

Independent auditors report
on the financial statements of
AO Mizuho Bank (Moscow)
for 2017

April 2018

**Independent auditor's report
on the financial statements of
AO Mizuho Bank (Moscow)**

Translation from the original Russian version

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Independent auditor's report
Translation from the original Russian version

To the shareholders and Board of Directors of
AO Mizuho Bank (Moscow)

Report on the audit of the financial statements

Opinion

We have audited the financial statements of AO Mizuho Bank (Moscow) (hereinafter, the "Bank"), which comprise the statement of financial position as of 31 December 2017, and the statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for 2017, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

Responsibility of management and the Board of Directors for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with IFRS, 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.

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

The Board of Directors is responsible for overseeing the Bank's financial reporting process.

Auditor's responsibility for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 International Standards on Auditing 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 financial statements.

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

- ▶ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management
- ▶ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank'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 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 Bank to cease to continue as a going concern
- ▶ Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

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We communicate with the Board of Directors 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.

Report in accordance with the requirements of Article 42 of the Federal Law of the Russian Federation No. 395-1 *Concerning Banks and Banking Activity* of 2 December 1990

Management of the Bank is responsible for compliance of the Bank with the mandatory prudential ratios established by the Central Bank of the Russian Federation (hereinafter, the "Bank of Russia") and for the conformity of internal control and organization of the risk management systems of the Bank with the requirements set forth by the Bank of Russia in respect of such systems.

In accordance with the requirements of Article 42 of the Federal Law of the Russian Federation No. 395-1 *Concerning Banks and Banking Activity* of 2 December 1990 (hereinafter, the "Federal Law"), during the audit of the Bank's financial statements for the year ended 31 December 2017, we determined:

- 1) Whether the Bank complied as of 1 January 2018 with the obligatory ratios established by the Bank of Russia
- 2) Whether internal control and organization of the risk management systems of the Bank conformed to the requirements set forth by the Bank of Russia for such systems in respect of the following:
 - ▶ Subordination of the risk management departments
 - ▶ The existence of methodologies, approved by the Bank's respective authorized bodies, for detecting and managing risks that are significant to the Bank and for performing stress-testing; the existence of a reporting system at the Bank pertaining to its significant risks and capital
 - ▶ Consistency in applying and assessing the effectiveness of methodologies for managing risks that are significant to the Bank
 - ▶ Oversight performed by the Board of Directors and executive management of the Bank in respect of the Bank's compliance with risk limits and capital adequacy requirements set forth in the Bank's internal documents, and effectiveness and consistency of the application of the Bank's risk management procedures

This work included procedures selected based on our judgment, such as inquiries, analysis, reading of documents, comparison of the requirements, procedures and methodologies approved by the Bank with the requirements set forth by the Bank of Russia, and the recalculation, comparison and reconciliation of numerical values and other information.

The findings from our work are provided below.

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Compliance by the Bank with the obligatory ratios established by the Bank of Russia

We found that the values of the obligatory ratios of the Bank as of 1 January 2018 were within the limits established by the Bank of Russia.

We have not performed any procedures in respect of the accounting data of the Bank, except for those procedures we considered necessary to express our opinion on the fair presentation the Bank's financial statements.

Conformity of internal control and organization of the risk management systems of the Bank with the requirements set forth by the Bank of Russia in respect of such systems

- ▶ We found that, in accordance with the legal acts and recommendations issued by the Bank of Russia, as of 31 December 2017, the Bank's internal audit function was subordinated and accountable to the Board of Directors, and the Bank's risk management departments were not subordinated or accountable to the departments that take the relevant risks.
- ▶ We found that the Bank's internal documents effective as of 31 December 2017 that establish the methodologies for detecting and managing credit, market, operational, interest rate, strategic, liquidity and concentration risks that are significant to the Bank and stress-testing have been approved by the Bank's authorized bodies in accordance with the legal acts and recommendations issued by the Bank of Russia. We also found that, as of 31 December 2017, the Bank had a reporting system pertaining to credit, market, operational, interest rate, strategic, liquidity and concentration risks that were significant to the Bank and pertaining to its capital.
- ▶ We found that the frequency and consistency of reports prepared by the Bank's risk management departments and internal audit function during the year ended 31 December 2017 with regard to the management of credit, market, operational, interest rate, strategic, liquidity and concentration risks of the Bank complied with the Bank's internal documents, and that those reports included observations made by the Bank's risk management departments and internal audit function in respect of the effectiveness of relevant risk management methodologies.
- ▶ We found that, as of 31 December 2017, the authority of the Board of Directors and executive management bodies of the Bank included control over compliance of the Bank with internally established risk limits and capital adequacy requirements. For the purpose of control over the effectiveness and consistency of the risk management procedures applied by the Bank during the year ended 31 December 2017, the Board of Directors and executive management bodies of the Bank regularly reviewed the reports prepared by the Bank's risk management departments and internal audit function.

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The procedures pertaining to the internal control and organization of the risk management systems were conducted by us solely for the purpose of determining the conformity of certain elements of the internal control and organization of the risk management systems of the Bank, as listed in the Federal Law and described above, with the requirements set forth by the Bank of Russia.

A.M. VINOGRADOVA
Partner
Ernst & Young LLC

28 April 2018

Details of the audited entity

Name: AO Mizuho Bank (Moscow)
Record made in the State Register of Legal Entities on 15 October 2002, State Registration Number 1027700317028.
Address: Russia 115035, Moscow, Ovchinnikovskaya nab., 20, bld. 1.

Details of the auditor

Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya nab., 77, bld. 1.
Ernst & Young LLC is a member of Self-regulated organization of auditors "Russian Union of auditors" (Association) ("SRO RUA"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050648.

Translation from the original Russian version

AO Mizuho Bank (Moscow)

Financial statements

STATEMENT OF FINANCIAL POSITION

As of 31 December 2017

(thousands of Russian rubles)

	Note	2017	2016
Assets			
Cash and cash equivalents	5	23,942,479	17,295,334
Obligatory reserve with the CBR	6	523,321	824,117
Amounts due from credit institutions	7	5,778,539	3,323,710
Derivative financial assets	12	267,357	491,864
Loans to customers	8	21,077,445	20,595,831
Investment securities available for sale	9	147,364	143,340
Property and equipment and intangible assets	10	50,414	53,834
Current income tax assets		16,301	12,316
Deferred income tax assets	11	4,705	17,148
Other assets		205,013	206,856
Total assets		52,012,938	42,964,350
Liabilities			
Amounts due to credit institutions	13	16,430,081	10,858,104
Amounts due to customers	14	19,340,764	16,620,995
Derivative financial liabilities	12	256,988	489,755
Other liabilities		40,005	56,129
Total liabilities		36,067,838	28,024,983
Equity			
Share capital	15	11,156,803	11,156,803
Additional paid-in capital	15	5,955	5,955
Net gains (losses) on investment securities available for sale, net of tax	15	8,397	5,199
Statutory general reserve	15	412,303	363,737
Retained earnings		4,361,642	3,407,673
Total equity		15,945,100	14,939,367
Total equity and liabilities		52,012,938	42,964,350

Signed and authorized for release on behalf of the Management Board of the Bank

Malyshev Aleksandr Ilyich



Rozhkova Zinaida Aleksandrovna

Vice-President

Chief Accountant

28 April 2018

The accompanying notes 1-25 are an integral part of these financial statements.

Translation from the original Russian version

AO Mizuho Bank (Moscow)

Financial statements

STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2017

(thousands of Russian rubles)

	<i>Note</i>	<i>2017</i>	<i>2016</i>
Interest income			
Cash and cash equivalents		1,916,585	1,491,490
Loans to customers		1,364,970	1,288,105
Amounts due from credit institutions		33,994	34,929
Investment securities		9,999	10,026
		3,325,548	2,824,550
Interest expense			
Amounts due to customers		(1,168,102)	(633,257)
Amounts due to credit institutions		(419,969)	(410,655)
		(1,588,071)	(1,043,912)
Net interest income		1,737,477	1,780,638
Reversal / (additional charge) of impairment allowance	5, 7, 8	9,075	15,704
Net interest income after allowance for loan impairment		1,746,552	1,796,342
Net fee and commission expense	17	(8,656)	(29,919)
Net gains/(losses) from foreign currencies:			
- dealing		150,022	130,935
- translation differences		7,784	(15,480)
Other income/expense		9,885	20,426
Non-interest income		159,035	105,962
Personnel expenses	18	(324,857)	(328,912)
Depreciation and amortization	10, 18	(13,679)	(9,972)
Other operating expenses	18	(285,066)	(346,069)
Non-interest expense		(623,602)	(684,953)
Profit before income tax expense		1,281,985	1,217,351
Income tax expense	11	(279,450)	(274,442)
Profit for the year		1,002,535	942,909

The accompanying notes 1-25 are an integral part of these financial statements.

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AO Mizuho Bank (Moscow)

Financial statements

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

(thousands of Russian rubles)

	<i>Note</i>	<i>2017</i>	<i>2016</i>
Profit for the year		1,002,535	942,909
Other comprehensive income			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods</i>			
(Losses)/gains on investment securities available for sale	15	3,198	6,856
Other comprehensive income for the year, net of tax		3,198	6,856
Total comprehensive income for the year		1,005,733	949,765

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AO Mizuho Bank (Moscow)

Financial statements

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

(thousands of Russian rubles)

	<i>Attributable to a shareholder of the Bank</i>			<i>Other reserves</i>	
	<i>Share capital</i>	<i>Additional paid-in capital</i>	<i>Statutory general reserve</i>	<i>Retained earnings</i>	<i>Net (losses)/gains on investment securities available for sale, net of tax</i>
<i>Total equity</i>					
31 December 2015	11,156,803	5,955	299,876	2,528,625	(1,657)
Total comprehensive income for the year	–	–	–	942,909	6,856
Distribution of profit of prior years (Note 15)	–	–	63,861	(63,861)	–
31 December 2016	11,156,803	5,955	363,737	3,407,673	5,199
Total comprehensive income for the year	–	–	–	1,002,535	3,198
Distribution of profit of prior years (Note 15)	–	–	48,566	(48,566)	–
31 December 2017	11,156,803	5,955	412,303	4,361,642	8,397

The accompanying notes 1-25 are an integral part of these financial statements.

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AO Mizuho Bank (Moscow)

Financial statements

STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

(thousands of Russian rubles)

	<i>Note</i>	<i>2017</i>	<i>2016</i>
Cash flows from operating activities			
Interest received		3,335,276	2,791,610
Interest paid		(1,570,799)	(1,041,468)
Fees and commissions received		51,924	48,216
Fees and commissions paid		(62,988)	(89,944)
Realized gains less losses from dealing in foreign currencies		109,801	106,978
Other income received		9,865	33,191
Personnel expenses paid		(336,047)	(326,554)
Other operating expenses paid		(189,340)	(359,572)
Cash flows from operating activities before changes in operating assets and liabilities		1,347,692	1,162,457
<i>Net (increase)/decrease in operating assets</i>			
Amounts due from credit institutions, including obligatory reserve with the CBR		(2,145,197)	119,733
Derivative financial instruments		29,852	21,848
Loans to customers		(284,030)	(1,080,995)
Other assets		(94,857)	(33,168)
<i>Net increase/(decrease) in operating liabilities</i>			
Amounts due to credit institutions		5,393,713	(4,074,660)
Amounts due to customers		2,715,181	8,797,743
Other liabilities		2,633	11,655
Net cash flows from operating activities before income tax		6,964,987	4,924,613
Income tax paid		(282,785)	(286,288)
Net cash from operating activities		6,682,202	4,638,325
Cash flows from investing activities			
Purchase of property and equipment and intangible assets	10	(10,331)	(21,378)
Net cash used in investing activities		(10,331)	(21,378)
Cash flows from financing activities			
Net cash from financing activities		—	—
Effect of exchange rate changes on cash and cash equivalents		(24,252)	(679,809)
Net increase/(decrease) in cash and cash equivalents		6,647,619	3,937,138
Cash and cash equivalents, beginning	5	17,295,334	13,358,196
Cash and cash equivalents, ending	5	23,942,953	17,295,334

The accompanying notes 1-25 are an integral part of these financial statements.

(thousands of Russian rubles)

1. Principal activities

AO Mizuho Bank (Moscow) (formerly ZAO Mizuho Corporate Bank (Moscow) and Michinoku Bank (Moscow) Ltd., hereinafter, the “Bank”) was formed on 15 January 1999 as a closed joint-stock company under the laws of the Russian Federation. The Bank operates under license for banking operations with funds in Russian rubles and foreign currency issued by the Central Bank of Russia (hereinafter, “CBR”), No. 3337, and a license for accepting deposits denominated in Russian rubles and foreign currency from individuals issued by CBR, No. 3337.

The Bank accepts deposits from legal entities and extends credit, transfers payments in Russia, exchanges currencies and provides other banking services to its commercial and retail customers. As of the reporting date 31 December 2017 (and 31 December 2016), the Bank had no branches and in 2017 (and 2016) operated in a single geographic region (at the location of its head office in Moscow). As of 31 December 2017 and 31 December 2016, the Bank’s legal address and place of business was 20 Ovchinnikovskaya naberezhnaya, building 1, Moscow, Russia.

Starting from 2005, the Bank is a member of the deposit insurance system. The system operates under the Federal laws and regulations and is governed by the State Corporation “Agency for Deposits Insurance”. Insurance covers the Bank’s liabilities to individual depositors for the amount up to 1,400,000 Russian rubles for each individual in case of business failure or revocation of the CBR banking license. In 2017, the amount of insurance indemnity remained unchanged at 1,400,000 Russian rubles.

As of 31 December 2017 and 31 December 2016, shareholders of the Bank included Mizuho Bank, Ltd. (Japan) (ownership interest in the Bank is more than 99.9%) and its subsidiary bank, Mizuho Bank Nederland N.V. (ownership interest in the Bank is less than 0.1%).

Mizuho Bank, Ltd. (Japan) is the ultimate parent of the Bank.

Mizuho Corporate Bank, Ltd. and Mizuho Bank, Ltd., two banks within Mizuho Financial Group, merged on 1 July 2013. The merger did not have a direct impact on the legal status of the Bank, an independent legal entity registered and operating on the territory of the Russian Federation.

There were no changes in the Bank’s shareholding structure, however, the Bank’s majority shareholder, Mizuho Corporate Bank, Ltd. (Japan), changed its name to Mizuho Bank, Ltd. (Japan), remaining the same legal entity. In September 2015, ZAO Mizuho Bank (Moscow) changed its name to AO Mizuho Bank (Moscow).

2. Basis of preparation

General

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

The Bank is required to maintain its records and prepare its financial statements for regulatory purposes in Russian rubles in accordance with Russian accounting and banking legislation and related instructions (“RAL”). These financial statements are based on the Bank’s RAL books and records, as adjusted and reclassified in order to comply with IFRS. The financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, available-for-sale securities and derivative financial instruments have been measured at fair value.

These financial statements are presented in thousands of Russian rubles (“RUB”), unless otherwise indicated.

3. Summary of accounting policies

Changes in accounting policies

Amendments to the standards that are effective for annual periods beginning on or after 1 January 2017. The Bank has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective. The nature and the impact of each amendment are described below:

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). There were no financing activities in the Bank in 2016-2017.

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealized Losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference related to unrealized losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. Application of the amendments has no effect on the Bank's financial position and performance, as the Bank has no deductible temporary differences or assets that are in the scope of the amendments.

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

The amendments clarify that certain disclosure requirements in IFRS 12 apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified as held for sale or included in a disposal group. These amendments had no effect on the Bank's financial position or performance.

Fair value measurement

The Bank measures financial instruments, such as trading and available-for-sale securities, derivatives and non-financial assets such as investment property, at fair value at each reporting date. In addition, fair values of financial instruments measured at amortized cost are disclosed in Note 20.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- ▶ In the principal market for the asset or liability; or
- ▶ In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Bank. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best interest. A 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.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Fair value measurement (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized 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 (unadjusted) market prices in active markets 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
- ▶ Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing classification (based on the lowest level inputs that are significant to the fair value measurement as a whole) at the end of each reporting period.

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. The Bank determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

Date of recognition

All regular way purchases and sales of financial assets are recognized on the trade date, i.e. the date that the Bank commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category “financial assets at fair value through profit or loss”. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on financial assets held for trading are recognized in profit or loss.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Bank has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortized cost. Gains and losses are recognized in profit or loss when the investments are impaired, as well as through the amortization process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available for sale. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Financial assets (continued)

Available-for-sale financial assets

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

Reclassification of financial assets

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- ▶ A financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Bank has the intention and ability to hold it for the foreseeable future or until maturity
- ▶ Other financial assets may be reclassified to available-for-sale or held to maturity categories only in rare circumstances

A financial asset classified as available for sale that would have met the definition of loans and receivables may be reclassified to loans and receivables category if the Bank has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss previously recognized in profit or loss is not reversed. The fair value of the financial asset at the date of reclassification becomes its new cost or amortized cost, as applicable.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amount due from the CBR, excluding obligatory reserves, and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Obligatory reserve with the CBR

Obligatory reserve with the CBR is carried at amortized cost and represents non-interest bearing deposits not intended for financing the Bank's current operations. Accordingly, it is excluded from cash and cash equivalents for the purposes of the statement of cash flows.

Amounts due from credit institutions

Amounts due from credit institutions include amounts due from credit institutions with maturity of more than 90 days from the date of origination. Amounts due from credit institutions are carried at amortized cost using the effective interest method.

Derivative financial instruments

In the normal course of business, the Bank enters into forward foreign exchange contracts recognized at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the statement of profit or loss as net gains/(losses) from foreign currencies.

3. Summary of accounting policies (continued)

Offsetting of financial assets

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts, and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The right of set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

- ▶ The normal course of business
- ▶ The event of default; and
- ▶ The event of insolvency or bankruptcy of the entity or any of the counterparties

These conditions are not generally met in master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

Impairment of financial assets

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Amounts due from credit institutions and loans to customers

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

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

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

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system.

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Available-for-sale financial investments

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

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss – is reclassified from other comprehensive income to the statement of profit or loss. Impairment losses on equity investments are not reversed through the statement of profit or loss; increases in their fair value after impairment are recognized in other comprehensive income.

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

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized in the statement of financial position where:

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

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

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

3. Summary of accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

The accounting treatment of such restructuring is as follows:

- ▶ If the currency of the loan has been changed, the old loan is derecognized and the new loan is recognized
- ▶ If the loan restructuring is not caused by the financial difficulties of the borrower, the Bank uses the same approach as for financial liabilities described below
- ▶ If the loan restructuring is due to the financial difficulties of the borrower and the loan is impaired after restructuring, the Bank recognizes the difference between the present value of the new cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the allowance charges for the period. In case the loan is not impaired after restructuring, the Bank recalculates the effective interest rate

Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original or current effective interest rate.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

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

Guarantees

In the ordinary course of business, the Bank provides guarantees. A financial guarantee is a contract, according to which a guarantor undertakes to pay a specified amount to reimburse a beneficiary thereunder a loss resulting from failure of a certain borrower to make a payment when due in accordance with the terms of a debt instrument. Financial guarantees include letters of credit, acceptances and guarantees of contractual payments.

Guarantees also include performance guarantees providing a compensation if a specified party fails to perform under a contract, guarantees provided to tender participants, guarantees of customs payments and other types of guarantees. Such contracts do not transfer credit risk.

Guarantees are initially recognized in the financial statements at fair value, in "Other liabilities", being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the statement of profit or loss. The premium received is recognized in profit or loss on a straight-line basis over the life of the guarantee.

Property and equipment

Property and equipment are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment recognized when that cost is incurred if the recognition criteria are met.

The carrying amounts of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

Translation from the original Russian version

AO Mizuho Bank (Moscow)

Notes to 2017 financial statements

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Property and equipment (continued)

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	<i>Years</i>
Furniture and fixtures	5
Computers and office equipment	5
Motor vehicles	5
Leasehold improvements	Over the term of the underlying lease

The asset's residual values, useful lives and depreciation methods are reviewed and adjusted as appropriate, at each financial year-end.

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

Intangible assets

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as of the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the contractual useful life or, if not stipulated by a contract, over 5 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and methods for intangible assets with indefinite useful lives are reviewed at least at each financial year-end.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or other financial assets to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or other financial assets for a fixed number of its own equity instruments. Such instruments include amounts due to credit institutions and amounts due to customers. After initial recognition, borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in the statement of profit or loss when the borrowings are derecognized as well as through the amortization process.

Provisions

Provisions are recognized 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 obligation can be made.

Retirement and other employee benefit obligations

The Bank does not have any pension arrangements separate from the State pension system of the Russian Federation, which requires current contributions by the employer calculated as a percentage of current gross salary payments. Such expense is charged in the period the related salaries are earned. In addition, the Bank has no significant post-retirement benefits. Such expense is charged in the period the related salaries are earned. In addition, the Bank has no significant post-retirement benefits.

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Share capital

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognized as additional paid-in capital.

Dividends

Dividends are recognized as a liability and deducted from equity at the reporting date when they are approved by the Bank's shareholder. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorized for issue.

Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Interest and similar income and expense

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

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

Fee and commission income

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

Fee income earned from services that are provided over a certain period of time

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

Fee income from providing transaction services

Fees arising from cash and settlement services are recognized upon completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

Dividend income

Revenue is recognized when the Bank's right to receive the payment is established.

3. Summary of accounting policies (continued)

Operating lease – Bank as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognized as expenses on a straight-line basis over the lease term and included into other operating expenses.

Taxation

The current income tax expense is calculated in accordance with the regulations of the Russian Federation.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Russia also has various operating taxes that are assessed on the Bank's activities. These taxes are included in other operating expenses.

Contingencies

Contingent liabilities are not recognized in the statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. Contingent assets are not recognized in the statement of financial position but are disclosed when an inflow of economic benefits is probable.

Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the financial statements at fair value, in "Other liabilities", being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the statement of profit or loss. The premium received is recognized in the statement of profit or loss on a straight-line basis over the life of the guarantee.

Foreign currency translation

The financial statements are presented in Russian rubles, which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the statement of profit or loss as net gains/(losses) from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the date of the initial transaction.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Foreign currency translation (continued)

Differences between the contractual exchange rate of a transaction in a foreign currency and the Central Bank exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official CBR exchange rates at 31 December 2017 and 2016 were 57.6002 rubles and 60.6569 rubles to 1 US dollar, respectively.

Standards issued but not yet effective

The standards that are issued, but not yet effective, at the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued IFRS 9 *Financial Instruments* that replaces IAS 39 *Financial Instruments: Recognition and Measurement*. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. Except for hedge accounting, retrospective application is required but restating comparative information is not compulsory.

The Bank plans to adopt the new standard by recognizing the cumulative transition effect in opening retained earnings on 1 January 2018 and will not restate comparative information. Based on the data as of 31 December 2017 and the current status of the implementation, the Bank believes that the adoption of IFRS 9 will result in the insignificant change in equity as of 1 January 2018.

(a) Classification and measurement

Under IFRS 9, all debt financial assets that do not meet a "solely payment of principal and interest" (SPPI) criterion, are classified at initial recognition as financial assets at fair value through profit or loss (FVPL). Under this criterion, debt instruments that do not correspond to a "basic lending arrangement", such as instruments containing embedded conversion options or "non-recourse" loans, are measured at FVPL. For debt financial assets that meet the SPPI criterion, classification at initial recognition is determined based on the business model, under which these instruments are managed:

- ▶ Instruments that are managed on a "hold to collect" basis are measured at amortized cost
- ▶ Instruments that are managed on a "hold to collect and for sale" basis are measured at fair value through other comprehensive income (FVOCI)
- ▶ Instruments that are managed on other basis will be measured at FVPL

Equity financial assets are required to be classified at initial recognition as FVPL unless an irrevocable designation is made to classify the instrument as FVOCI. For equity investments classified as FVOCI, all realized and unrealized gains and losses, except for dividend income, are recognized in other comprehensive income with no subsequent reclassification to profit and loss.

The classification and measurement of financial liabilities remain largely unchanged from the current IAS 39 requirements. Derivatives will continue to be measured at FVPL.

The Bank expects to continue measuring at fair value all financial assets currently held at fair value.

Trading debt and equity securities will continue to be classified as FVPL. It is expected that debt securities that are classified as available for sale will be measured at FVOCI in accordance with IFRS 9 since the Bank expects not only to hold these assets to collect contractual cash flows, but also to sell a significant amount on a relatively frequent basis. The vast majority of loans are expected to satisfy the SPPI criterion and will continue to be measured at amortized cost.

*(thousands of Russian rubles)***3. Summary of accounting policies (continued)****Standards issued but not yet effective (continued)***(b) Impairment*

IFRS 9 requires the Bank to record an allowance for expected credit losses (ECL) on all of its debt financial assets at amortized cost or FVOCI, as well as loan commitments and financial guarantees. The allowance is based on the ECL associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case the allowance is based on the ECL over the life of the asset. If the financial asset meets the definition of purchased or originated credit impaired, the allowance is based on the change in the lifetime ECL.

According to the Bank's estimates, the allowance for the ECL will be mostly affected by corporate lending, including loan commitments.

IFRS 15 Revenue from Contracts with Customers

IFRS 15, issued in May 2014, and amended in April 2016, will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. The Bank plans to adopt the new standard using the modified retrospective method by recognizing the cumulative transition effect in opening retained earnings on 1 January 2018, without restating comparative information.

IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. However, interest and fee income integral to financial instruments and leases will fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (IFRS 9 and IFRS 16 *Leases*). As a result, the majority of the Bank's income will not be impacted by the adoption of this standard.

The Bank currently does not expect a material effect from application of IFRS 15.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognized in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Bank does not expect any effect from application of these amendments.

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

The IASB issued amendments to IFRS 2 *Share-based Payment* that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Bank does not expect a material effect from application of these amendments.

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of “low-value” assets and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

The accounting treatment for the lessor under IFRS 16 remains almost unchanged from the existing requirements of IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard’s transition provisions permit certain reliefs. In 2018, the Bank will continue to assess the potential effect of IFRS 16 on its financial statements.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance) regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The Bank will assess the potential effect of IFRS 17 on its financial statements.

Amendments to IAS 40: Transfers of Investment Property

The amendments clarify when an entity should transfer property, including property under construction or development into or out of investment property. The amendments state that a change in use occurs when property begins or ceases to comply with the definition of investment property and there is evidence of a change in use. A mere change in management’s intentions for the use of a property does not provide evidence of a change in use. Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application in accordance with IAS 8 is only permitted if it is possible without the use of hindsight. The amendments are effective for annual periods beginning on or after 1 January 2018. The Bank does not expect any effect from application of these amendments.

(thousands of Russian rubles)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

Annual improvements 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 first-time adopters

Short-term exemptions in paragraphs E3-E7 of IFRS 1 were deleted because they have now served their intended purpose. The amendment is effective from 1 January 2018. This amendment is not applicable to the Bank.

IAS 28 Investments in Associates and Joint Ventures – clarification that the decision to measure investees at fair value through profit or loss should be made individually for each investment

The amendments clarify that:

- ▶ An entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss
- ▶ If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent

The amendments should be applied retrospectively and are effective from 1 January 2018. The Bank does not expect any effect from application of these amendments.

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

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17 *Insurance Contracts*, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after 1 January 2018. An entity may elect the overlay approach when it first applies IFRS 9 and apply that approach retrospectively to financial assets designated on transition to IFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying IFRS 9. These amendments are not applicable to the Bank.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. The Interpretation is effective for annual periods beginning on or after 1 January 2018. Since the Bank's current practice is in line with the Interpretation, the Bank does not expect any effect on its financial statements.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The Interpretation also addresses the assumptions an entity makes about the examination of tax treatments by taxation authorities, as well as how it considers changes in facts and circumstances.

The Interpretation is effective for annual reporting periods beginning on or after 1 January 2019. The Bank will apply the Interpretation from its effective date. Since the Bank operates in a complex tax environment, applying the Interpretation may affect its financial statements and the required disclosures. In addition, the Bank may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

4. Significant accounting judgments and estimates

Estimation uncertainty

In the process of applying the Bank's accounting policies, management has used its judgments and made estimates in determining the amounts recognized in the financial statements. The most significant use of judgments and estimates is as follows:

Fair values of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

Taxation: tax legislation and recognition of deferred tax asset

Russian tax, currency and customs legislation is subject to varying interpretations (Note 11).

A deferred tax asset is that amount of income tax which may be offset against future income taxes and is recorded in the statement of financial position. A deferred tax asset is recorded only to the extent that the realization of the related tax benefit is probable. Future taxable income and tax benefits, which are likely to arise in future, are determined based on the management's expectations deemed reasonable under the current circumstances. As of 31 December 2017, the Bank recognized a deferred tax asset in the amount of RUB 4,705 (2016: RUB 17,148) (Note 11).

Allowance for loan impairment

The Bank regularly reviews its loans and receivables to assess impairment. The Bank uses its experienced judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on the 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 group of loans and receivables. The Bank uses its experienced judgment to adjust observable data for a group of loans or receivables to reflect current circumstances. As of 31 December 2017 and 31 December 2016, the allowance for loan impairment is disclosed in Note 8.

As of 31 December 2017, the total impairment allowances assessed on a collective basis amounted to RUB 39,662 (Notes 5, 7 and 8) (2016: RUB 48,737). The effect of the change on future reporting periods will depend on future changes in loans and accounts receivable and, therefore, cannot be currently estimated.

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5. Cash and cash equivalents

Cash and cash equivalents comprise:

	<i>2017</i>	<i>2016</i>
Cash on hand	16,318	17,006
Current accounts with the CBR	1,578,627	962,262
Correspondent accounts with the parent bank (Mizuho Bank, Ltd.)	747,225	533,070
Time deposits with the parent bank (Mizuho Bank, Ltd.)	1,934,102	1,211,442
Current accounts with other credit institutions	199,662	188,863
Deposits with the Bank of Russia	11,708,325	1,150,283
Time deposits with credit institutions up to 90 days	7,758,694	13,232,408
Less – allowance for impairment	(474)	–
Cash and cash equivalents	23,942,479	17,295,334

As of 31 December 2017, the Bank placed RUB 43 and RUB 946,843 on current/demand accounts with one Russian bank and five OECD banks, respectively (2016: RUB 43 and RUB 721,890 with one Russian bank and four OECD banks, respectively). No interest was accrued on these deposits.

As of 31 December 2017, time deposits with credit institutions up to 90 days were placed as follows: RUB 7,758,694 with three major Russian banks, with interest rates on these deposits varying from 7.00% to 8.15% (2016: RUB 13,232,408 with five major Russian banks, with interest rates on these deposits varying from 9.0% to 10.5%).

6. Obligatory reserve with the CBR

Credit institutions are required to maintain a non-interest earning cash deposit (obligatory reserve) with the CBR, the amount of which depends on the level of funds attracted by the credit institution. The Bank's ability to withdraw such deposit is significantly restricted by the statutory legislation.

7. Amounts due from credit institutions

	<i>2017</i>	<i>2016</i>
Time deposits with credit institutions for more than 90 days	5,783,994	3,326,534
Less – allowance for impairment	(5,455)	(2,824)
Amounts due from credit institutions	5,778,539	3,323,710

Allowance for impairment of amounts due from credit institutions

	<i>Allowance for impairment of amounts due from credit institutions</i>
At 1 January 2016	–
Additional charge/(reversal) of impairment allowance	2,824
At 1 January 2017	2,824
Additional charge/(reversal) of impairment allowance	2,631
At 31 December 2017	5,455
Individual impairment	–
Collective impairment	5,455
	5,455

As of 31 December 2017, time deposits were placed with a Russian bank rated not lower than BBB- (2016: 2.7% of time deposits were placed with Russian banks rated not lower than BBB). The other deposits were placed with Russian banks without any rating, which were not supported by guarantee of the parent bank. As of 31 December 2017, interest rates varied from 7.27% to 9.33% (2016: from 8.4% to 14.45%).

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8. Loans to customers

Loans to customers comprise:

	<i>2017</i>	<i>2016</i>
Corporate lending	14,213,642	18,820,995
Syndicated lending	6,896,993	1,819,952
Consumer lending	543	797
Total loans to customers	21,111,178	20,641,744
Less – allowance for impairment	(33,733)	(45,913)
Loans to customers	21,077,445	20,595,831

As of 31 December 2017, syndicated loans represent the Bank's participation in three syndicated loans received by major companies and denominated in USD and EUR, with the interest rate varying from 1.85% to 2.6% as of the reporting date (2016: funds were placed in one syndicated loan received by a major company and denominated in USD with the interest rate of 1.98011%). Maturity analysis of these loans is disclosed in Note 22.

Allowance for impairment of loans to customers

A reconciliation of the allowance for impairment of loans to customers by class is as follows:

	<i>Corporate lending</i>	<i>Syndicated lending</i>	<i>Consumer lending</i>	<i>Total</i>
At 1 January 2016	59,921	4,520	–	64,441
Additional charge/(reversal) of impairment allowance	(15,749)	(2,779)	–	(18,528)
At 31 December 2016	44,172	1,741	–	45,913
Individual impairment	–	–	–	–
Collective impairment	44,172	1,741	–	45,913
	44,172	1,741	–	45,913
At 1 January 2017	44,172	1,741	–	45,913
Additional charge/(reversal) of impairment allowance	(16,979)	4,799	–	(12,180)
At 31 December 2017	27,193	6,540	–	33,733
Individual impairment	–	–	–	–
Collective impairment	27,193	6,540	–	33,733

Individually impaired loans

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. The Bank identifies a group of financial assets using the methodology of the parent bank for classifying financial assets in line with the Bank's internal ratings.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

During 2017 and 2016, the Bank did not have any overdue payments on principal or interest.

As of 31 December 2017 and 2016, based on individual analysis, the Bank had no impaired loans.

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8. Loans to customers (continued)

Allowance for impairment of loans to customers (continued)

As of 31 December 2017, the allowance for impairment of collectively assessed loans to customers amounted to RUB 33,733 (2016: RUB 45,913).

In accordance with the CBR requirements, loans may only be written off with the approval of the Board of Directors and, in certain cases, with the respective decision of the court.

Collateral and other credit risk enhancements

The amount and type of collateral required by the Bank depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The Bank obtains guarantees from parent companies for loans to their subsidiaries. The Bank also obtains guarantees from the parent bank for loans to counterparties.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

Concentration of loans to customers

As of 31 December 2017, the Bank had 19 borrowers with an aggregate loan amount of RUB 100,000 or above. These loans amounted to RUB 21,023,845 (2016: 21 borrowers with a total amount of RUB 20,374,635), or 99.59% of the loan portfolio (2016: 98.7%).

Loans have been extended to the following types of customers (the amounts are given on a gross basis):

	<i>2017</i>	<i>2016</i>
Private companies	14,213,642	18,820,995
Syndicated loans	6,896,993	1,819,952
Individuals	543	797
	21,111,178	20,641,744

Loans are made principally within Russia in the following industry sectors:

	<i>2017</i>	<i>2016</i>
Trading enterprises	9,549,002	7,026,135
Manufacturing	4,524,799	5,953,918
Leasing	3,263,675	3,144,292
Production of vehicles	1,570,876	1,541,447
Services	1,341,931	1,507,977
Metallurgy	834,552	812,555
Construction	—	607,623
Transport	25,800	47,000
Individuals	543	797
	21,111,178	20,641,744

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9. Investment securities available for sale

Investment securities available for sale comprise:

	<i>2017</i>	<i>2016</i>
Russian State bonds (OFZ)	147,364	143,340
Investment securities available for sale	147,364	143,340

Russian State bonds (OFZ) are Russian ruble denominated government interest-bearing securities issued by the Ministry of Finance of the Russian Federation. As of 31 December 2017, these bonds mature on 29 August 2018, bear a coupon rate of 7% (2016: 7%) and have a yield to maturity of 4.92% (2016: 8.43%).

The Bank analyzes the credit quality of securities on the basis of international ratings of the issuers. As Fitch and Standard & Poor's international rating scales are in general consistent in credit risk characteristics that they assign to particular ratings, the Bank gathers and uses for the purpose of credit quality analysis the most conservative ratings issued by either Fitch or Standard & Poor's.

A – more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligator's capacity to meet its financial commitment on the obligation is still strong.

AA – differs from the highest-rated obligations only to a small degree. The obligator's capacity to meet its financial commitment on the obligation is very strong.

BBB – exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligator to meet its financial commitment on the obligation.

BB – less vulnerable to nonpayment than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions which could lead to the obligator's inadequate capacity to meet its financial commitment on the obligation.

B – more vulnerable to nonpayment than obligations rated 'BB', but the obligator currently has the capacity to meet its financial commitment on the obligation. Adverse business, financial, or economic conditions will likely impair the obligator's capacity or willingness to meet its financial commitment on the obligation.

Analysis by credit quality of investment securities available for sale as of 31 December 2017 is as follows:

	<i>Russian State bonds (OFZ)</i>	
	<i>2017</i>	<i>2016</i>
Current (at fair value)		
From BBB+ to BBB- rated	147,364	143,340
Total investment securities available for sale	147,364	143,340

Geographical, currency and interest rate analysis of investment securities available for sale is disclosed in Note 19.

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10. Property and equipment

The movements in property and equipment were as follows:

	<i>Computers and office equipment</i>	<i>Intangible assets</i>	<i>Leasehold improvements</i>	<i>Total</i>
Cost				
31 December 2015	22,009	–	64,954	86,963
Additions	14,918	4,799	2,167	21,884
Disposals	(971)	–	–	(971)
31 December 2016	35,956	4,799	67,121	107,876
Additions	9,755	466	38	10,259
Disposals	(880)	–	–	(880)
31 December 2017	44,831	5,265	67,159	117,255
Accumulated depreciation and amortization				
31 December 2015	(16,817)	–	(28,225)	(45,042)
Depreciation and amortization charge	(2,707)	(132)	(7,132)	(9,971)
Disposals	971	–	–	971
31 December 2016	(18,553)	(132)	(35,357)	(54,042)
Depreciation and amortization charge	(4,937)	(1,104)	(7,638)	(13,679)
Disposals	880	–	–	880
31 December 2017	(22,610)	(1,236)	(42,995)	(66,841)
31 December 2015	5,192	–	36,729	41,921
31 December 2016	17,403	4,667	31,764	53,834
31 December 2017	22,221	4,029	24,164	50,414

11. Taxation

The corporate income tax expense comprises:

	<i>2017</i>	<i>2016</i>
Current tax charge	267,806	271,905
Deferred tax charge/(credit) – origination and reversal of temporary differences	11,644	2,537
Income tax expense	279,450	274,442

Russian legal entities have to file individual tax declarations. The tax rate for banks for profits other than on state securities was 20% for 2017 and 2016. The tax rate for interest income on state securities was 15% for federal taxes.

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11. Taxation (continued)

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	<i>2017</i>	<i>2016</i>
Profit before tax	1,281,985	1,217,351
Statutory tax rate	20%	20%
Theoretical income tax expense at the statutory rate	256,397	243,470
Income on state securities taxed at different rates	(500)	(500)
Tax exempt income	(1,710)	(2,830)
Non-deductible expenses	25,263	38,102
Change in unrecognized deferred tax asset	–	(3,800)
Other income	–	–
Income tax expense	279,450	274,442

Deferred tax assets and liabilities as of 31 December and their movements for the respective years comprise:

	<i>Origination and reversal of temporary differences</i>			<i>Origination and reversal of temporary differences</i>		
	<i>In the statement of profit or loss</i>	<i>Directly in equity</i>		<i>In the statement of profit or loss</i>	<i>Directly in equity</i>	
	<i>2015</i>		<i>2016</i>			<i>2017</i>
Tax effect of deductible temporary differences						
Accruals	2,604	(1,912)	692	494	–	1,186
Allowance for impairment	3,574	1,461	5,035	(4,185)	–	850
Valuation of securities	5,750	–	2,731	–	(799)	1,932
Tax losses carried forward	13,303	(8,171)	5,132	(1,711)	–	3,421
Other	1,492	3,999	5,491	(7,742)	–	(2,251)
Deferred tax assets	26,723	(4,623)	19,081	(13,144)	(799)	5,138
Unrecognized deferred tax assets	(3,800)	3,800	–	–	–	–
Deferred tax asset, net	22,923	(823)	19,081	(13,144)	(799)	5,138
Tax effect of taxable temporary differences						
Allowance for impairment	–	–	–	–	–	–
Property and equipment	(1,523)	(410)	(1,933)	1,500	–	(433)
Deferred tax liability	(1,523)	(410)	(1,933)	1,500	–	(433)
Deferred tax asset/(liability)	21,400	(1,233)	17,148	(11,644)	(799)	4,705

As of 31 December 2017 and 31 December 2016, the Bank estimates its tax losses available for offset against future profits at RUB 17,105 and RUB 25,661, respectively.

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12. Derivative financial instruments

Most of the Bank's derivative trading activities relate to foreign exchange forwards with customers. Forwards are customized contracts transacted in the over-the-counter market. The Bank enters into deliverable forwards which are normally laid off with counterparties. The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

	2017			
	Notional principal (assets)	Notional principal (liabilities)	Fair value	
			Asset	Liability
Foreign exchange contracts				
Forwards – foreign	1,244	6,394,192	1	(256,988)
Forwards – domestic	6,395,436	–	267,356	–
Total derivative assets/liabilities	6,396,680	6,394,192	267,357	(256,988)

	2016			
	Notional principal (assets)	Notional principal (liabilities)	Fair value	
			Asset	Liability
Foreign exchange contracts				
Forwards – foreign	156,884	3,096,703	9,338	(480,451)
Forwards – domestic	3,096,703	156,884	482,525	(9,304)
Total derivative assets/liabilities	3,253,587	3,253,587	491,864	(489,755)

Foreign and domestic in the table above stand for counterparties where foreign means non-Russian entities and domestic means Russian entities.

As of 31 December 2017 and 31 December 2016, forwards – foreign were concluded with the parent bank branch (Mizuho Bank, Limited (UK)) (Note 23). Domestic contracts were entered into with Russian companies that are the Bank's customers.

13. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2017	2016
Correspondent accounts and overnight deposits of other banks	3,990	1,665
Time deposits of the parent bank branch (Mizuho Bank, Limited (UK))	16,415,860	8,196,419
Time deposits of the parent bank subsidiary (Mizuho Bank, Limited (the Netherlands))	10,231	2,309,719
Time deposits of Russian banks	–	350,301
Amounts due to credit institutions	16,430,081	10,858,104

As of 31 December 2017, interest rates on deposits in Russian rubles were from 6.75% to 11.0556%, deposits in US dollars – from 1.4778% to 1.86%, deposits in Japanese yen – 0.0111%, and deposits in euro – from 0.0111% to 0.2389% (2016: interest rates on deposits in Russian rubles varied from 8.20% to 13.50%, deposits in US dollars – from 0.50% to 1.7111%, deposits in Japanese yen – from 0.0111% to 0.2222%, and deposits in euro – from 0.0111% to 0.2389%).

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14. Amounts due to customers

Amounts due to customers comprise:

	<i>2017</i>	<i>2016</i>
Current accounts	4,372,011	3,593,406
Time deposits	14,968,753	13,027,589
Amounts due to customers	19,340,764	16,620,995

As of 31 December 2017, amounts due to ten largest customers comprised RUB 14,430,428, or 74.62% of total amounts due to customers (2016: RUB 11,974,533, or 72.00%).

Included in time deposits are deposits of individuals in the amount of RUB 1,048 (2016: RUB 1,103). In accordance with the Russian Civil Code, the Bank is obliged to repay deposits of individuals upon demand of a depositor. In case a time deposit is repaid upon demand of a depositor prior to maturity, interest on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

Amounts due to customers include accounts of the following types of customers:

	<i>2017</i>	<i>2016</i>
Private companies	19,250,677	16,575,387
Individuals	90,087	45,608
Amounts due to customers	19,340,764	16,620,995

An analysis of customer accounts by economic sector is as follows:

	<i>2017</i>	<i>2016</i>
Trade	9,333,029	6,369,238
Machine-building	7,461,930	268,455
Manufacturing	1,124,025	4,569,651
Service sector	394,686	4,648,178
Production of musical instruments	269,666	113,928
Embassies and foreign representations	239,255	97,934
Lease services	141,658	39,226
Construction	124,769	64,031
Individuals	90,087	45,608
Hotel services	77,880	258,234
Consulting services	22,822	19,587
Education	21,966	28,271
Insurance	18,091	7,318
Leases and management of own or leased non-residential real property	—	46,840
International transportation and logistics services	—	18,134
Oil and gas services	—	1,255
Agriculture	—	—
Telecommunications	—	—
Other	20,900	25,107
Amounts due to customers	19,340,764	16,620,995

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15. Equity

The movements in shares outstanding, issued and fully paid were as follows:

	<i>Number of ordinary shares</i>	<i>Nominal amount of ordinary shares</i>	<i>Share premium</i>	<i>Inflation adjustment</i>	<i>Total</i>
31 December 2015	87,833,363	8,783,336	2,216,664	156,803	11,156,803
31 December 2016	87,833,363	8,783,336	2,216,664	156,803	11,156,803
31 December 2017	87,833,363	8,783,336	2,216,664	156,803	11,156,803

As of 31 December 2017, the number of authorized, issued and fully paid ordinary shares was 87,833,363, with a nominal value of 100 Russian rubles per share (2016: 87,833,363 shares with a nominal value of 100 Russian rubles per share). As of 31 December 2010, the share capital of the Bank was contributed by the shareholders in US dollars. As of 31 December 2017 and 2016, the share capital of the Bank was contributed by the shareholders in RUB.

In accordance with Russian legislation, dividends may only be declared to the shareholders of the Bank from accumulated undistributed and unreserved earnings as shown in the Bank's financial statements prepared in accordance with RAL. As of 31 December 2017, the Bank's undistributed and unreserved earnings amounted to RUB 964,042 (2016: RUB 971,344).

Additional paid-in capital

	<i>Additional paid-in capital</i>
31 December 2017 and 31 December 2016	5,955

Additional paid-in capital represents contributions made by the parent bank in the form of office equipment for no cost recognized at the fair value at the date of contribution.

Movements in other reserves were as follows:

	<i>Changes in fair value of investment securities available for sale</i>	<i>Statutory general reserve</i>	<i>Total</i>
31 December 2015	(1,657)	299,876	298,219
Net unrealized gains/(losses) on investment securities available for sale	8,570	—	8,570
Tax effect of net gains on investment securities available for sale	(1,714)	—	(1,714)
Distribution of profit of prior years	—	63,861	63,861
31 December 2016	5,199	363,737	368,936
Net unrealized gains/(losses) on investment securities available for sale	3,997	—	3,997
Tax effect of net gains on investment securities available for sale	(799)	—	(799)
Distribution of profit of prior years	—	48,566	48,566
31 December 2017	8,397	412,303	420,700

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15. Equity (continued)

Nature and purpose of other reserves

Unrealized gains (losses) on investment securities available for sale

This reserve records fair value changes of available-for-sale investments.

Statutory general reserve

The statutory general reserve is created as required by the regulations of the Russian Federation, in respect of general banking risks, including future losses and other unforeseen risks or contingencies. The reserve is created in accordance with the Bank's Charter, which provides for the creation of a reserve for these purposes of not less than 5% of the Bank's share capital reported in accordance with RAL. As of 31 December 2017, the Bank's statutory general reserve amounted to RUB 412,303, or 4% of the share capital (2016: RUB 363,737, or 3% of the share capital). Part of the profit for 2017 will be used to create the statutory general reserve.

16. Commitments and contingencies

Operating environment

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent on these reforms and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Russian economy has been negatively impacted by sanctions imposed on Russia by a number of countries. The ruble interest rates remain high. The combination of the above resulted in reduced access to capital, a higher cost of capital, and increased uncertainty regarding economic growth, which could negatively affect the Bank's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances.

Legal

In the ordinary course of business, the Bank is not subject to legal actions and complaints.

Taxation

The Bank's business activity is carried out in the Russian Federation. Some provisions of the Russian tax, currency and customs legislation as currently in effect are vaguely drafted and are often subject to varying interpretations (which, in particular, may apply to legal relations retrospectively), selective and inconsistent application and changes which can occur frequently and, in some cases, at short notice. Therefore, management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant regional and federal regulatory authorities at any time in the future. The tax authorities may be taking a more assertive approach in interpreting and enforcing various provisions of this legislation, performing tax audits and assessing additional taxes. It is therefore possible that the tax authorities may challenge transactions, operations and tax accounting methods of the Bank that have not been challenged in the past. As a result, significant additional taxes, penalties and interest may be assessed by the relevant authorities.

Fiscal periods remain open and subject to review by the tax authorities for a period of three calendar years immediately preceding the year in which the decision to conduct a tax review is taken. Under certain circumstances, reviews may cover longer periods.

16. Commitments and contingencies (continued)

Taxation (continued)

Russian tax, currency and customs legislation is vaguely drafted and is often subject to varying interpretations (which, in particular, may apply to legal relations retrospectively), selective and inconsistent application and changes which can occur frequently and, in some cases, at short notice. Management's interpretation of legislative provisions as applied to the Bank's transactions and activities may be challenged by the relevant regional or federal authorities.

The current Russian transfer pricing legislation allows tax authorities to apply transfer pricing adjustments and impose additional income tax and value added tax liabilities in respect of all "controlled" transactions if the transaction price differs from the market price. The list of "controlled" transactions includes transactions between related parties (Russian and foreign) and certain types of transactions between unrelated parties that are considered the same as controlled transactions. Special transfer pricing rules apply to transactions with securities and derivatives.

In 2017, the Bank determined its tax liabilities arising from these "controlled" transactions using actual transaction prices.

Starting from 1 January 2015, the rules for the taxation of controlled foreign companies and such concepts as "beneficial owner of income" and "tax residency of legal entities" were introduced. Overall, the adoption of the law should increase the administrative and, in some cases, tax burden on Russian taxpayers that have foreign subsidiaries and/or conduct transactions with foreign companies.

The introduction of the regulations above and interpretation of certain provisions of the Russian tax legislation together with the latest trends in judicial practice indicate a potential increase in both taxes payable and penalties assessed, including due to the fact that the tax authorities and courts may take a more assertive position in applying the legislation and reviewing tax calculations. However, it is not possible to determine their amounts or evaluate the probability of a negative outcome in the event of claims brought by the tax authorities. Fiscal periods remain open to review for a period of three calendar years immediately preceding the year of review. Under certain circumstances, tax reviews may cover longer periods.

As of 31 December 2017, management believes that its interpretation of the relevant legislation is appropriate and that the Bank will be able to defend its tax, currency and customs positions.

Commitments and contingencies

As of 31 December, the Bank's commitments and contingencies comprised the following:

	2017	2016
Credit-related commitments		
Undrawn loan commitments	440,000	2,992,444
Commitments under guarantees issued	2,081,420	2,224,720
Commitments under letters of credit	12,772	—
Operating lease commitments		
Not later than 1 year	107,980	107,980
Later than 1 year and not later than 5 years	259,610	367,591
Later than 5 years	—	—
Commitments and contingencies (before deducting collateral)	2,901,782	5,692,735

In 2017, the Bank received a collateral of RUB 2,079,093 from companies which have an international rating of not less than AA- for commitments under guarantees issued (2016: collateral of RUB 2,187,656).

In 2017, the Bank recognized lease expenses in the amount of RUB 87,577 (2016: RUB 86,955).

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17. Net fee and commission expense

Net fee and commission expense comprises:

	<i>2017</i>	<i>2016</i>
Cash and settlement operations	27,975	29,550
Currency control operations	10,882	10,575
Other	7,815	8,099
Fee and commission income	46,672	48,224
Guarantees received	(49,981)	(72,470)
Cash operations	(4,470)	(4,570)
Other	(877)	(1,103)
Fee and commission expense	(55,328)	(78,143)
Net fee and commission expense	(8,656)	(29,919)

18. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	<i>2017</i>	<i>2016</i>
Staff costs	324,857	328,912
Rent expenses	87,577	86,955
Professional services	82,296	84,511
Taxes other than income tax	41,399	41,602
Telecommunication services	25,287	27,659
Depreciation of equipment and amortization of intangible assets	13,679	9,972
Security services	4,636	5,330
Other expenses related to property and equipment	6,134	5,333
Other	37,737	94,679
Personnel and other operating expenses	623,602	684,953

Included in staff costs are statutory social security and pension contributions (insurance contributions) of RUB 41,382 (2016: RUB 44,534).

Included in professional services are fees of RUB 47,854 (2016: RUB 49,965) paid to the parent bank for its outsourced personnel (Note 23).

19. Risk management

Introduction

The Bank's development strategy is based on further development of corporate services. The Bank is working towards the development of new products to satisfy the needs of the Bank's customers. The major risks arising from the Bank's activities include credit, market, liquidity, and operational risks. The risk management policies of the Bank are aimed to identify, analyze and manage the risks faced by the Bank, to set appropriate risk limits and respective controls, and to continuously monitor risk levels and compliance with the set limits. The procedure for the identification, assessment and limitation of each group of risks is determined by the respective internal documents of the Bank and corporate policies of Mizuho Financial Group (Japan).

Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered. In case of a certain concentration of operations in a fairly small market sector, the Bank performs high-risk operations with due diligence and tries to avoid doubtful and risky investments. Such a policy significantly reduces liquidity and market risks. The focus on a small product line helps control the risk of change in parameters.

(thousands of Russian rubles)

19. Risk management (continued)

Introduction (continued)

For risk management purposes, the potential negative impact of the Bank's operations on its capital and/or liquidity is assessed taking into account the implementation of risk management and internal control procedures. Identification and measurement of risks is a process that covers all stages of a product's life, from its development to the reporting stage.

Risk management system principles

The Bank's risk management system is based on the following principles:

Continuous operation

The Bank has established a continuous banking risk management process.

Unified risk management model

The risk management system is created not only by the Bank's Board of Directors and management, but also by officers and employees from all Bank's departments. This process is integrated into all Bank's business-processes, therefore risk identification, management and limitation is performed at all levels.

Avoiding conflict of interest in the course of risk management

The existing banking risk management structure rules out conflicts of interests.

Independence of departments

The Bank complies with the principle of independence of its departments assessing the level of risks assumed by the Bank from the subdivisions performing operations (transactions) involving the risk of losses.

Development of a comprehensive risk management system

The established system complies with the legislation, takes into account the risk management principles set by the Mizuho Financial Group as well as recommendations of international organizations.

Effective notification system

The Bank's risk management system helps to timely identify potential areas of increased risk and notify the President, the Management Board and the Bank's Board of Directors of such risks and measures taken to mitigate them.

Risk management system

An effective risk management system requires consideration, analysis, constant assessment and management of significant risks which may have an adverse effect on achieving the Bank's goals. This assessment should cover all risks inherent in the Bank's activities.

The Bank's risk management system includes:

- ▶ Identification, assessment and determination of acceptable level of banking risks, including standard risks of losses and (or) liquidity deterioration as a result of adverse events related to internal and (or) external factors of the Bank's activities
- ▶ Constant monitoring over the banking risks
- ▶ Taking measures to maintain the acceptable level of banking risks
- ▶ Continuous monitoring of the risk management system status. Methods, rules, frequency, procedures for review of monitoring results are defined in separate regulatory documents of the Bank

19. Risk management (continued)

Introduction (continued)

Risk management and internal control bodies

Risks are managed by the following bodies and departments within the scope of their powers as set forth in the Bank's founding and internal documents:

- ▶ Board of Directors
- ▶ Management Board
- ▶ President of the Bank
- ▶ Credit Committee
- ▶ Other committees
- ▶ Risk Management Function
- ▶ Risk Management Department
- ▶ Other departments of the Bank

The Bank aggregates all significant risk-related information broken down by its business lines, types of assets, industries, regions, etc. in order to identify and recognize in the financial statements its exposure to risks, risk concentration and emerging risks.

The risk reporting system includes the following reports:

- ▶ ICAAP report (including the information on compliance with planned (target) level of capital, capital adequacy, planned capital structure, planned (target) risk levels and target risk structure)
- ▶ Report on the amount of capital, results of capital adequacy assessment and assumptions used in the assessment
- ▶ Report on compliance with mandatory prudential ratios
- ▶ Report on stress-testing results
- ▶ Report on significant risks, including:
 - ▶ Aggregate amount of significant risks assumed by the Bank
 - ▶ Amount of each significant risk assumed, its changes and the effect of such changes on capital adequacy
 - ▶ Amount of significant risks assumed by the Bank's departments and their use of the limits allowed
 - ▶ Breaches of the established limits by departments and measures taken to eliminate the identified breaches

Information on the level of risks assumed by the Bank is included in the internal reports and communicated by the respective departments to the Bank's Management Board and Board of Directors on a regular basis:

- ▶ Heads of departments and members of the Committees responsible for risk management, as well as the Head of the Risk Management Function review the reports prepared by the Risk Management Department on a daily basis
- ▶ The Bank's Management Board reviews reports from departments on a monthly basis
- ▶ The Bank's Board of Directors reviews the report prepared by the Management Board on a quarterly basis

The powers of risk management bodies are regulated by the Bank's internal documents.

(thousands of Russian rubles)

19. Risk management (continued)

Introduction (continued)

The Board of Directors of the Bank is empowered to:

- ▶ Establish and maintain the effective functioning of the risk and capital management system
- ▶ Ensure that the Bank's organizational structure is established in compliance with the key risk and capital management principles
- ▶ Determine risk and capital management policies, approve the Bank's internal documents regulating key risk management principles, and approve amendments and changes thereto, particularly, in case of changes in Russian laws
- ▶ Set limitations and standards for the amounts, areas and types of risk as well as methods of their assessment and management
- ▶ Exercise control over the completeness and frequency of the audits of compliance with the key risk management principles by the Internal Control Function
- ▶ Assess the effectiveness of the risk management system and procedures
- ▶ Exercise control over the activity of the Bank's executive bodies responsible for risk management

The Management Board of the Bank is empowered to:

- ▶ Determine the areas of investment activity
- ▶ Set investment amounts
- ▶ Determine the Bank's key sources of financing
- ▶ Set limitations and standards for the amounts, areas and types of risk as well as methods of their assessment and management
- ▶ Assess the risk associated with transactions (on a sampling basis)
- ▶ Organize and support the Bank's risk and capital adequacy management processes, including preliminary review, preparation and submission for approval to the Board of Directors of matters to be considered
- ▶ Establish additional risk and capital management bodies of the Bank (committees, departments), determine their authorities and operating procedures, and approve internal documentation governing their activities
- ▶ Consider and approve internal documents and amendments thereto, except for the internal documents subject to approval by other management bodies in accordance with the Bank's Charter and internal documents, in relation to the Bank's activity (regulations, procedures, rules, methods, regulations, tariffs, etc.), including documents:
 - ▶ On the procedures for banking operations, preparation of correspondence and documents
 - ▶ On lending terms
 - ▶ On the criteria used to assess the financial position of potential borrowers and persons applying for a bank guarantee
 - ▶ On the procedures and terms of loans, borrowings, bank guarantees, sureties issuance
 - ▶ On the means to secure obligations associated with issued loans, borrowings, sureties and guarantees
 - ▶ On creating favorable conditions for professional development and training of the Bank's employees

The President of the Bank is empowered to:

- ▶ Make decisions concerning transactions (and determine interest rates on transactions) which are not subject to mandatory approval by the Credit Committee or the Management Board:
 - ▶ Provide incentives to the Bank's employees depending on the impact of their performance on the risk level; take disciplinary action against employees
 - ▶ Ensure involvement in risk management processes of all of the Bank's employees in line with their job responsibilities
- ▶ Exercise control over the activities of the Bank's departments

19. Risk management (continued)

Introduction (continued)

The Credit Committee is empowered to:

- ▶ Develop and submit for approval to the Bank's Management Board:
 - ▶ Criteria used to assess the financial position of potential borrowers and persons applying for a bank guarantee
 - ▶ Procedures and terms of loans, borrowings, bank guarantees, sureties issuance
 - ▶ Means to secure obligations associated with issued loans, borrowings, sureties and guarantees
- ▶ Makes decisions on the amount and terms of a loan/borrowing or a bank guarantee/surety issue to a particular individual or legal entity

The Risk Management Function is empowered to:

- ▶ Organize and support the Bank's risk and capital adequacy management processes, including preliminary review, preparation and submission for approval to the Board of Directors of matters to be considered
- ▶ Develop the Bank's internal ICAAP documentation describing ICAAP procedures (including methodologies)
- ▶ Exercise control over the compliance with risk management procedures, amounts of the risk assumed and established limits
- ▶ Regularly prepare and present reports on the risk level and risk management to the Bank's management bodies for ICAAP purposes

The Risk Management Department is empowered to:

- ▶ Assess and manage credit, liquidity, interest and currency risks, including to:
 - ▶ Perform preliminary assessment of risk associated with each issued loan
 - ▶ Perform preliminary assessment of risks for the total credit portfolio, including risk of losses on loans, sector concentrations, portfolio liquidity
 - ▶ Monitor loans receivable
 - ▶ Notify the Bank's management bodies of identified risks
 - ▶ Develop risk-mitigating measures
 - ▶ Regularly prepare and present reports on the risk management level and progress to the Bank's management bodies

Internal Control Bodies of the Bank:

- ▶ Internal Control Function (ICF)
- ▶ Internal Audit Function (IAF)
- ▶ Other departments of the Bank

The Internal Control Function and the Internal Audit Function are empowered to:

The Internal Control Function (ICF) and the Internal Audit Function (IAF) were established to exercise control over compliance with the existing rules and procedures and to assist the Bank's management bodies in maintaining an effective internal control system.

The ICF monitors the effectiveness of measures taken by departments and management bodies based on the audit results in order to mitigate the identified risks, or documents the decision made by the departments management and (or) management bodies with regard to the acceptability of the identified risks for the Bank.

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19. Risk management (continued)

Introduction (continued)

The IAF performs regular audits of all Bank's activities, including the risk management systems established by the Bank in accordance with the annual Work schedule approved by the Board of Directors. The IAF informs the Board of Directors, the Management Board and the President of the Bank on measures taken to implement the recommendations and eliminate identified violations at least semiannually.

The aims, scope of activity, goals, functions, working principles, procedure for presentation and review of the ICF and IAF's progress reports, as well as rights and duties of its employees are determined by the Bank's Charter, as well as the Regulation on the Internal Control Function and the Regulation on the Internal Audit Function approved by the Bank's Board of Directors.

Credit risk

Credit risk is the risk that the Bank will incur a loss because its debtor failed to discharge its contractual financial obligations to the Bank, or discharged them in an untimely fashion or not in full.

Credit risk is limited by setting individual credit risk limits and exercising control over compliance therewith. Individual credit risk limits are set by the Credit Committee and the Assets and Liabilities Committee as part of credit transactions, taking into account credit risk limits per one borrower or a group of interdependent borrowers.

Credit risk mitigation. The Bank uses the following instruments to manage and mitigate credit risk:

- ▶ Obtaining of collateral
- ▶ Risk-based pricing and credit term determination
- ▶ Legal support of credit transactions for the purpose of providing maximum protection of the creditor's interests
- ▶ Timely managerial decision-making in case of deterioration in the loan quality, including bad debt management measures – pre-trial activity and resolution of disputes in courts

The Bank monitors the credit quality, the borrower's financial position and the status of collateral over the term of the transaction in order to ensure a prompt and timely response to changes in the risk level, as well as assessment of their effect on equity. The Bank performs preliminary, current and follow-up control over credit transactions.

The Bank makes available to its customers guarantees which may require that the Bank make payments on their behalf. Such payments are collected from customers based on the terms of the guarantee. They expose the Bank to risks similar to credit risks and these are mitigated by the same control processes and policies.

See "Collateral and other credit enhancements" in Note 8 "Loans to customers" for the details of types of collateral held and used to mitigate credit risk.

Credit quality per class of financial assets

The credit quality of financial assets is managed by means of the Bank's internal credit ratings. The table below shows the credit quality by class of assets for loan-related items of the statement of financial position, based on the Bank's credit rating system. Loans to banks and customers of high grade are those that have a minimal level of credit risk, if either of the following conditions is met:

- ▶ They have a credit rating close to sovereign level
- ▶ They are guaranteed by collateral of the parent bank
- ▶ The assistance from the parent company has been proved

For debt securities, high grade is equivalent to rating close to sovereign rating assigned by Moody's, Fitch or S&P's.

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19. Risk management (continued)

Credit risk (continued)

As of 31 December 2017 and 2016, there were no overdue loans.

	<i>Note</i>	<i>2017</i>			<i>2016</i>		
		<i>High grade</i>	<i>Individually impaired</i>	<i>Total</i>	<i>High grade</i>	<i>Individually impaired</i>	<i>Total</i>
Cash and cash equivalents	5	23,942,953	–	23,942,953	17,295,334	–	17,295,334
Amounts due from credit institutions	7	5,783,994	–	5,783,994	3,326,534	–	3,326,534
Corporate lending	8	14,213,642	–	14,213,642	18,820,995	–	18,820,995
Syndicated lending	8	6,896,993	–	6,896,993	1,819,952	–	1,819,952
Consumer lending	8	543	–	543	797	–	797
Investment securities available for sale	9	147,364	–	147,364	143,340	–	143,340
Total		50,985,489	–	50,985,489	41,406,952	–	41,406,952

It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank's rating policy. The attributable risk ratings are assessed and updated regularly.

Carrying amount of renegotiated financial assets, by class

As of 31 December 2017 and 2016, the Bank had no financial assets, the terms of which had been renegotiated.

Impairment assessment

The main considerations for the loan impairment assessment include: whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank assesses loans for impairment on an individual basis.

Individually assessed allowances

The Bank determines the allowances appropriate for each individually significant loan or advance payment on an individual basis. Items considered while determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of financial support, the realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Financial guarantees and letters of credit are also assessed for impairment and provision is made in a similar manner as for loans.

Country risk

Country risk is the risk that the Bank may incur losses as a result of foreign counterparties (legal entities or individuals) failing to meet their obligations due to economic, political and social changes or because the currency of a monetary liability may be inaccessible to a counterparty due to specifics of the national legislation (irrespective of the counterparty's financial position).

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19. Risk management (continued)

Credit risk (continued)

Major share of the Bank's foreign placements falls on Japan which is included by the International Monetary Fund in the list of economically developed countries. To mitigate country risk, the Bank will continue to maintain the current structure of foreign placements.

The geographical concentration of the Bank's financial assets and liabilities is set out below:

	2017				2016			
	<i>Russia</i>	<i>Japan</i>	<i>Other countries</i>	<i>Total</i>	<i>Russia</i>	<i>Japan</i>	<i>Other countries</i>	<i>Total</i>
Assets								
Cash and cash equivalents	21,061,533	2,680,733	200,213	23,942,479	15,362,002	1,743,912	189,420	17,295,334
Obligatory reserve with the CBR	523,321	—	—	523,321	824,117	—	—	824,117
Amounts due from credit institutions	5,778,539	—	—	5,778,539	3,228,988	94,722	—	3,323,710
Derivative financial assets	267,357	—	—	267,357	482,526	9,338	—	491,864
Loans to customers	21,077,445	—	—	21,077,445	20,595,831	—	—	20,595,831
Investment securities available for sale	147,364	—	—	147,364	143,340	—	—	143,340
Other assets	204,266	747	—	205,013	205,076	1,344	436	206,856
	<u>49,059,825</u>	<u>2,681,480</u>	<u>200,213</u>	<u>51,941,518</u>	<u>40,841,880</u>	<u>1,849,316</u>	<u>189,856</u>	<u>42,881,052</u>
Liabilities								
Amounts due to credit institutions	3,989	16,415,860	10,232	16,430,081	351,966	8,196,419	2,309,719	10,858,104
Amounts due to customers	18,743,314	399,903	197,547	19,340,764	16,141,172	469,249	10,574	16,620,995
Derivative financial liabilities	—	256,988	—	256,988	9,304	480,451	—	489,755
Other liabilities	28,401	11,604	—	40,005	37,039	19,090	—	56,129
	<u>18,775,704</u>	<u>17,084,355</u>	<u>207,779</u>	<u>36,067,838</u>	<u>16,539,481</u>	<u>9,165,209</u>	<u>2,320,293</u>	<u>28,024,983</u>
Net assets and liabilities	<u>30,284,121</u>	<u>(14,402,875)</u>	<u>(7,566)</u>	<u>15,873,680</u>	<u>24,302,399</u>	<u>(7,315,893)</u>	<u>(2,130,437)</u>	<u>14,856,069</u>

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will not be able to meet its payment obligations as they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its existing core deposit base. It also manages assets with liquidity in mind and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral, which could be used to secure additional funding if required.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains a cash deposit (obligatory reserve) with the CBR, the amount of which depends on the level of customer funds attracted.

The liquidity position is assessed and managed by the Bank based on certain liquidity ratios established by the CBR. As of 31 December, these ratios were as follows:

	<i>2017, %</i>	<i>2016, %</i>	<i>Statutory ratio</i>
N2 "Instant Liquidity Ratio" (assets receivable or realizable within one day / liabilities repayable on demand)	57.5	78.5	Over 15
N3 "Current Liquidity Ratio" (assets receivable or realizable within 30 days / liabilities repayable within 30 days)	123.5	113.3	Over 50
N4 "Long-Term Liquidity Ratio" (assets receivable in more than one year/sum of capital and liabilities repayable in more than one year)	50.6	23.2	Less than 120

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19. Risk management (continued)

Liquidity risk and funding management (continued)

Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Bank's financial liabilities as of 31 December 2017 and 2016 based on contractual undiscounted repayment obligations, except for gross settled derivatives which are shown by contractual maturity.

Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

<i>Financial liabilities as of 31 December 2017</i>	<i>Less than 3 months</i>	<i>3 to 12 months</i>	<i>More than 1 year</i>	<i>Total</i>
Amounts due to credit institutions	2,567,842	2,079,495	12,875,662	17,522,999
Gross settled derivative financial instruments				
- Contractual amounts payable	3,835,716	2,904,446	—	6,740,162
- Contractual amounts receivable	(3,653,523)	(2,829,651)	—	(6,483,174)
Amounts due to customers	19,337,069	45,772	—	19,382,841
Other liabilities	38,560	15,747	44,908	99,215
Total undiscounted financial liabilities	22,125,664	2,215,809	12,920,570	37,262,043

<i>Financial liabilities as of 31 December 2016</i>	<i>Less than 3 months</i>	<i>3 to 12 months</i>	<i>More than 1 year</i>	<i>Total</i>
Amounts due to credit institutions	5,233,079	3,866,056	2,155,954	11,255,089
Gross settled derivative financial instruments				
- Contractual amounts payable	1,752,994	2,080,463	—	3,833,457
- Contractual amounts receivable	(1,485,471)	(1,858,231)	—	(3,343,702)
Amounts due to customers	16,624,482	39,712	—	16,664,194
Other liabilities	43,555	38,766	23,481	105,802
Total undiscounted financial liabilities	22,168,639	4,166,766	2,179,435	28,514,840

The table below shows the contractual expiry by maturity of the Bank's financial commitments and contingencies (Note 16). Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

	<i>Less than 3 months</i>	<i>3 to 12 months</i>	<i>1 to 5 years</i>	<i>Total</i>
2017	2,534,192	—	—	2,534,192
2016	5,217,164	—	—	5,217,164

The Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

The Bank's capability to repay its liabilities relies on its ability to realize an equivalent amount of assets within the same period of time.

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than three months in the tables above.

Included in amounts due to customers are time deposits of individuals. In accordance with Russian legislation, the Bank is obliged to repay such deposits upon demand of a depositor (Note 14).

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19. Risk management (continued)

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices. The Bank has no trading portfolio. Non-trading positions are managed and monitored using sensitivity analysis. Except for the concentrations within foreign currency, the Bank has no significant concentration of market risk.

Market risk – non-trading

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Bank's statement of profit or loss.

The sensitivity of the statement of profit or loss is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held.

As of 31 December 2017 and 2016, the Bank discloses the effect of changes in LIBOR and EURIBOR rates on financial assets which are sensitive to changes in interest rates.

<i>Change in LIBOR rate in % 2017</i>	<i>Effect on profit before tax 2017</i>	<i>Change in LIBOR rate in % 2016</i>	<i>Effect on profit before tax 2016</i>
0.70%/(0.08%)	12,066/(1,319)	0.60%/0.08%	14,558/(1,941)
<i>Change in EURIBOR rate in % 2017</i>	<i>Effect on profit before tax 2017</i>	<i>Change in EURIBOR rate in % 2016</i>	<i>Effect on profit before tax 2016</i>
0.25%/(0.01%)	12,913/(517)	–/–	–/–
<i>Change in MOSPRIME rate in % 2017</i>	<i>Effect on profit before tax 2017</i>	<i>Change in MOSPRIME rate in % 2016</i>	<i>Effect on profit before tax 2016</i>
0.50%/(1.50%)	9,825/(29,475)	2.00%/(4.00%)	39,300/(78,600)

The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets as of 31 December 2016 and 2015 for the effects of the assumed changes in interest rates based on the assumption that there are parallel shifts in the yield curve.

<i>Currency</i>	<i>Increase in basis points 2017</i>	<i>Sensitivity of equity 2017</i>
RUB	75	(445)
<i>Currency</i>	<i>Decrease in basis points 2017</i>	<i>Sensitivity of equity 2017</i>
RUB	(175)	1,039
<i>Currency</i>	<i>Increase in basis points 2016</i>	<i>Sensitivity of equity 2016</i>
RUB	100	(3,168)
<i>Currency</i>	<i>Decrease in basis points 2016</i>	<i>Sensitivity of equity 2016</i>
RUB	(300)	9,503

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19. Risk management (continued)

Market risk (continued)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Management Board has set limits on positions by currency based on the CBR regulations. Positions are monitored on a daily basis.

The table below indicates the currencies to which the Bank has significant exposure as of 31 December 2017 and 2016 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a possible movement of the currency rate against the ruble on the statement of profit or loss (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the statement of profit or loss. All other variables are held constant. A negative amount in the table reflects a potential net reduction in the statement of profit or loss or in equity, while a positive amount reflects a net potential increase.

<i>Currency</i>	<i>Change in currency rate in % 2017</i>	<i>Effect on profit before tax 2017</i>	<i>Change in currency rate in % 2016</i>	<i>Effect on profit before tax 2016</i>
USD	11%/(11%)	(1,551)/1,551	20%/(20%)	2,189/(2,189)
JPY	12.7%/(12.7%)	(130)/130	24.5%/(24.5%)	1,429/(1,429)
EUR	12.5%/(12.5%)	(167)/167	20%/(20%)	(3,714)/3,714
GBP	13%/(13%)	86/(86)	26%/(26%)	352/(352)

Prepayment risk

Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages when interest rates fall.

The Bank is not sensitive to this risk as early repayment of loans is not common for the Bank's clients and the amount of early repayments is not significant in the total volume of loans granted. The Bank does not provide extensive mortgage loans which also mitigates prepayment risk.

Operational risk

Operational risk is the risk of losses resulting from inconsistency with the nature and scope of the Bank's business and (or) non-compliance with applicable legislation of internal practices and procedures of banking and other transactions, their breach by the employees of the Bank and (or) other persons, inappropriate (insufficient) functionalities (specifications) of IT, technical and other systems applied by the Bank and (or) their failures (malfunctions), or ensuing from the effect of external events.

The purpose of operational risk management is to maintain the risk accepted by the Bank at the level defined by the Bank subject to its strategic objectives, and to identify, assess, monitor, control and (or) mitigate all factors promoting operational risks. The priority is to ensure to a maximum extent the safeguarding of assets and equity on the basis of mitigation (elimination) of potential losses and business continuity.

The need for operational risk management is defined by a significant amount of potential losses which may jeopardize the financial position of the Bank and Mizuho Financial Group (Japan) in general.

19. Risk management (continued)

Operational risk (continued)

Correct operational risk assessment should identify and take account of the following internal and external factors:

- ▶ Accidental or intentional acts of individuals and (or) legal entities against the interests of the credit institution
- ▶ Shortcomings of the organizational structure of the credit institution related to the distribution of powers, order and procedures of banking transactions and other operations, inefficient internal control
- ▶ System and equipment faults
- ▶ Unfavorable external circumstances falling beyond reasonable control of the credit institution

Operating losses resulting from various combinations of operational risk factors are classified as losses resulting from:

- ▶ Fraud or other irregularities on the part or with participation of the Bank's personnel
- ▶ Illegal actions of the third parties of the credit institution
- ▶ Violation of the applicable legislation; failure to perform or improper performance of contractual obligations; violation of business practices
- ▶ Damage or loss of property and equipment or other tangibles
- ▶ Equipment and system breakdown
- ▶ Inappropriate organization of activities, management and performance faults

The Bank pays special attention to the following operational risks:

- ▶ Risk resulting from the Bank personnel's faults in performing banking transactions and other operations
- ▶ Risks of system and equipment failures
- ▶ Risks of business discontinuity and (or) failure to resume activities disrupted due to contingencies
- ▶ Legal risks
- ▶ Reputational risks
- ▶ Risks related to the Bank's personnel
- ▶ Risk of damage or loss of property and equipment or other tangibles
- ▶ Risks arising from changes in regulatory framework

To mitigate the operational risk, the Bank takes the following measures:

- ▶ Three-step control over banking transactions: preliminary, current and follow-up
- ▶ Compilation of reports identifying operating control factors and analysis of received data to adjust current processes and procedures
- ▶ Analysis of changes capable of affecting the performance of the credit institution
- ▶ Analysis of new activities' exposure to operational risk
- ▶ Analysis of individual banking and other transactions
- ▶ Analysis of internal procedures

19. Risk management (continued)

Legal risk

Legal risk is a risk of losses which the credit institution may incur as a result of:

- ▶ Non-compliance with regulations and agreements
- ▶ Lack of diligence and due care exercised by the Bank's lawyers in the course of banking activities (inadequate legal advice or improper document preparation, particularly, in the course of legal settlement of claims)
- ▶ Weaknesses of the legal system (contradictory legislation, lack of regulation for certain issues arising in the course of credit institution's activities)
- ▶ Violations of regulations and agreements by counterparties

Internal factors of legal risk include:

- ▶ The Bank's non-compliance with the legislation of the Russian Federation, constituent documents and by-laws
- ▶ Non-compliance of the Bank's internal documents with the legislation of the Russian Federation, as well as the Bank's failure to bring its activities and documents into compliance with changes in laws
- ▶ Inefficient organization of legal work resulting in legal errors in the Bank's activities caused by the actions of personnel or management bodies
- ▶ The Bank's non-compliance with the agreements
- ▶ Lack of diligence and due care given to legal issues in developing and implementing new technologies and terms of banking and other transactions, financial innovations and products

External factors of legal risk include:

- ▶ Weaknesses of the legal system (insufficient legal control, contradictory legislation of the Russian Federation, exposure to changes, in particular as related to weaknesses in state regulation and (or) control, incorrect application of foreign law and (or) international law), inability to settle disputes by negotiations, weaknesses of existing enforcement procedures
- ▶ Failure by customers and counterparties to perform their contractual obligations
- ▶ The Bank's customers, counterparties and affiliates residing in various jurisdictions

Legal risks are included into operational risks. What differs legal risk from other banking risks is the possibility to avoid a critical risk level given banking parties fully comply with applicable laws and regulations, internal documents and procedures of the Bank.

Measures used to prevent legal risks are as follows:

- ▶ Recruitment of qualified specialists
- ▶ Segregation of powers
- ▶ Compliance with the effective legislation
- ▶ Internal and documentary control
- ▶ And other measures, as appropriate

19. Risk management (continued)

Reputational risk

Risk of the Bank's business reputation loss (reputation risk) is a risk of loss arising from deterioration of the public opinion related to the Bank's financial stability, quality of its services and nature of its business in general resulting in loss of clients (counterparties).

The key target of the internal control system at this level is the state of the decision-making system and conformity of the adopted business development strategy with the objectives set by the shareholders and formalized in the respective documents.

To mitigate the reputational risk, the Bank takes the following measures:

- ▶ Compliance with the effective legislation and regulations of the Bank of Russia
- ▶ Analysis of changes at financial markets and economic situation
- ▶ Recruitment of qualified specialists
- ▶ Segregation of powers and availability of job descriptions for employees

Strategic risk

Strategic risk is a risk of losses which the Bank may incur as result of mistakes (deficiencies) in making decisions defining the credit institution's business and development strategy (strategic management) and manifesting through lacking or inadequate accounting for potential threats to the Bank's operations, insufficiently reasoned or incorrect determination of priority areas where the Bank can achieve competitive advantages, lack or insufficient resources required (financial, material and technical, human resources) and organizational activities (management decisions) that could contribute to achieving the Bank's strategic goals.

20. Fair values of financial instruments

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- ▶ Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
- ▶ Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- ▶ Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data

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20. Fair values of financial instruments (continued)

The following table shows an analysis of financial assets and liabilities by level of the fair value hierarchy:

<i>31 December 2017</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Assets measured at fair value				
Derivative financial instruments	—	267,357	—	267,357
Investment securities available for sale	147,364	—	—	147,364
Assets for which fair values are disclosed				
Cash and cash equivalents	—	23,942,479	—	23,942,479
Obligatory reserve with the CBR	—	523,321	—	523,321
Amounts due from credit institutions	—	—	5,778,539	5,778,539
Loans to customers	—	—	21,077,445	21,077,445
Liabilities measured at fair value				
Derivative financial instruments	—	256,988	—	256,988
Liabilities for which fair values are disclosed				
Amounts due to credit institutions	—	—	16,430,081	16,430,081
Amounts due to customers	—	—	19,340,764	19,340,764
<i>31 December 2016</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Assets measured at fair value				
Derivative financial instruments	—	491,864	—	491,864
Investment securities available for sale	143,340	—	—	143,340
Assets for which fair values are disclosed				
Cash and cash equivalents	—	17,295,334	—	17,295,334
Obligatory reserve with the CBR	—	824,117	—	824,117
Amounts due from credit institutions	—	—	3,323,710	3,323,710
Loans to customers	—	—	20,595,831	20,595,831
Liabilities measured at fair value				
Derivative financial instruments	—	489,755	—	489,755
Liabilities for which fair values are disclosed				
Amounts due to credit institutions	—	—	10,858,104	10,858,104
Amounts due to customers	—	—	16,620,995	16,620,995

Management has estimated that at 31 December 2017 and 2016 the fair values of assets and liabilities for which fair values are disclosed did not differ from their carrying amounts.

20. Fair values of financial instruments (continued)

While the table containing analysis of the Bank's financial assets and liabilities by level of the fair value hierarchy was prepared, the following methods and assumptions were used to estimate the fair values:

Assets and liabilities measured at fair value

Derivatives

Derivatives valued using a valuation technique with market observable inputs are forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, and foreign exchange spot and forward rates.

Investment securities available for sale

Fair value of investment securities available for sale is based on market quotes, and as of 31 December 2017 it amounted to RUB 147,364 (2016: RUB 143,340).

Assets and liabilities for which fair values are disclosed

Assets for which fair value approximates carrying amount

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortized cost is estimated by comparing market interest rates when they were first recognized with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debt instruments with similar credit risk and maturity.

For quoted debt instruments the fair values are determined based on quoted market prices. The fair values of unquoted debt instruments are estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

Due to short term nature of transactions (less than one year) the fair values of the majority of loans issued and funding attracted approximate their carrying amount. Loans issued are linked to funding received from the Parent Bank. Interest rates and terms of transactions are revised at maturity and might be further prolonged.

21. Offsetting of financial instruments

As of 31 December 2017 and 2016, the Bank had no financial assets offset against financial liabilities in the statement of financial position.

As of 31 December 2017, the Bank had derivative financial assets enforced by master netting agreements (ISDA). As of 31 December 2017, the fair value of the derivative financial instruments enforced by master netting agreements was RUB 1 (assets) and RUB 256,988 (liabilities) (2016: RUB 9,338 (assets) and RUB 480,451 (liabilities)).

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22. Maturity analysis of assets and liabilities

The table below shows an analysis of financial assets and liabilities according to when they are expected to be recovered or settled. See Note 19 “Risk management” for the Bank’s contractual undiscounted repayment obligations.

	2017			2016		
	<i>Within 1 year</i>	<i>More than 1 year</i>	<i>Total</i>	<i>Within 1 year</i>	<i>More than 1 year</i>	<i>Total</i>
Cash and cash equivalents	23,942,479	–	23,942,479	17,295,334	–	17,295,334
Obligatory reserve with the CBR	523,321	–	523,321	824,117	–	824,117
Amounts due from credit institutions	528,539	5,250,000	5,778,539	2,373,710	950,000	3,323,710
Derivative financial assets	267,357	–	267,357	491,864	–	491,864
Loans to customers	12,081,620	8,995,825	21,077,445	17,576,732	3,019,099	20,595,831
Investment securities available for sale	147,364	–	147,364	9,971	133,369	143,340
Other assets	181,713	23,300	205,013	183,556	23,300	206,856
Total	37,672,393	14,269,125	51,941,518	38,755,284	4,125,768	42,881,052
Amounts due to credit institutions	4,109,437	12,320,644	16,430,081	8,854,616	2,003,488	10,858,104
Amounts due to customers	19,340,764	–	19,340,764	16,620,995	–	16,620,995
Derivative financial liabilities	256,988	–	256,988	489,755	–	489,755
Other liabilities	40,005	–	40,005	56,129	–	56,129
Total	23,747,194	12,320,644	36,067,838	26,021,495	2,003,488	28,024,983
Net position	13,925,199	1,948,481	15,873,680	12,733,789	2,122,280	14,856,069

For managing its net position the Bank calculates projected net position indicators with maturities of 1 day, 1 week and 1 month on a weekly basis. In case projected indicators reach 80% of the established maximum values, the Bank takes respective measures to find missing funding sources by making use of operations at the local monetary market and funds from the parent bank.

23. Related party disclosures

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

As of 31 December 2017 and 2016, Mizuho Bank, Ltd. (Japan) was the ultimate shareholder of the Bank.

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23. Related party disclosures (continued)

The volumes of related party transactions, outstanding balances at the year end and related expenses and income for the year are as follows:

	2017		2016	
	Parent	Subsidiaries of the Parent	Parent	Subsidiaries of the Parent
Assets				
Cash and cash equivalents				
Correspondent accounts and overnight deposits in the parent bank at the end of the period (contractual interest rate is 0%)	746,630	594	533,070	—
Time deposits in the parent bank at the end of the period (contractual interest rate is 0.0001%-1.50%)	1,934,102	—	1,306,163	—
Derivative financial assets	1	—	9,338	—
Liabilities				
Derivative financial liabilities	256,988	—	480,451	—
Amounts due to other banks	16,415,860	10,232	8,196,419	2,309,719
Time deposits at the end of the period: as of 31 December 2017, the contractual interest rate is 1.4778%-1.86% for USD-denominated deposits; 6.75%-11.0556% for RUB-denominated deposits; 0.0111% for JPY-denominated deposits; 0.0111%-0.2389% for EUR-denominated deposits; as of 31 December 2016, the contractual interest rate is 0.50%-1.7111% for USD-denominated deposits; 8.20%-13.50% for RUB -denominated deposits; 0.0111%-0.2222% for JPY-denominated deposits; 0.0111%-0.2389% for EUR-denominated deposits				
Other liabilities	11,450	—	18,983	—
Interest income				
Interest income on current accounts, overnight and time deposits	11,542	—	5,653	—
Interest expense				
Interest expense on amounts due to credit institutions	(298,401)	(114,869)	(96,237)	(293,841)
Fee and commission income/(expense)				
Fees and commissions received on settlement transactions	1	—	4	—
Fees and commissions paid on settlement transactions	(3,001)	—	(3,794)	—
Commission paid on guarantees obtained	(49,981)	—	(72,470)	—
Gains/(losses) from foreign currencies				
Gains/(losses) from forward transactions	(495,594)	—	(1,302,069)	—
Other gains/(losses)				
Other operating expenses	—	—	(20,745)	—

Commitments and guarantees received at 31 December 2017 comprise guarantees received from the Parent in the amount of RUB 43,562,464 and guarantees received from the subsidiaries of the Parent in the amount of RUB 4,991,561 (2016: RUB 40,834,479 and RUB 6,559,048, respectively).

Compensation to key management personnel comprises the following:

	2017	2016
Salaries and other short-term benefits	54,590	34,867
Social security costs	3,041	1,927
Total key management personnel compensation	57,631	36,794

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24. Capital adequacy

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, principles and ratios established by the Basel Capital Accord 2010 and the ratios established by the CBR in supervising the Bank.

During 2017 and 2016, the Bank had complied with its externally imposed capital requirements.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value. No changes were made in the capital management objectives, policies and processes in 2017 in comparison with prior years.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholder, return capital to shareholders or issue capital securities (Note 15).

The CBR requires banks to maintain a capital adequacy ratio of 8% of risk-weighted assets, computed based on RAL. As of 31 December 2017 and 2016, the Bank's capital adequacy ratio on this basis exceeded the statutory minimum.

25. Events after the reporting period

On 23 February 2018, Fitch and Standard and Poor's (S&P) international rating agencies upgraded the credit rating of the Russian Federation from speculative BB+ to investment BBB-. S&P's outlook is stable and Fitch's outlook is positive. On 25 January 2018, Moody's Investors Service affirmed Russia's sovereign rating at Ba1, with a negative outlook being changed to positive.

On 27 March 2018, ACRA assigned the AAA (RU) credit rating to AO Mizuho Bank (Moscow) with a stable outlook. The full version of the press release is available at <https://www.acra-ratings.ru/press-releases/658>.

Since 26 March 2018, the key refinancing rate of the CBR has decreased from 7.50% to 7.25% per annum.