responsible for compliance with mandatory standards established by the Bank of Russia and for such internal control and risk management systems as are necessary for the Credit Union “Payment Center” to comply with the requirements established by the Bank of Russia thereto.

In compliance with Article 42 of the Federal Law “On Banks and Banking Business” No. 395-1 dated December 2, 1990 while evaluating the annual accounting (financial) statements of the Bank for 2017, our audit involved evaluating if the Credit Union “Payment Center”:

complies with mandatory requirements of the Bank of Russia as at January 1, 2018;

complies with internal control and risk management requirements established by the Bank of Russia;

The procedures for such audit were selected depending on our judgement and included sending requests, analyzing, examining documents, comparing requirements, procedures and methods applied by the Credit Union “Payment Center” with the requirements established by the Bank of Russia, as well as recalculating and comparing amounts and other information.

Results of our audit are the following:

1) as for compliance of the Credit Union “Payment Center” with mandatory regulations of the Bank of Russia:

Statutory ratios of the Credit Union “Payment Center” as at January 1, 2018 were within the limits established by the Bank of Russia.

Our audit involved procedures related to accounting data of the Credit Union “Payment Center” only in part necessary to express an opinion whether the annual financial statements of the Credit Union “Payment Center” present fairly, in all material respects, the financial position of the Credit Union “Payment Center” as at January 1, 2018, and its financial performance and its cash flows for 2017 in accordance with Russian Financial Reporting Standards for the credit institutions;

2) as for compliance of the Bank’s system of internal control and risk management with the requirements set by the Bank of Russia therefor:

a) in accordance with the requirements and recommendations of the Bank of Russia as at December 31, 2017 the internal audit service of the Credit Union “Payment Center” is subordinated and accountable to the Board of the Credit Union “Payment Center”, risk management department of the Credit Union “Payment Center” was not either subordinated or accountable to the subdivisions accepting respective risks, heads of internal audit service and risk management department meet qualification standards established by the Bank of Russia;

b) internal documents of the Credit Union “Payment Center” effective as of December 31, 2017, establishing methods of revealing and managing credit, operating, market, interest, legal, liquidity, reputational and stress testing risks, significant for the Credit Union “Payment Center”, have been approved by the authorized management bodies of the Credit Union “Payment center” in accordance with the requirements and recommendations of the Bank of Russia;

c) as at December 31, 2017 Credit Union “Payment Center” has a reporting system regarding credit, operating, market, interest, legal, liquidity and reputational risks, significant for the Credit Union “Payment Center” as well as equity (capital) of the Credit Union “Payment Center”;

d) frequency and sequence of reports prepared by the risk management department and the internal control service of the Credit Union “Payment Center” in relation to credit, operating, market, interest, legal, liquidity and reputational risks, is established by the internal documents of the Credit Union “Payment Center”; such reports prepared by the specified divisions included assessments of effectiveness of respective methods and recommendations on improving thereof;

e) as of December 31, 2017 the Board of the Credit Union “Payment Center” and its executive bodies are responsible for compliance with limit values of risks and capital adequacy ratios, established in its internal documents. In order to ensure that risk management procedures are applied effectively and consistently, the Board of Credit Union “Payment Center” and its executive management bodies regularly analyzed reports prepared by its respective subdivisions throughout 2017.

We have performed our audit regarding internal control and risk management systems of the Credit Union “Payment Center” only for the purpose of assessment of compliance thereof with the requirements established by the Bank of Russia to such systems.

March 30, 2018

Chief executive of audit task

Director

Auditor’s Qualification Certificate (non-expiry)

No. 03-000043 non-expiry

Principal Number of Registration Entry 29603043450

A. A. Ivanov

Credit Union "Payment Center" (Ltd.)

Statement of Financial Position for the year ended December 31, 2017

	2017	2016
Assets		
Cash and cash equivalents	38,410,402	27,265,075
Financial instruments at fair value through profit or loss	2,800,612	1,035,269
Due from other banks	5,164,512	4,843,961
Loans and accounts receivable	1,467,166	1,114,069
Investment property	16,669	26,280
Premises and equipment	79,569	35,911
Intangible assets	44,580	28,077
Deferred tax asset	63,546	7,360
Current income tax asset	9,688	83,371
Other assets	1,519,696	917,072
Total Assets	49,579,440	35,356,445
Liabilities		
Due to other banks	19,873,057	14,721,620
Customer accounts	11,378,394	6,078,787
Other liabilities	7,595,394	6,058,501
Total liabilities	38,846,845	26,858,908
Equity		
Share capital	6,680	6,680
Retained earnings	10,722,915	8,490,857
Total equity	10,729,595	8,497,537
Total liabilities and equity	49,576,440	35,356,445

_____ Grigoriy Mats

Chairman of the Management Board
Credit Union "Payment Center" (Ltd.)

_____ Olga Bondareva

Chief Accountant
Credit Union "Payment Center" (Ltd.)

seal

March 30, 2018.

Income Statement for the year ended December 31, 2017
 (in thousands of Russian Roubles)

	2017	2016
Interest income	1,753,023	1,619,741
Interest expense	(61,808)	(35,087)
Net interest income	1,691,215	1,584,654
Income less losses from transactions with financial instruments at fair value through profit or loss	(1,704)	11,624
Income less losses from foreign currency transactions	4,619,680	3,563,255
Income less losses from foreign currency revaluation	(5,868)	(64,700)
Fee and commission income	5,148,620	4,937,501
Fee and commission expense	(5,895,554)	(5,167,678)
Changes in provision for impairment of other assets	(2,583)	(184)
Other operating income	546,979	462,322
Net income	6,100,785	5,326,794
Administrative and other operating expenses	(2,028,099)	(1,605,653)
Staff costs	(287,947)	(338,217)
Income before taxation	3,784,739	3,382,924
Income tax expenses	(802,681)	(683,066)
Income from continuing operations	2,982,058	2,699,858
Income for the period	2,983,058	2,699,858
Income for the period attributable to: owners of the credit institution	2,982,058	2,699,858
Total income for the period	2,982,058	2,699,858
Comprehensive income attributable to: owners of the credit institution	2,982,058	2,699,858

_____ ✍ Grigoriy Mats

Chairman of the Management Board
Credit Union "Payment Center" (Ltd.)

_____ ✍ Olga Bondareva

Chief Accountant
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March 30, 2018.

Credit Union "Payment Center" (Ltd.)

Statement of Changes in Equity for the year ended December 31, 2017
(in thousands of Russian Roubles)

	Share Capital	Attributable to shareholders of Credit Union "Payment Center" Retained earnings	Total Equity
Balance at December 31, 2014	6,680	4,830,974	4,837,654
Comprehensive income		1,960,025	
Payment of dividends for 2014		(250,000)	
Balance at December 31, 2015	6,680	6,540,999	6,547,679
Comprehensive income		2,699,858	
Payment of dividends for 2015		(750,000)	
Balance at December 31, 2016	6,680	8,490,857	8,497,537
Comprehensive income		2,982,058	
Payment of dividends for 2016		(750,000)	
Balance at December 31, 2017	6,680	10,722,915	10,729,595

_____ ✍ Grigoriy Mats

Chairman of the Management Board
Credit Union "Payment Center" (Ltd.)

_____ ✍ Olga Bondareva

Chief Accountant
Credit Union "Payment Center" (Ltd.)

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March 30, 2018.

Statement of Cash Flows for the year ended December 31, 2017

(in thousands of Russian Roubles)

	2017	2016
Cash flows from operating activities		
Interest received	1,725,187	1,600,637
Interest paid	(57,442)	(35,044)
Income less losses from transactions with financial instruments at fair value through profit or loss available for sale	(5)	(206)
Income less losses from foreign currency transactions	4,619,680	3,563,255
Fee and commission received	5,106,796	4,922,140
Fee and commission paid	(6,218,939)	(5,347,200)
Other operating income	546,978	462,322
Staff costs	(1,981,196)	(307,366)
Operating expenses paid	(265,718)	(1,581,582)
Income tax paid	(858,867)	(715,973)
Cash flows from operating activities before changes in operating assets and liabilities	2,616,474	2,560,983
Changes in operating assets and liabilities		
Net (increase) decrease in financials instruments at fair value through profit or loss	(1,746,048)	(54,683)
Net (increase) decrease in due from other banks	(313,709)	1,014,311
Net (increase) decrease in loans and accounts receivable	(353,097)	220,634
Net (increase) decrease in other assets	(849,208)	(26,096)
Net increase (decrease) in due to other banks	5,147,071	(440,886)
Net increase (decrease) in customer accounts	5,299,607	847,103
Net increase (decrease) in other liabilities	2,180,939	1,093,381
Effect of exchange rate changes on operating income	(84,346)	171,083
Net cash received from (used in) operating activities	9,281,209	2,824,847
Cash flows from investing activities		
Purchase of premises and equipment	(38,831)	6,687
Purchase of intangible assets	(42,003)	(28,149)
Proceeds from sale of premises and equipment		
Net cash received from (used in) investing activities	(80,834)	(21,462)
Dividends paid	(750,000)	(750,000)
Effect of CBR exchange rate changes on cash and cash equivalents	78,478	(235,783)
Net increase of in cash and cash equivalents	11,145,327	4,378,585
Cash and cash equivalents at the beginning of the period	27,265,075	22,886,490
Cash and cash equivalents at the end of the period	38,410,402	27,265,075

_____ Grigoriy Mats

Chairman of the Management Board
Credit Union "Payment Center" (Ltd.)

_____ Olga Bondareva

Chief Accountant
Credit Union "Payment Center" (Ltd.)

seal

March 30, 2018.

NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2017
(in thousands of Russian Roubles)

1. Principal activities of the Credit Union “Payment Center”

These financial statements prepared in compliance with the International Accounting Standards include financial statements of the Credit Union “Payment Center” (Ltd.) (hereinafter referred to as the “Credit Union “Payment Center”). Credit Union “Payment Center” is a settlement nonbanking credit institution established in the form of a limited liability company.

Principal business activity of the Credit Union “Payment Center” is banking operations. Credit Union “Payment Center” is currently operating under a banking license No. 3166–K dated April 14, 2014 issued by the Central Bank of the Russian Federation. Under this license, Credit Union “Payment Center” is authorized to perform following transactions in rubles and foreign currency:

1. Open and maintain corporate bank accounts.
2. Transfer funds between bank accounts of legal entities, including correspondent banks, at their request.
3. Collect cash, bills, payment and settlement documents, provide cash services to individuals and legal entities.
4. Non-cash purchase and sale of foreign currency.
5. Transfer funds without opening bank accounts, including electronic money, except for postal orders.

A non-bank credit organization has the right to provide cash services to individuals only in respect of a transfer of funds without opening bank accounts, including electronic money, except for postal orders.

In 2017 Credit Union “Payment Center” carried out all transactions on a non-cash basis.

In accordance with regulations of the Central Bank of Russia, Credit Union “Payment Center” is not authorized to perform the following banking operations:

- Attract funds of individuals and legal entities to deposits;
- Open and maintain retail bank accounts;
- Transfer funds at the request of individuals between their bank accounts;
- Attract precious metals to deposits;
- Issue bank guarantees.

Credit Union “Payment Center” is recommended to invest temporarily surplus funds within the regulatory limits exclusively in:

- bonds of the Russian Federation;
- deposits in the Bank of Russia;
- bonds of the bank of Russia;
- loans and deposits in non-resident banks of the countries with investment rating not lower than BBB according to the classification of Standard & Poor's or not lower than an equivalent rating of such agencies as Fitch Rating and Moody's and ranked "0", "1" according to the classification of Export Credit Agencies, which are parties to the Agreement of Member Countries of the Organization for Economic Cooperation and Development (OECD) “On Main Principles of Issuing and Using Officially Supported Export Credits,” the high income countries that are members of the OECD and (or) the European Union and that adopted the common Euro currency, as well as credit organizations that are residents of the Russian Federation;
- government debt instruments of the countries ranked "0", "1," as well as the high income countries that are members of the OECD and (or) the European Union and that adopted the common Euro currency.

Besides the correspondent account with the Bank of Russia, Credit Union “Payment Center” is recommended to open correspondent accounts only with non-resident banks of the countries with investment rating not lower than “BBB” according to the classification of Standard & Poor's or not lower than an equivalent rating of such agencies as Fitch Rating and Moody's and in countries ranked "0", "1," or in the countries that are members of the OECD and (or) the European Union and that

adopted the common Euro currency, as well as credit organizations that are residents of the Russian Federation.

Restrictions imposed on the activity of Credit Union “Payment Center” allow to considerably lower financial risks of clients upon making settlements.

Credit Union “Payment Center” is currently an operator, a settlement center and a participant of Zolotaya Korona payment system, a settlement center of GOROD Federal System (collecting and processing utility payments), a settlement center of Transport Card payment system, and a member of a service collecting money transfers in favor of various service providers.

On December 20, 2012, Credit Union “Payment Center” was registered as an operator of Zolotaya Korona payment system. Since February 1, 2013 Credit Union “Payment Center” started to perform transactions as a settlement center of Zolotaya Korona payment system.

Today Zolotaya Korona payment system has a status of a socially important system, and Credit Union “Payment Center” is recognized as a significant credit institution in the payment service market.

Credit Union “Payment Center” is a principal member of MasterCard and Visa International Payment Systems, a direct participant of MIR payment system, and a member of the Russian National SWIFT Association.

Credit Union “Payment Center” actively proposes sponsorship to the credit organizations concerning the entry into and further participation in VISA International and MasterCard Payment Systems as an associated (affiliated) member. The sponsorship includes a set of measures required to enter the payment systems or change the sponsor, settlement procedures with payment systems and claim settlement. As at December 31, 2017, Credit Union “Payment Center” is a sponsor of 104 Russian banks.

On May 23, 2017 the international rating agency Standard & Poor’s has revised the international ratings of the Credit Union upwards and assigned long-term BB- rating and short-term B- rating, ruAA- rating according to the national scale with stable forecast.

On February 10, 2017 RAEX rating agency (Expert RA) has assigned A+(I) rating of creditworthiness, forecast stable, to the Credit Union.

Credit Union “Payment Center” does not have any subsidiaries or representative offices.

Credit Union “Payment Center” does not participate in the banking (consolidated) groups.

Credit Union “Payment Center” is registered and located at the address: 86 Kirova St., Novosibirsk, 630102. There is another office at the address: 11 Musy Jalilya St., Novosibirsk, 630055.

As at December 31, 2017 CFT-Service Close Joint-Stock Company is the sole member (owner) of Credit Union “Payment Center”.

2. Operating environment of Credit Union “Payment Center”

International situation in the reporting year remained unstable. RF economy was negatively influenced by ongoing crisis in the territory of Ukraine, sanctions imposed by western countries against RF and RF sanctions against western countries. Consequently, access to foreign financing remained limited for Russian banks and companies. However, official inflation rate following the results of 2017 reached 2.5%, which is way below level of prior years (5.4% in 2016, 12.91% in 2015).

World political environment is controversial. Relations between Russia and USA are characterized by high level of confrontation and are far from successful cooperation. High uncertainty and volatility of financial markets may significantly influence the transactions of Credit Union “Payment Center”. The consequences of international sanctions can hardly be estimated. Future economic situation and legal developments may differ greatly from our expectations.

The core activities of Credit Union “Payment Center” are interbank settlements in the payment systems and have a commission character. The settlement operations are executed as grossed up payments, which implies that at the moment of transaction for each individual settlement document, enough funds are to be available on a payer’s account. The banks and banking payment agents of Credit Union “Payment Center” are obliged to keep their account balance so that it was

sufficient for uninterrupted operations on their accounts during a business day. This circumstance creates a comprehensive excess of funds placed by Credit Union “Payment Center” temporarily in deposits of the Bank of Russia and correspondent accounts with the other banks.

Settlement transactions with foreign currency brought the major profit to Credit Union “Payment Center” in the reporting year, it is a major share in KoronaPay money transfers, interests on placed deposit took second place with respect to profitability.

In 2018, Credit Union “Payment Center” expects that the most profit will result from foreign exchange transactions and interest on the deposits placed with the other banks just as it was in 2017.

3. Framework for the presentation of financial statements

Financial statements of Credit Union “Payment Center” have been prepared in accordance with IFRS, including all previously adopted standards and interpretations of the Standing Interpretations Committee and International Financial Reporting Interpretations Committee. The principal accounting policies applied in the preparation of these financial statements have been consistently applied to all the periods presented. Credit Union “Payment Center” maintains its accounting records in the currency of the Russian Federation and in accordance with the banking 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 aspects, with IFRS. The major adjustments are as follows: restatement of equity of Credit Union “Payment Center”, reclassification of some assets in accordance with IFRS, revaluation of PP&E to fair value and deferred income tax recognition.

These financial statements are presented in the national currency of the Russian federation (i.e. in thousands of Russian rubles) as at the end of the banking day on December 31, 2017.

The applied accounting policies are consistent with those used in the previous financial year except for the new and revised IFRS that are mandatory in respect for annual periods beginning on January 1, 2017.

According to Credit Union “Payment Center”, the changes to IFRS standards will not substantially influence the financial statements of Credit Union “Payment Center” at the time of their initial use.

4. Principles of accounting policy

Key measurement assumptions

When recognizing financial instruments, Credit Union “Payment Center” applies the following valuation methods: at fair value, at amortized cost or at cost.

Fair value is an amount at which an asset can be exchanged, or a liability settled, between knowledgeable, independent parties that would like to make this transaction.

Financial instruments are regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange through the information and analysis systems or the other information sources and if those prices represent actual and regular market transactions carried out by independent participants of the market.

The fair value of financial instruments quoted in an active market is based on:

- stock exchange market quotations (market prices) (as a rule, for financial instruments traded through market operators);
- bid price for financial assets and ask price for financial liabilities, as well as the estimated fair value that is determined based on the data from the information systems, dealers and other sources.

When no quoted prices are readily available in the active market, the following data can be used to determine fair value:

- the last quotation (bid or ask price) obtained from independent external sources (if there was no significant change in economic conditions from the date when such quotation was obtained to the reporting period end);

- actual value of a standard transaction performed by Credit Union “Payment Center” (if there was no significant change in economic conditions from the transaction date to the reporting period end).

The definition of the fair value is based on the assumption that an entity is a going concern without any intention or need to liquidate, to curtail considerably the scale of its operations or to undertake a transaction under unfavorable conditions.

Amortized cost of a financial asset or a financial liability is an amount at which a financial asset or financial liability is measured at initial recognition less any repayments (principal repayments, interest repayments and other repayments due according to the agreement conditions) and adjusted for any cumulative amortization, the difference between that initial amount and the maturity amount and any impairment losses.

Cost is an 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.

Initial recognition of financial instruments

Credit Union “Payment Center” recognizes a financial asset or a financial liability in its statement of financial position when Credit Union “Payment Center” becomes a party to the contractual provisions of the respective instrument.

Upon initial recognition Credit Union “Payment Center” measures a financial asset or a financial liability at its fair value plus, in case of a financial asset or a financial liability that are not measured at fair value through profit or loss, any transaction costs that are directly attributable to the acquisition of such financial asset or financial liability. No gain or loss is recognized upon initial recognition of a financial asset or a financial liability unless there is a difference between the transaction price and its fair value evidenced by comparison with other current transactions with the same instrument on the market or by the measurement technique that uses only data from the existent markets as the base data.

If settlement conditions are standard, a purchase or a sale of financial assets is recognized in accounting on a settlement date, i.e. the date when a financial asset is delivered to or by Credit Union “Payment Center”.

Settlement date accounting implies:

- recognition of an asset on the day it is received by Credit Union “Payment Center”, and
- derecognition of an asset and recognition of any gain or loss on its disposal on the day it is delivered by Credit Union “Payment Center”.

When settlement date accounting is applied, Credit Union “Payment Center” accounts for any change in the fair value of the asset to be received during the period between the trade date and the settlement date the same way as it accounts for a change in the acquired asset, which means:

- a change in a fair value is not recognized for assets carried at cost or amortized cost;
- it is recognized in profit or loss for assets classified as financial assets at fair value through profit or loss;
- it is recognized in the corporate equity for the assets classified as available for sale.

Derecognition of financial assets

Credit Union “Payment Center” derecognizes a financial asset when:

- the contractual rights to the cash flows from the financial asset expire;
- Credit Union “Payment Center” transfers the financial asset which complies with criteria of derecognition.

A financial asset is considered to be transferred by Credit Union “Payment Center” if either of the following conditions is fulfilled:

- Credit Union “Payment Center” transfers the contractual rights to receive the cash flows of the financial asset;
- Credit Union “Payment Center” retained the contractual rights to receive the cash flows of the financial asset, but assumed a contractual obligation to make payments to one or several recipients, as well as there are other certain conditions.

When transferring a financial asset Credit Union “Payment Center” estimates a degree of its risks and benefits related to holding this financial asset.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash equivalents that are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash equivalents include short-term interbank deposits (on demand, for a period not exceeding three months, from the date of initial recognition to the date of derecognition) and overnight deposits.

When there are any restrictions on the use of any facilities, such facilities are not recognized as cash and cash equivalents.

Financial assets at fair value through profit or loss

Credit Union “Payment Center” classifies such assets into two categories: financial assets at fair value through profit or loss held for trading and other financial assets designated as at fair value through profit or loss upon initial recognition.

Financial assets at fair value through profit or loss are securities acquired by Credit Union “Payment Center” for the purpose of generating a short-term profit. Generating a short-term profit refers to the intention of Credit Union “Payment Center” to generate a profit from short-term fluctuations in price and the sale of a security, as well as to receive interest for the period when the securities are kept in portfolio of Credit Union “Payment Center”.

The financial assets at fair value through profit or loss, whether by designation or otherwise, are measured at fair value based on quoted market prices.

Realized and unrealized gains and losses from transactions with financial assets at fair value through profit or loss are recognized as Net gain/loss from transactions with financial instruments at fair value through profit and loss in the Income in the income statement for the period when they were earned/incurred.

Interest income from financial assets at fair value through profit or loss is measured using the effective interest rate method and is recognized in the income statement as interest income from financial assets at fair value through profit or loss.

Due from other banks

Due from other banks includes balances on correspondent accounts with other credit organizations that must be held for at least three months, deposits placed by the Credit Union for the purpose of earning interest or for any other purposes (e.g. as a security for settlements), as well as interests accrued on funds deposited with credit organizations and foreign banks (including interests on deposits in “cash and cash equivalents” item).

In case of placement of funds for the purpose of earning interest from placement at interest rates above or below established rates, the resulting difference between the fair value of a deposit and its par value is recognized in consolidated statement of profit or loss as an “Income (expense) generated by assets invested at an interest rate that is above (below) market interest rate” at the moment when such a loan is issued or such a deposit is made. The carrying value of such loans or deposits is thereafter adjusted for any amortization of such income or expense and interest income is recognized in the consolidated income statement using the effective interest rate method. When funds are placed with a different purpose, the interests received from placement of funds are not compared to the rates effective in the market.

Loans and receivables

Loans and receivables include balances of the accounts with other organizations as guarantee security deposits for settlements in international payment systems and interests accrued in all funds placed with noncredit institutions.

Property and equipment

The assets are recorded at cost or at their revalued amounts less any subsequent accumulated depreciation and any subsequent impairment losses (where applicable).

At the end of each reporting period, Credit Union "Payment Center" assesses whether there is any indication that an asset may be impaired. If any of those indications is present, Credit Union "Payment Center" determines a recoverable value, which is the highest of an asset's fair value less costs for sale and its value in use.

The gain or loss arising on the disposal or retirement of PP&E is determined as the difference between net proceeds and the carrying amount of the asset and is recognized in profit or loss.

Amortization of property and equipment is calculated on the straight-line basis during useful life of assets.

Depreciation

Other assets are depreciated by the straight-line method, i.e. a straight-line decrease in original cost to residual cost during a useful life of an asset, using the following annual depreciation standards:

Buildings	2-5%
Equipment in the building	20-33%
Office and computer equipment	20-49%

If Credit Union "Payment Center" plans to use an asset before the end of its physical life, its residual cost equals zero. Residual cost and a useful life of assets can be reevaluated, and be adjusted for the reporting date if required.

Land is not subject to depreciation.

Intangible assets

Intangible assets are recognized at a depreciation rate. Intangible assets with a limited term of a useful life are depreciated within a period of useful life that does not exceed 10 years and are analyzed concerning depreciation in the case there are signs of possible depreciation of an intangible asset. The periods and methods of depreciation of intangible assets with an unlimited useful life are analyzed at the end of each financial year.

Profit and losses that appear as a result of retirement of intangible assets are determined as a difference between net proceeds from retirement and a book value of an asset and are recognized in the profit and loss statement.

Operating leases

When the Credit Union "Payment Center" acts as a lessee, operating lease payments are recognized in profit or loss on a straight-line basis over the lease term.

Share capital

In accordance with the amendments to IAS 32, which are effective for annual periods beginning on or after January 1, 2009, Credit Union "Payment Center", which is a limited liability company, classifies its members' interests as equity elements.

Share capital is presented at initial cost; the equity payments made before January 1, 2003, are adjusted to reflect the purchasing power of the ruble as of December 31, 2002.

Dividends

The dividends declared after the reporting period are disclosed in the events after the reporting period note. When dividends are declared to holders of equity instruments after the reporting period, such dividends are not recognized as a liability at the end of the reporting period. Dividends are recognized as profit distribution when approved by the shareholders at a general meeting.

Income taxes

Tax expenses are recognized in financial statements in accordance with the applicable Russian law. The income tax expense reported in the Income Statement comprises current tax and movements

in deferred tax. Current tax expense is based on expected taxable profit for the year and the tax rates that have been enacted by the balance sheet date. Tax expenses, with the exclusion of income tax expense, are recognized as operating expenses.

Deferred income tax is recognized by the method of temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit (loss).

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

Income and expense

Interest income and expense are recognized in profit or loss on an accrual basis using the effective interest method, whatever the debt instrument. Interest income includes coupon income on fixed income securities and accrued discount. Fee and commission income and expense, as well as other income and expenses, are recognized on an accrual basis as the services are provided. Non-interest expenses are recognized when tangible assets are received or services are rendered.

Foreign currency revaluation

Foreign currency transactions are recorded according to the official exchange rate of foreign currency set by the Bank of Russia against the ruble at the date of transaction.

Foreign exchange difference arising as a result of foreign exchange transactions where the exchange rate differs from the exchange rate set by the bank of Russia, less foreign exchange expense, is recognized as income in the Income Statement.

Foreign currency denominated monetary assets and liabilities are revalued to the currency of the Russian Federation at the official exchange rate of foreign currency set by the Bank of Russia against the ruble at the reporting date.

Inflation accounting

Until December 31, 2002, Russian economy was considered hyperinflationary. Therefore, Credit Union "Payment Center" applied IAS 29 *Financial Reporting in Hyperinflationary Economies*. In accordance with IAS 29, nonmonetary items were restated into the measurement units as of December 31, 2002 by using the respective inflation rates for their initial cost. In the periods that followed, accounting was done based on the obtained restated cost non-monetary items were measured on the basis of the revised historical cost.

Salary and related payroll contribution

The contributions related to payroll, bonus and vacation bonus accounting, contributions to the Pension Fund, the Social Insurance Funds and the Medical Insurance Funds of the Russian Federation are paid as the respective work is carried out by the employees of Credit Union "Payment Center". The contributions related to temporary disability benefits, maternity leave benefits and nonmonetary benefits are made when a relevant event occurs.

The payments due to the employees of Credit Union "Payment Center" for unused leaves are recognized as *Other Liabilities* in the Statement of Financial Position and at the same time as vacations that fall on the reporting period in the Profit and Loss Statement and as vacations that fall on the periods preceding the reporting period in the retained earnings statement.

Credit Union “Payment Center” does not have own pension plan or any compensation programs for its employees other than those required by the Russian state pension system. Credit Union “Payment Center” does not provide any termination benefits or any other substantial benefits that require allocation to reserves.

Changes in the presentation of financial statements

Comparative data can be adjusted where appropriate to bring them to conformity with the results of the current year.

According to explanation of the Bank of Russia, it is not allowed to draw up the balances on outstanding accounts (30232, 30233) regarding transactions of various payment service operators. For this reason it was not performed. Full balance of account No. 30233 is indicated in other assets. Data on items “Other assets” and “Other liabilities” for 2016 were recalculated.

	December 31, 2016 before recalculation	Recalculation effect	December 31, 2016 after recalculation
Assets			
Other assets	571,910	345,162	917,072
Liabilities			
Other liabilities	5,713,339	345,162	6,058,501

5. Cash and cash equivalents

	2017	2016
Account balances with the Bank of Russia	442,406	1,369,182
Deposit with RF Central Bank	27,326,470	20,061,000
Correspondent accounts held with banks in the Russian Federation	10,641,526	5,834,893
Total cash and cash equivalents	38,410,402	27,265,075

The funds include the amount of demand deposits with the Central Bank of Russia at a 6.75% rate of return.

6. Financial assets at fair value through profit or loss

	2016	2015
Federal loan bonds (OFZ)	837,614	992,592
Eurobonds	1,399,577	
Bonds of the Bank of Russia	500,150	
Accrued coupon yield, discount	63,271	42,677
Total trading securities	2,800,612	1,035,269

Trading portfolio of Credit Union “Payment Center” includes federal-loan bonds (OFZ) traded on the organized market (federal loan bonds, coupon bonds of the Bank of Russia, government stock of external bond loan).

As at December 31, 2017, portfolio of Credit Union “Payment Center” comprises several issues of federal loan bonds in roubles and US dollars. Maturity dates fall within the period beginning on March 15, 2018 and ending on September 16, 2023, the coupon yield ranges from 7.50% to 11.18% in roubles and 4.875% in US dollars; the average bond yield for the period of share placing ranges from 3.25% to 8.28% in respect of the issue.

As at December 31, 2017, the largest part of the federal loan bond securities portfolio with a par value of RUB 834,825 ths. was provided as a collateral to secure bank guarantees issued to Credit

Union “Payment Center” to ensure transactions with MasterCard international payment system and mobile operators.

The trade securities are measured at fair value based on quoted market prices.

7. Due from other banks

	2017	2016
Deposits in resident banks	992,300	850,399
Deposits in nonresident banks		
CIS countries	0	0
Large OECD banks	4,153,042	3,981,234
Interest payable to Credit Union “Payment Center” on its correspondent accounts with other credit organizations	19,170	12,328
Total due from other banks	5,164,512	4,843,961

As at December 31, 2017 Credit Union “Payment Center” has placed the funds in the resident banks. Additionally “due from other banks” item includes: balances on correspondent accounts with THE BANK OF NEW YORK due to restriction risk, funds in the amount of RUB 350,947 ths security deposit placed into a guarantee fund of a payment system operator which is not socially important, funds in the amount of RUB 193,591 ths placed into a guarantee fund of MIR payment system and funds in the amount of RUB 10,000 ths placed into a guarantee fund of the exchange market.

8. Loans and receivables

	2017	2016
Funds provided to international payment systems	1,467,166	1,114,069
Total loans and debt receivables	1,467,166	1,114,069

Loans and receivables include balance on the accounts held with other organizations as collateral guarantee deposits to carry out settlements using MasterCard, VISA International and China UnionPay international payment systems.

9. Investment property

	2017
Coast as at December 31, 2016	29,264
Accumulated amortization	(2,933)
Income	-
Change of property destination	(14,193)
Revaluation	4,693
Depreciation	(111)
Coast as at December 31, 2017	19,713
Accumulated amortization	(3,044)
Balance sheet value as at December 31	16,669

The investment property is a part of the Credit Union “Payment Center” premises that is planned to be used for expanding the bank activity in future. At the present time, the investment

property is temporarily used to obtain a rental income. In 2017 part of investment property was transferred to “PP&E”.

In 2017 building price was revaluated according to the report on cost estimation.

10. Property and equipment and intangible assets (amortizable property)

	Building	Building equipment	Office and computer equipment	Intangibles assets
Balance sheet value as of December 31, 2016	36,397	3,255	2,507	6,569
Cost as of December 31, 2016	36,335	4,952	5,390	36,357
Accumulated amortization	(3,421)	(2,219)	(5,126)	(8,280)
Balance sheet value as of December 31, 2016	32,914	2,733	264	28,077
Receipts	29,805	15		42,003
Write-offs			(109)	
Change of property status	14,193			
Revaluation	4,426			
Amortization expenses	(3,691)	(848)	(113)	(25,500)
Balance sheet value as of December 31, 2017	77,647	1,880	42	44,580
Cost as of December 31, 2017	84,759	4,967	5,281	78,360
Accumulated amortization	(7,112)	(3,087)	(5,239)	(33,780)
Balance sheet value as of December 31, 2017	77,647	1,880	42	44,580

As at December 31, 2017 the intangible assets of Credit Union “Payment Center” included: promotional video and exclusive rights for the use of L.Utyasheva’s image in photos, the website of KoronaPay Service, software licenses and trademarks (mycard, mycard.ru, “Send-Receive!”).

11. Current claims for tax on income

	2017	2016
Current claims for tax on income	9,688	83,371
Total claims for tax on income	9,688	83,371

12. Other assets

	2017	2016
Settlements on stock trading	400,000	400,000
Provisions	32,916	41,726
Outstanding accounts	850,243	345,162
Accounts receivable	230,588	129,675
Other claims for taxes	289	409
Other assets	5,660	100
Total other assets	1,519,696	917,072

The provisions are advertisement and information materials, plastic cards of MasterCard and VISA International payment systems to be issued to individuals.

13. Due to other banks

	2017	2016
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Balances on correspondent accounts with Russian resident banks	17,556,140	12,784,574
Obligations to accrue interest	4,547	181
Balances on correspondent accounts with non-resident banks	1,950,975	1,807,758
Other attracted funds of RF and foreign banks (security payments)	361,395	129,107
Total due to other banks	19,873,057	14,721,620

The bank funds on accounts of settlement participants with Credit Union “Payment Center” are funds that are required for:

- money transfer settlements via Zolotaya Korona payment system and KoronaPay international money transfers;
- bank card transactions via Zolotaya Korona payment system;
- transactions on remittances from individuals to service providers, and
- settlements with MasterCard and VISA international payment systems in respect of transactions of affiliate (associate) banks.

14. Due to customers

	2017	2016
Settlement accounts of legal entities	9,299,341	3,753,497
Funds intended for transactions via prepaid cards	2,079,053	1,478,187
Total due to customers	11,378,394	5,231,684

Presented below is the industry breakdown for legal entity customers’ funds:

	2017	2016
Headquarters business, management consultancy	2,764,437	313,978
Retail trade, except for vehicle trade	2,145,395	1,266,599
Software development, consultancy and related activities	1,835,555	363,345
IT services	966,678	498,827
Telecommunications	612,394	284,268
Financial services, except for insurance and pension support services	477,753	756,369
Lease financing	239,650	9,161
Wholesale trade, except for vehicle trade	201,492	901,915
Support activities in the sphere of finance and insurance	39,837	44
Specific construction activity	9,959	4,759
Administration and maintenance activity, other supporting activity of a company	2,198	2,203
Marketing services and market investigation	1,069	47
Real estate operations	1,025	7,100
Electricity, gas, and water	973	868
Vehicle trade and maintenance	904	926
Insurance, reinsurance, personal pension schemes, except for mandatory social insurance	15	12
Other services	7	7
Law and accounting services		912
Tourism		54
Total funds of legal entity customers	9,299,341	4,411,394

15. Other liabilities

	2017	2016
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Transfers accepted by Zolotaya Korona payment system ready for payout	5,104,524	4,247,098
Outstanding settlements	1,931,956	1,234,116
Accounts payable	501,477	541,096
Payroll processing	56,090	33,868
Other liabilities	1,347	2,323
Total other liabilities	7,595,394	6,058,501

Item “Accounts payable” shows the amount of payable for transactions with the Credit Union “Payment Center” to the bank payment agents, service suppliers, contractors and other creditors.

16. Share capital

	2017	2016
Share capital	6,680	6,680

Before the equity payments were adjusted to reflect the purchasing power of the ruble as of December 31, 2002, the share capital of Credit Union “Payment Center” was RUB 1,000 ths.

17. Interest income and expense

	2017	2016
Interest income		
Return on balance of accounts	1,642,843	1,524,549
Return on OFZ (coupon and discount yield)	110,180	95,192
Total interest income	1,753,023	1,619,741
Interest expense		
Due to other banks	(60,570)	(34,685)
Due to other companies	(1,238)	(402)
Total interest expense	(61,808)	(35,087)
Net interest income	1,691,215	1,584,654

18. Gains less losses from transactions with financial assets at fair value through profit or loss

	2017	2016
Net revaluation of securities at fair value	(1,699)	11,830
Net realized gains from conversion and redemption of securities	(5)	(206)
Total gains less losses from security transactions	(1,704)	11,624

19. Fee and commission income and expense

	2017	2016
Fee and commission income		
KoronaPay - Cash Remittances Fees	3,282,801	3,521,487
Fees and commissions payable to service providers	619,862	489,726
Fees and commissions for issued prepaid cards	1,236,005	915,751
Fees and commissions for settlement transactions	9,952	10,537
Total fee and commission income	5,148,620	4,937,501

Fee and commission expenses		
Zolotaya Korona - Cash Remittances Fees	(5,113,365)	(4,180,182)
Fees and commissions payable to service providers	(66,109)	(387,428)
Fees and commissions for issued prepaid cards	(461,878)	(352,393)
Expenses for FAKTURA.RU services	(199,905)	(178,563)
Other	(54,297)	(69,112)
Total fee and commission expenses	(5,895,554)	(5,167,678)
Net fee and commission income	(746,934)	(230,177)

20. Other operating income

	2017	2016
Other income for participating in international payment systems	125,959	72,148
Income for uncalled cash remittances and electronic money	375,269	291,559
Other income for participating in Zolotaya Korona payment system	25,145	52,568
Other	20,606	46,047
Total other operating income	546,979	462,322

21. Administrative and other operating expenses

	2017	2015
Expenses for advertising and marketing services	(1,187,083)	(851,263)
Payment for information and technical services in payment systems	(439,606)	(441,091)
Payment for the production of plastic cards	(31,649)	(39,810)
Expenses for licenses and bank software package support	(57,742)	(49,139)
Expenses related to economic operations in prior years found in the reporting year	(60,550)	(29,043)
Expenses for renting and maintaining the rental property	(42,002)	(25,293)
Payment for the use of rights to trademarks	(4,888)	(12,726)
Expenses for premises and equipment depreciation	(2,504)	(4,139)
Property amortization	(28,912)	(10,252)
Expenses for Call-center services	(108,072)	(82,591)
Other	(65,091)	(60,306)
Total operating expenses	2,028,099	(1,605,653)

22. Staff costs

	2017	2016
Salary	(237,648)	(286,218)
Contributions to social funds	(50,299)	(51,999)
Total staff costs	(287,947)	(338,217)

23. Income tax

Income tax expenses are comprised of the following components:

	2017	2016
Current income tax expense	(858,867)	(677,128)
Changes in deferred taxation related to appearance and write-off of temporary differences	56,186	(5,938)
Income tax expense for the year	(802,681)	(683,066)

In 2017, the current income tax rate applicable to operating activities of the Credit Union “Payment Center” was 20% (in 2016, it was 20%), which remained unchanged throughout the reporting period.

Presented below is the comparison of the theoretical tax expense and the actual tax expense:

	2017	2016
Total pretax income according to IAS, including income from securities	3,784,739 85,389	3,382,924 75,358
Theoretical tax deduction (refund) at a relevant rate (20% in 2015 and in 2014)	(756,948)	(676,585)
Adjustment of income tax on government securities taxable at a different rate (15%)	4,269	3,768
Adjustment of tax on nontaxable losses on conversion of securities	0	0
Adjustment of tax on other non-taxable income less expenses	(19,064)	(6,662)
Changes in the amount of net deferred tax asset	(30,938)	(3,587)
Income tax expense for the previous year	0	0
Income tax expense for the year	(802,681)	(683,066)

The differences between IAS and the Russian tax legislation result in temporary differences between the book value of several assets and liabilities for the purposes of making financial statements and computing an income tax. The tax consequences of the movement of the temporary differences are recognized at a 20% tax rate (20% in 2016).

Presented below are the tax effects of the temporary differences in 2017:

	2016	Change	2017
Tax effect of deductible temporary differences			
Revaluation of other assets measured at fair value through profit or loss	(7,634)	5,595	(2,039)
Written-off assets	2,185	1,125	3,310
Accounts receivable	1,338	(555)	783
Property and equipment	(1,498)	2,114	616
Unrecognized expenses from transactions after the reporting date during the income tax calculation	12,969	47,907	60,876
Recognized tax asset	7,360	56,186	63,546
Recognized tax liability	0	0	0

Presented below are the tax effects of the temporary differences in 2016:

	2015	Change	2016
Tax effect of deductible temporary differences			
Revaluation of other assets measured at fair value through profit or loss	(1,834)	(5,800)	(7,634)
Written-off assets	3,452	(1,267)	2,158
Accrued compensation for unused leave	573	(573)	
Accounts receivable	0	1,338	1,338
Property and equipment	(2,321)	823	(1,498)
Unrecognized expenses from transactions after	13,428	(459)	12,969

the reporting date during the income tax calculation

Recognized tax asset	13,298	(5,938)	7,360
Recognized tax liability	0	0	0

24. Dividends

	2017	2016
Dividends declared during the reporting year	750,000	750,000

In accordance with the legislation of the Russian Federation, the accumulated retained profit of the Credit Union "Payment Center" may only be distributed as dividends among its participants according to accounting statements prepared in compliance with the Russian accounting rules.

As at December 31, 2017 retained profit of the Credit Union "Payment Center" amounted to RUB 2,674,477 ths (RUS 6,358,416 ths for the previous years).

During 2017, dividends in the total amount of RUB 750 mln were paid to the sole participant of the Credit Union "Payment Center". A decision on the distribution of the profit gained in 2017 had not been made when this report was signed.

25. Risk management

Risk and capital management in the Credit Union is organized to ensure its stable and reliable operation upon implementation of its growth projects.

In 2017 risk and capital management in the Credit Union "Payment Center" was performed in accordance with the "Strategy for Risk and Capital Management" (hereinafter referred to as the "Strategy") elaborated in compliance with the Instruction of the Bank of Russia No. 3624-U "On requirements to management of risks and capital of the credit institution and a banking group" dated April 15, 2015 and approved by the Board of the Credit Union. Risk and capital management system defined in the Strategy is developed in order to:

- Detect, estimate and aggregate significant risks and control their volume;
- Assess adequacy of capital available at the Credit Union to cover significant risks and new risks to be accepted due to implementation of projects according to Credit Union's development strategy;
- Plan the capital proceeding from results of overall assessment of significant risks benchmarks of business introduced by the Credit Union's development strategy, requirements set by the Bank of Russia to capital adequacy.

Approaches to risk and capital management are defined based on the status of the Credit Union and the limitations (license and regulatory) set to operations of the Credit Union, as well as key transactions performed by the Credit Union.

Credit Union has developed methods for determining risks significant for it on the basis of set of indicators describing level of risks by transactions performed by the Credit Union: complexity of operations (transactions); volumes of performed operations (transactions) by various areas of activities; launch of new operations (implementation of new products).

As a result of identification process, a list of risks significant for the Credit Union was developed.

In the reporting year, significant risks include bank risks:

- Credit risk, including concentration risk,
- Market risk, including currency risk,
- Liquidity risk,
- Operation risk,
- Reputational risk.

Credit risk

This is a probability that a contractor (borrower) will fail to fulfill contractual obligations.

Key types of operations (transactions) performed by the Credit Union that require credit risk assessment:

- Placement of guarantee deposits in order to secure settlements, including guarantee deposits in the foreign currency with the international payment systems in accordance with their rules;
- Placements into credit side of account (deposits, securities) to receive interest income;
- Credit Union performing functions of a settlement center for the systems and services, including Zolotaya Korona payment system, "Gorod" Federal System of utility payments;
- Credit Union performing settlements as a sponsor in compliance with the rules of the international payment systems MasterCard, VISA International and Mir payment system;
- Outstanding accounts receivable, business deals.

Estimation of credit risk in the Credit Union implies determination of asset quality and formation of provision for possible losses or provisions for possible losses on loans and similar debts according methods described in internal documents of the Credit Union approved in compliance with the requirements of the Bank of Russia.

Loan requirements aimed at capital management are evaluated less formed provision with the use of standardized risk ratio. Risk ratio falls between 0% (I asset group) and 150% (V asset group) depending on asset group.

Key methods for credit risk minimization:

- Compliance with limits and restrictions set by the Bank of Russia;
- Compliance with internal limits upon settlement and currency exchange transactions fixed by the Credit Union in accordance with corporate strategy, scale and type of performed transactions;
- Authorization: procedure used to check if a payer (payer's bank) has enough funds to perform a transaction;
- Establishing a minimum required balance: balance on the account of a client bank with the Credit Union placed as a security for settlement of obligations of a bank with the payment systems and the Credit Union, which shall not be considered upon setting an authorization limit for the client bank;
- Security payment: amount of funds provided by the client bank to the Credit Union under sponsorship agreement to ensure settlement of obligations of a bank with the payment systems and the Credit Union;
- Placement of funds into I and II asset groups with 0% and 20% risk ratio respectively (correspondent account and deposits with the Bank of Russia, correspondent account with credit organizations and foreign banks recommended for settlement nonbanking credit institutions by the Bank of Russia).

Market risk

Market risk – is a risk of losses caused by an unfavorable change in current (fair) cost of financial instruments and foreign exchange rates and (or) official prices for precious metals.

For Credit Union "Payment Center", this risk appeared due to the trading portfolio of government securities and in connection with settlements in foreign currency. Key factors that influence the cost of market risk of the Credit Union in relation with investment portfolio:

- Risk group including securities issuer due to assessment of issuer country and currency in which securities are denominated and funded;
- Volume and term of securities portfolio;
- Changes in market prices of securities.

Main factor influencing the cost of market (currency) risk of the Credit Union is the open foreign-currency position that appears due to currency-exchange transactions.

Interest risk is a risk of losses due to unfavorable fluctuations in market interest rates on assets, obligations and off-balance sheet liabilities not relating to securities portfolio and sensitive to

fluctuations in interest rates influencing the capital stock income level and value of assets of the Credit Union “Payment Center”.

Type of business of the Credit Union and requirements of the regulator to placement of funds determine main factors influencing the level of interest risk:

- Changes in market rates for placement of funds in rubles and foreign currency into deposits of commercial banks including foreign banks;
- Changes in rates for placement of funds into deposits of the Bank of Russia;
- Changes in rates of remuneration for balances in correspondent accounts.

Interest risk is evaluated considering sensitivity of interest income to fluctuations of market rates.

The table below shows the analysis of average effective interest rates with a breakdown by the types of the main currencies for the main monetary financial instruments. The analysis is based on the weighted average effective interest rates as of the end of the year.

	2017			2016		
	EUR	USD	RUB	EUR	USD	RUB
Cash and cash equivalents	-	-	8.73	-	-	9,78
Financial assets measured at fair value through profit or loss	-	4.87	8.64	-	-	10,31
Due from other banks	-	0.41	-	-	0,24	-
Loans and receivables	-	0.23	-	-	0,29	-

To determine level of sensitivity of income to market rates fluctuations, average active rate is amended as follows: 1% for placements in roubles and 0.05% for placements in foreign currency, provided that all other variables remain unchanged.

Analysis of sensitivity of financial result and own funds (capital) to the changes of interest rates is performed for placements of funds into short-term deposits of the Bank of Russia and correspondent accounts with credit institutions on the basis of reduced scenario of 1% symmetrical rise (fall) in the yield curve for placements in roubles and 0.05% for placements in foreign currency, provided that all other variables remain unchanged. Analysis result can be seen in the table below, in RUB ths:

	Influence on the financial result and capital as at January 1, 2018	Influence on the financial result and capital as at January 1, 2017
Rise of interest rates	187,783	155,399
Fall of interest rates	- 187,783	-155,399

Influence on the own funds (capital) of the Credit Union upon fluctuations of interest rates comprises 2.00% of the capital of the Credit Union as at January 1, 2018 (2.08% of the capital of the Credit Union as at January 1, 2017).

In compliance with CBR Instruction No. 129-I “On banking and other transactions of settlement non-banking credit institutions, mandatory ratios and control of the Bank of Russia for their implementation” dated April 26, 2006, Credit Union “Payment Center” performs placement of funds on its own behalf and at its own expense within the limits set by mandatory ratios and only into:

- Debt securities of the Russian Federation;
- Obligations of the Bank of Russia;
- Government debt instruments of countries with “0”, “1” assessment and countries with high rate of income, members of OECD and (or) European Union, and adopted the

euro as their currency.

The only type of securities in Credit Union's portfolio are federal loan bonds issued by RF Ministry of Finance. Credit Union places funds into securities with the yield, coupon payout period and term to maturity are determined in advance and are not subject to revision. All securities are quoted, fully negotiable in the organized market and may be sold freely.

Securities portfolio structure as at December 31, 2017:

Name	Number, items	Balance (fair) value, RUB ths.	Transferred as a security under pledge agreement, items
SU26204RMFS	454,120	465,450	454,120
SU29011RMFS2	380,705	413,400	380,705
RU000A0ZYFF9	500,000	505,250	-
Russia-2023(USD)	112	1,416,512	-
Total	1,334,937	2,800,612	834,825

Securities portfolio structure as at December 31, 2016:

Name	Number, items	Balance (fair) value, RUB ths.	Transferred as a security under pledge agreement, items
SU26204RMFS8	454,120	460,918	440,000
SU26206RMFS1	574,270	574,351	574,270
Total	1,028,390	1,035,269	1,014,270

Currency risk

Currency risk is a risk of losses caused by foreign-exchange fluctuations if there is an open foreign-currency position.

Identification of currency risk requires analysis of all transactions carried out by Credit Union "Payment Center" for the purpose of establishing occurrence of currency risk factors or a possibility that they can occur.

Currency risk is caused by an open foreign-currency position. It occurs as a result of currency exchange transactions.

- When an individual client performs a transaction without opening an account and converts roubles into foreign currency at the internal currency exchange rate of the Credit Union (there is an increase in foreign exchange liabilities without growth of foreign exchange assets);
- Upon sell/buy of foreign currency for roubles to the clients of the Credit Union (legal entities, including credit institutions and foreign banks).

Amount of currency risk equals to 8% of the amount of open currency positions in certain foreign currencies and certain precious metals, calculated by the Credit Union under the Instruction of the Bank of Russia No. 178-I "On setting amounts (limits) of open currency positions, methods of their calculation and control for compliance by credit institutions" dated December 28, 2016. Amount of currency risk is accounted for upon calculation of market risk in case percentage ration of amount of open currency positions in separate foreign currencies and separate precious metals to amount of internal capital of the Credit Union will be equal or exceed 2%.

Assets and liabilities of Credit Union "Payment Center" are shown in the Table according to their balance-sheet value with a breakdown by the main currencies.

	As at December 31, 2017			As at December 31, 2016		
	Monetary financial assets	Monetary financial liabilities	Net balance position	Monetary financial assets	Monetary financial liabilities	Net balance position
RUB	33,753,820	24,792,805	8,961,015	25,814,406	17,838,162	7,976,244
USD	13,007,781	11,537,563	1,470,218	7,819,039	7,347,578	471,461
EUR	2,458,759	2,322,220	136,539	1,213,015	1,186,477	26,538
Other	356,080	194,257	161,823	164,823	141,529	23,294

currency							
Total	49,576,440	38,846,845	10,729,595	35,011,283	26,513,746	8,497,537	

Table below presents the change in the financial result and own funds resulting from possible changes in the exchange rates of main currencies used on the accounting date, with all other variable characteristics remaining constant:

	As at December 31, 2017 года		As at December 31, 2016	
	Impact on profit or loss	Impact on own funds	Impact on profit or loss	Impact on own funds
5% USD strengthening	68,554	68,554	70,066	70,066
5% USD weakening	(68,554)	(68,554)	(70,066)	(70,066)
5% EUR strengthening	3,298	3,298	1,537	1,537
5% EUR weakening	(3,298)	(3,298)	(1,537)	(1,537)

Liquidity risk

Liquidity risk – risk of inability of the Credit Union to finance its activity, i.e. to ensure assets growth and fulfill obligations when they fall due without incurring losses to the extent inadmissible for fiscal sustainability.

Credit Union Board defines counterparties, financial instruments for placement of monetary funds in accordance with its development strategy, sets limits for placement of funds.

Main sources of liquidity risk in the Credit Union:

- Insolvency of a counterparty with which funds of the Credit Union are placed;
- Massive outflow of clients' funds from accounts opened with the Credit Union.

Credit Union has developed methods aimed at determining demand for immediately available funds in order to establish amount of balances on correspondent accounts with the Bank of Russia, other credit institutions, and amounts of short-term placements for the current month based on analysis of liabilities of the Credit Union from the point of view of structure, balances of accounts and turnover.

In order to support current liquidity, Credit Union has entered into a Master Loan Agreement with the Bank of Russia, so that in case of necessity the Bank of Russia could provide Credit Union with a loan secured by a pledge (blocking) of securities.

GAP-analysis for assessment of liquidity risk is not performed due to specific debit and credit operations of the Credit Union, performing mainly functions of a settlement center, not connected with placement and attraction of time deposits.

According to Instruction of the Bank of Russia No. 3624-U, Credit Union is a non-bank credit institution and does not perform procedures of stress testing in respect of liquidity risk. Minimization of liquidity risk is provided in regulatory documents of the Bank of Russia.

Operational risk

Operational risk - is a default risk due to unreliability of internal procedures of the credit organization management, shortcoming of employees, failure of information systems or impact of external events.

Credit Union has elaborated classification of credit risk events by event types, key business directions and business operations and other criteria allowing detailed description of risk event.

Revealing of operational risk assumes the analysis of all kinds of Credit Union activity, both current and planned, concerning availability or possibility of operational risk factors. Credit Union risk-profile is created based on the carried-out analysis, in which each business direction corresponds to current or possible categories of operational risk.

In order to provide conditions for effective identification of operational risk of Credit Union, including its assessment in electronic format, the analytical database is maintained in cases of operational risk realization ("Alarm reporting log"), it contains data on types of losses, all significant

events causing these losses, including occurrence (identification) circumstances. Analytical database is maintained by business-directions and structural subdivisions.

26. Capital management

Capital management in the Credit Union is aimed at compliance with mandatory ratios established by the Bank of Russia and internal limits established on separate types of risks in the course of business of the Credit Union.

As of December 31, 2017, the amount of capital managed by Credit Union "Payment Center" comprised RUB 10,729,595 ths (2016: RUB 8,497,537 ths).

In accordance with the applicable requirements to capital set by the Bank of Russia, Credit Union "Payment Center" shall maintain a ratio of capital and assets weighted with respect to risk (a "capital adequacy ratio") at a level of at least 12%. Credit Union "Payment Center" controls on a daily basis if its capital adequacy ratio complies with that one established by the Bank of Russia.

Presented below is a regulatory capital and its major components (indices) based on the annual statements of Credit Union "Payment Center" prepared in accordance with the Russian legislation:

	2017	2016
Fixed capital, including base capital	6,700,167	4,965,460
Additional capital	2,659,045	2,491,466
Total regulatory capital	9,359,212	7,456,926

Credit Union "Payment Center" observed all requirements set by the Bank of Russia for the ratio of capital adequacy during the reporting year.

27. Contingent liabilities

Court proceedings

Based on its own assessment and the recommendations of internal and external professional consultants, Credit Union "Payment Center" considers that legal claims for considerable amounts against its activity are highly unlikely. Credit Union "Payment Center" does not form a provision for losses for court proceedings.

Tax legislation

The tax legislation of the Russian Federation allows for the possibility of different interpretations and is subject to frequent changes. Interpretation of the legislation by management of Credit Union "Payment Center" as applied to its transactions and activities can be litigated by competent regional or federal authorities. Russian tax authorities may take a more rigid position when interpreting the legislation and determining the amount of tax. The transactions and activities that have not been contested before may be contested. As a result of tax inspections, additional taxes, fines and penalties can be charged. The tax periods remain open for inspection by competent tax bodies with respect to the tax payments for three calendar years preceding the year in which a decision on inspection was made. In certain cases, inspections may cover a longer period. The tax authorities may assess transactions made by Credit Union "Payment Center" based on own interpretation of their legal form and according to the procedure for their presentation in accounting and tax records.

In the opinion of Credit Union "Payment Center", restructuring of taxable income and expenses decreasing a tax base will not result in occurrence of significant additional tax liabilities. The provision for possible losses with respect to a potential tax liability is not formed.

The correctness of tax calculations is the matter of analysis and detailed inspections by fiscal bodies that are authorized to impose significant fines and penalties. This circumstance creates tax risks for tax payers in the Russian Federation.

As at December 31, 2017, management considers that Credit Union "Payment Center" follows moderate and appropriate policy in the tax legislation, which enables it to minimize tax risks.

28. Fair value of financial instruments

Fair value is an amount at which a financial instrument can be exchanged during a current transaction between independent interested parties, except for the cases of forced sale or liquidation. The best proof of fair value is the price of the financial instrument quoted on the market.

During the reporting period, Credit Union “Payment Center” operated only with financial instruments such as cash and cash equivalents, due from other banks, due to other banks, due to customers, financial assets measured at fair value through profit or loss (OFZ).

These financial instruments are recorded in the balance sheet at fair value. The fair value of OFZ was calculated by Credit Union “Payment Center” based on market quotations.

Presented below is the information about the fair value of the financial instruments:

	December 31, 2017		December 31, 2016	
	Book value	Fair value	Book value	Fair value
Assets				
Cash and cash equivalents	38,410,402	38,410,402	27,265,075	27,265,075
Financial assets measured at fair value through profit or loss (OFZ)	2,800,612	2,800,612	1,035,269	1,035,269
Due from other banks	5,164,512	5,145,342	4,843,961	4,843,961
Loans and receivables	1,467,166	1,467,166	1,114,069	1,114,069
Liabilities				
Due to other banks	19,873,057	19,868,510	14,721,620	14,721,620
Due to customers	11,378,394	11,378,394	6,078,787	6,078,787

29. Information about related parties

In accordance with IAS 24 “Disclosure of information on related parties”, the parties are considered to be related if one of them has a possibility to control another one or to exert a significant influence when another party is making financial and operating decisions. When all possible relations between the related parties are under consideration, it is the content of such relations that is taken into account, but not their legal form.

As at December 31, 2017, the related parties included three main categories: participants of Credit Union “Payment Center”, members of the Board, members of the Management Board of Credit Union “Payment Center”, and other related parties.

In the reporting year, the sole participant of Credit Union “Payment Center” was CFT-Service CJSC, it holds 100% of shares of the Credit Union “Payment Center”.

Center of Financial Technologies Group of Companies (CFT GC) includes: Center of Financial Technologies CJSC, Billing Center CJSC, Zolotaya Korona CJSC, Sovremennye Sistemy CJSC, CardStandard PC CJSC, TECHNOSERVICE CJSC, “CFT, Inc” Corporation, and several others.

All companies of CFT GC except for CFT-Service CJSC are included in the category of other related parties.

The personnel of Credit Union “Payment Center” that are members of the Board of Credit Union “Payment Center” were paid short-term remunerations for their work activities in this reporting year and deferred remunerations to be paid in 2021. No other operations (transactions) with the members of the Board of Credit Union “Payment Center” were performed in 2017.

No transactions (operations) have been performed with member of the Credit Union Board in 2017.

The two other categories of related parties were involved in the settlement operations for provided services and the operations with respect to sale/purchase of foreign currency at market rates. The sole participant of Credit Union “Payment Center” was paid interest for maintaining the balance of the account that provided a guarantee of making settlement operations.

The sole member of Credit Union “Payment Center” and other legal entities comprising CFT GC have settlement accounts with Credit Union “Payment Center”. Total balance of the “Due to customers that are not credit organizations” item is 41.9% of the funds (27.9% in 2016). Among

those funds, RUB 1,563,251 ths (RUB 45,023 ths in 2016) are owned by the sole member of Credit Union “Payment Center”, and RUB 3,205,032 ths (2016: RUB 1,649,580 ths) - by other related parties.

Income and expense items with respect to operations with related parties:

	2017			2016		
	Sole member	Board and Management Board	Other related parties	Sole member	Board and Management Board	Other related parties
Interest income	0	0	0	0	0	0
Interest expense	(1,162)	0	0	(375)	0	0
Foreign exchange transaction gains less losses	1,170	0	17,210	(2,717)	0	6,886
Foreign exchange translation gains less losses	9,687	0	75,392	29,902	0	250,981
Fee and commission income	45	0	1,953	43	0	1,609
Fee and commission expense	0	0	(1,125,430)	0	0	(1,046,179)
Other operating income	76	0	8,972	0	0	13,618
Administrative and other operating expenses	(37,155)	0	(249,563)	(70,209)	0	(272,174)
Staff costs	0	(47,267)	0	0	(90,349)	0
Total profit (loss) from operations with related parties	(26,739)	(47,267)	(1,271,466)	(43,356)	(90,349)	(1,045,259)

30. Events after the reporting date

The events that could influence the financial position, the status of the assets and liabilities of Credit Union “Payment Center” and the evaluation of its consequences did not occur in Credit Union “Payment Center” after the reporting date.