Independent auditor's report
on the consolidated financial statements of
Joint stock company Russian Agricultural Bank
and its subsidiaries
for 2017

March 2018

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Ernst & Young LLC
Sadovnicheskaya Nab., 77, bld. 1
Moscow, 115035, Russia
Tel: +7 (495) 705 9700
+7 (495) 755 9700
Fax: +7 (495) 755 9701
www.ey.com/ru

ООО «Эрнст энд Янг»
Россия, 115035, Москва
Садовническая наб., 77, стр. 1
Тел.: +7 (495) 705 9700
+7 (495) 755 9700
Факс: +7 (495) 755 9701
ОКПО: 59002827

Independent auditor's report

To the shareholder and Supervisory Board of
Joint stock company Russian Agricultural Bank

Opinion

We have audited the consolidated financial statements of Joint stock company Russian Agricultural Bank (the Bank) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Loan portfolio impairment allowance	
The appropriateness of the loan portfolio impairment allowance is a key area of judgment for the Group's management. The identification of impairment and the determination of the recoverable amount require a high level of subjectivity, the use of assumptions and analysis of various factors, including the financial position of the borrower, expected future cash flows from the given loans, observable market prices for the collateral, and expected net selling prices for the loan or collateral (depending on the expected repayment scenario). Group management's approach to assessing and managing credit risk is described in Note 11 and Note 31 to the consolidated financial statements. The selection of different models and assumptions may significantly affect the estimates of the loan portfolio impairment allowance. Due to the significance of the loans issued, which account for 61% of total assets, and to the significant judgement involved, the estimation of the impairment allowance is a key audit matter.	We focused on identifying signs of impairment, which may be different for the different types of borrowers. We analyzed the methodology for calculating the collective impairment allowance for both corporate and retail loans, due to the significant amounts and potential effect of changes in assumptions. We also focused on significant individually impaired loans, as well as on loans with the highest risk of individual impairment. Our audit procedures included testing controls over the process of issuing loans to both individuals and legal entities (including provisioning), assessing the provisioning methodology, testing input data used in models for calculating provisions for individually impaired loans, assessing loss statistics for prior periods together with assessing recovery ratios for collectively impaired loans, analyzing assumptions used by the Group for collective assessments of impairment, and assessing the adequacy of allowances for individually impaired loans issued. In the course of our audit procedures we analyzed management's judgement used to assess economic factors and statistical information on losses incurred and amounts recovered, as well as its conformity with generally accepted practice. Based on our professional judgment and available market information, we analyzed the expected future cash flows from significant individually impaired loans issued, including those from current operations of the borrowers, as well as those from the foreclosure of collateral. We performed procedures regarding the respective disclosures in the consolidated financial statements.

Other information included in the Russian Agricultural Bank Annual Report 2017

Other information consists of the information included in the Russian Agricultural Bank Annual Report 2017 other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Russian Agricultural Bank Annual Report is expected to be made available to us after the date of this auditor's report.

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

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

Responsibilities of management and the Audit Committee for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Audit Committee are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

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

Management of the Bank is responsible for the compliance of the banking group, where the Bank is the parent credit institution (hereinafter, the "Banking group") 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 Banking group 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 Activities* of 2 December 1990 (hereinafter, the "Federal Law"), during the audit of the Group's consolidated financial statements for the year ended 31 December 2017, we determined:

1) Whether the Banking group complied as at 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 Banking group 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 Supervisory Board 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.

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

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

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

Conformity of internal control and organization of the risk management systems of the Banking group 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 at 31 December 2017 the Bank's internal audit division was subordinated and accountable to the Supervisory Board, 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 at 31 December 2017 that establish the methodologies for detecting and managing credit, market, operational and liquidity and concentration risks that are significant to the Banking group 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 at 31 December 2017, the Bank had a reporting system pertaining to credit, market, operational and liquidity and concentration risks that were significant to the Banking group 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 division during the year ended 31 December 2017 with regard to the management of credit, market, operational and liquidity and concentration risks of the Banking group complied with the Bank's internal documents, and that those reports included observations made by the Bank's risk management departments and internal audit division in respect of the effectiveness of relevant risk management methodologies.

- We found that, as at 31 December 2017, the authority of the Supervisory Board and executive management bodies of the Bank included control over compliance of the Banking group 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 Banking group during the year ended 31 December 2017, the Supervisory Board and executive management bodies of the Bank regularly reviewed the reports prepared by the Bank's risk management departments and internal audit division.

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 Banking group, as listed in the Federal Law and described above, with the requirements set forth by the Bank of Russia.

The partner in charge of the audit resulting in this independent auditor's report is O.V. Youshenkov

O.V. Youshenkov
Partner
Ernst & Young LLC

20 March 2018

Details of the audited entity

Name Joint stock company Russian Agricultural Bank
Record made in the State Register of Legal Entities on 22 October 2002, State Registration Number 1027700342890.
Address: Russia 119034, Moscow, Gagarinsky pereulok, 3.

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 naberezhnaya, 77, building 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.

In millions of Russian Roubles	Note	31 December 2017	31 December 2016
Assets			
Cash and cash equivalents	7	586 437	326 033
Mandatory cash balances with the Central Bank of the Russian Federation		19 112	11 266
Trading securities	8	17 507	25 040
Financial instruments designated at fair value through profit or loss	9	2 091	2 374
Due from other banks	10	25 937	55 491
Derivative financial instruments	35	50 114	120 062
Loans and advances to customers	11	1 765 760	1 617 937
Investment securities available for sale	12	273 853	232 409
Investment securities held to maturity	13	64 685	11 630
Current income tax assets		407	371
Deferred income tax asset	28	16 298	16 298
Intangible assets	14	3 861	3 048
Premises and equipment	14	37 438	16 188
Other assets	15	25 181	21 294
Assets of the disposal groups held for sale and assets held for sale	39	338	3 088
Total assets		**2 889 019**	**2 462 529**
Liabilities			
Derivative financial instruments	35	3 363	1 053
Due to other banks	16	52 757	78 594
Customer accounts	17	2 203 577	1 577 767
Promissory notes issued	18	36 946	13 761
Bonds issued	19	244 561	455 884
Current income tax liability		20	19
Deferred income tax liability	28	512	239
Other liabilities	20	23 423	16 276
Liabilities directly associated with disposal groups held for sale	39	-	1 193
Total liabilities before subordinated debts		**2 565 159**	**2 144 786**
Subordinated debts	21	133 444	153 124
Total liabilities		**2 698 603**	**2 297 910**
Equity			
Share capital	23	385 598	335 598
Perpetual bonds	22	15 000	15 000
Revaluation reserve for premises		1 052	1 092
Revaluation reserve for investment securities available for sale		3 001	5 740
Accumulated loss		(214 214)	(192 807)
Equity attributable to the Bank's shareholder		**190 437**	**164 623**
Non-controlling interest		**(21)**	**(4)**
Total equity		**190 416**	**164 619**
Total liabilities and equity		**2 889 019**	**2 462 529**

Approved for issue and signed on behalf of the Management Board on 20 March 2018.

«Российский Сельскохозяйственный банк» АО «Россельхозбанк» МОСКВА

D.N. Patrushev
Chairman of the Management Board

E.A. Romankova
Deputy Chairman of the Management Board, Chief Accountant

In millions of Russian Roubles	Note	2017	2016
Interest income	24	235 330	240 919
Interest expense	24	(172 056)	(184 406)
Net interest income		**63 274**	**56 513**
Provision for loan impairment	10, 11	(63 885)	(86 498)
Net interest expense after provision for loan impairment		**(611)**	**(29 985)**
Fee and commission income	25	22 897	16 184
Fee and commission expense	25	(2 707)	(1 742)
Gains less losses from trading securities		631	457
Gains less losses/(losses net of gains) from financial instruments designated at fair value through profit or loss		156	(53)
Gains less losses from investment securities available for sale		9 802	1 724
Losses from impairment of investment securities available for sale		(441)	(519)
Foreign exchange translation gains less losses		19 310	44 742
Losses net of gains from derivative financial instruments		(15 969)	(38 504)
(Losses net of gains)/gains less losses from dealing in foreign currencies		(2 742)	810
Provision for credit related commitments and other assets impairment		(392)	(1 096)
Gains from non-banking activities		10 388	9 159
Losses from non-banking activities		(9 652)	(14 169)
Loss on disposal of subsidiaries	39	-	(263)
Other operating income		2 209	2 368
Administrative and other operating expenses	27	(47 514)	(47 106)
Loss before tax		**(14 635)**	**(57 993)**
Income tax expense	28	(4 844)	(933)
Loss for the year		**(19 479)**	**(58 926)**
Loss is attributable to:			
Shareholder of the Bank		(19 462)	(58 195)
Non-controlling interest		(17)	(731)
Loss for the year		**(19 479)**	**(58 926)**
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Investment securities available for sale:			
- Revaluation of securities at fair value		6 389	7 992
- Realised revaluation reserve (at disposal)		(9 802)	(1 724)
- Reclassification to profit or loss at impairment		-	558
Income tax	28	674	(1 365)
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods, net of tax		**(2 739)**	**5 461**
Total other comprehensive (loss)/income		**(2 739)**	**5 461**
Total comprehensive loss for the year		**(22 218)**	**(53 465)**
Total comprehensive loss is attributable to:			
Shareholder of the Bank		(22 201)	(52 734)
Non-controlling interest		(17)	(731)
Total comprehensive loss for the year		**(22 218)**	**(53 465)**

		Attributable to Shareholder of the Bank							
In millions of Russian Roubles	**Note**	**Share capital**	**Perpetual bonds**	**Revaluation reserve for premises**	**Revaluation reserve for securities available for sale**	**Accumulated loss**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 31 December 2015		**327 598**	**-**	**1 213**	**279**	**(134 018)**	**195 072**	**733**	**195 805**
Loss for the year, net of tax		-	-	-	-	(58 195)	(58 195)	(731)	(58 926)
Other comprehensive income for the year, net of tax		-	-	-	5 461	-	5 461	-	5 461
Total comprehensive income/(loss) for the year, net of tax		**-**	**-**	**-**	**5 461**	**(58 195)**	**(52 734)**	**(731)**	**(53 465)**
Share issue	23	8 000	-	-	-	-	8 000	-	8 000
Disposal of subsidiaries		-	-	-	-	-	-	(6)	(6)
Depreciation of revaluation reserve for premises		-	-	(121)	-	121	-	-	-
Perpetual bonds issue	22	-	15 000	-	-	-	15 000	-	15 000
Coupon paid and due under perpetual bonds	22	-	-	-	-	(665)	(665)	-	(665)
Transaction costs on perpetual bonds issue	22	-	-	-	-	(229)	(229)	-	(229)
Tax effect recognized on perpetual bonds		-	-	-	-	179	179	-	179
Balance at 31 December 2016		**335 598**	**15 000**	**1 092**	**5 740**	**(192 807)**	**164 623**	**(4)**	**164 619**
Loss for the year, net of tax		-	-	-	-	(19 462)	(19 462)	(17)	(19 479)
Other comprehensive loss for the year, net of tax		-	-	-	(2 739)	-	(2 739)	-	(2 739)
Total comprehensive loss for the year, net of tax		**-**	**-**	**-**	**(2 739)**	**(19 462)**	**(22 201)**	**(17)**	**(22 218)**
Share issue	23	50 000	-	-	-	-	50 000	-	50 000
Depreciation of revaluation reserve for premises		-	-	(40)	-	40	-	-	-
Dividends paid	29	-	-	-	-	(257)	(257)	-	(257)
Coupon paid and due under perpetual bonds	22	-	-	-	-	(2 160)	(2 160)	-	(2 160)
Tax effect recognised on perpetual bonds		-	-	-	-	432	432	-	432
Balance at 31 December 2017		**385 598**	**15 000**	**1 052**	**3 001**	**(214 214)**	**190 437**	**(21)**	**190 416**

In millions of Russian Roubles	Note	2017	2016
Cash flows from operating activities			
Interest received		246 198	253 517
Interest paid		(181 230)	(179 641)
Income received from trading in securities and financial instruments designated at fair value through profit or loss		10 689	2 437
Income received from derivative financial instruments		56 289	8 995
(Expenses incurred)/income received from dealing in foreign currencies		(2 735)	810
Fees and commissions received		23 074	16 714
Fees and commissions paid		(2 707)	(1 742)
Other operating income received		4 802	1 416
Net income received from insurance operations		2 122	1 061
Income received from non-banking activities		5 844	10 023
Losses incurred from non-banking activities		(10 413)	(12 636)
Administrative and other operating expenses paid		(42 336)	(40 146)
Income tax paid		(3 617)	(1 901)
Cash flows from operating activities before changes in operating assets and liabilities		**105 980**	**58 907**
Changes in operating assets and liabilities			
Net increase in mandatory cash balances with the Central Bank of the Russian Federation		(7 845)	(3 528)
Net decrease/(increase) in trading securities		6 156	(23 955)
Net decrease in financial instruments designated at fair value through profit or loss		580	1 258
Net decrease/(increase) in due from other banks		33 799	(524)
Net increase in loans and advances to customers		(248 522)	(144 196)
Net increase in other assets		(1 987)	(1 775)
Net decrease in due to other banks		(14 618)	(14 308)
Net increase in customer accounts		632 620	402 270
Net increase in promissory notes issued		24 582	586
Net increase in other liabilities		2 827	1 127
Net cash flows from operating activities		**533 572**	**275 862**
Cash flows from investing activities			
Acquisition of premises and equipment	14	(2 938)	(2 008)
Proceeds from disposal of premises and equipment		187	738
Acquisition of intangible assets	14	(1 699)	(1 277)
Acquisition of investment securities available for sale		(449 909)	(204 048)
Proceeds from disposal of investment securities available for sale		346 036	190 196
Acquisition of investment securities held to maturity		(7 616)	-
Proceeds from redemption of investment securities held to maturity		8 285	24 577
Proceeds from sale of subsidiaries		-	440
Net cash (used in)/from investing activities		**(107 654)**	**8 618**
Cash flows from financing activities			
Dividends paid		(257)	-
Issue of ordinary shares	23	50 000	8 000
Proceeds from bonds issued		31 850	-
Repayment of bonds and Eurobonds issued		(179 654)	(64 438)
Proceeds from sale of previously bought back bonds issued on domestic market		16 219	31 927
Buy back of bonds issued at or prior to put option date		(61 606)	(54 632)
Proceeds from sale of previously bought back Eurobonds issued		20 867	16 989
Buy back of Eurobonds issued		(26 433)	(26 832)
Repayment of subordinated debt	21	(12 000)	(51 340)
Amounts paid on perpetual bonds		(2 156)	-
Proceeds from sale of previously bought back subordinated debt		9	16 713
Buy back of subordinated debts		(1 484)	(8 553)
Perpetual bonds issue less transaction costs	22	-	14 771
Proceeds from sale of non-controlling interests in consolidated mutual funds		27	574
Payments on disposal of non-controlling interests in consolidated mutual funds		(10)	(54)
Net cash (used in)/from financing activities		**(164 628)**	**(116 875)**
Effect of exchange rate changes on cash and cash equivalents		**(886)**	**(9 804)**
Net (decrease)/increase in cash and cash equivalents		**260 404**	**157 801**
Cash and cash equivalents at the beginning of the period	7	326 033	168 232
Cash and cash equivalents at the end of the period	7	**586 437**	**326 033**

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (the "IASB") for the year ended 31 December 2017 for Joint stock company Russian Agricultural Bank (the "Bank") and its subsidiaries (together referred to as the "Group").

The Bank was incorporated and is domiciled in the Russian Federation. The Bank is a joint stock company limited by shares and was set up in accordance with Russian regulations.

The Bank's only shareholder is the Russian Federation acting through the Federal Agency for Managing State Property which holds the Bank's issued and outstanding ordinary shares (75.63% from total share capital (31 December 2016: 71.99% from total share capital)), the Ministry of Finance of the Russian Federation which holds the Bank's issued and outstanding preference shares (6.5% from total share capital (31 December 2016: 7.47% from total share capital)) and the State Corporation "Deposit Insurance Agency" which holds the Bank's issued and outstanding preference shares (17.87% from total share capital (31 December 2016: 20.54% from total share capital)).

The Group's structure comprises of the Bank and its subsidiaries. Principal subsidiaries of the Bank are Joint-stock company "RSHB-Insurance" (ownership interest of the Bank is 100%), RSHB Capital S.A. Societe Anonyme (Luxembourg) (structured entity incorporated for Eurobonds issue for the Bank), "RSHB Asset Management" Limited Liability Company (ownership interest of the Bank is 100%) and 30 companies operating in agricultural and other industries and mutual funds.

Principal activity. The Bank's principal business activity is commercial and retail banking operations in the Russian Federation with emphasis on lending to agricultural enterprises. The main objectives of the Bank are:

- to participate in realisation of the monetary policy of the Russian Federation in the area of agricultural production;
- to develop within the agricultural industry a national system of lending to the domestic agricultural producers; and
- to maintain an effective and uninterrupted performance of the settlement system in the area of agricultural production across the Russian Federation.

The Bank has operated under a full banking license issued by the Central Bank of the Russian Federation ("CBRF") since 13 June 2000. The Bank participates in the State deposit insurance scheme, which was introduced by Federal Law # 177-FZ *Deposits of Individuals Insurance in Russian Federation* dated 23 December 2003. The State Deposit Insurance Agency guarantees repayment of 100% of individual and/or individual entrepreneur current accounts and deposits up to RR 1 400 thousand per individual or individual entrepreneur in case of the withdrawal of a licence of a bank or a CBRF imposed moratorium on payments.

The Bank has 70 (31 December 2016: 73) branches within the Russian Federation. The Bank's registered address is 119034 Russia, Moscow, Gagarinsky Pereulok, 3. The Bank's principal place of business is 119019 Russia, Moscow, Arbat, 1.

The number of the Group's employees as at 31 December 2017 was 29 940 (31 December 2016: 30 271).

Presentation currency. These consolidated financial statements are presented in Russian Roubles ("RR"). All amounts are expressed in RR millions unless otherwise stated.

2 Operating Environment of the Group

Russian Federation. The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to varying interpretation.

Economic indicators of the 2017 reflect weakening the main negative factors for economic development. The duration and depth of the recession were largely caused by such factors as unfavourable raw material market conjuncture, particularly, significant drop in crude oil prices, the effect of international sanctions imposed against certain Russian companies and individuals, reduction of investments and decline in the household consumption.

2 Operating Environment of the Group (Continued)

These events may have a further significant impact on the Group's future operations and financial position, the effect of which is difficult to predict.

During 2017, the following were the key changes in selected macro-economic indicators:

- the CBRF exchange rate appreciated from RR 60.6569 to RR 57.6002 per US Dollar;
- the CBRF key rate decreased from 10.0% p.a. to 7.75% p.a.;
- the RTS stock exchange index increased from 1152.3 to 1154.4.

The future economic and regulatory situation and its impact on the Group's operations may differ from management's current expectations.

While management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable.

3 Summary of Significant Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of premises, investment securities available for sale, financial instruments categorised as at fair value through profit or loss and derivatives. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. Refer to Note 5.

Consolidated financial statements. Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group, and are deconsolidated from the date on which control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. Non-controlling interest that does not present ownership interest is measured at fair value.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt are deducted from its carrying amount and all other transaction costs associated with the acquisition are expensed.

3 Summary of Significant Accounting Policies (Continued)

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Non-controlling interest is that part of the net results and of the net assets of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Bank. Non-controlling interest form a separate component of the Group's equity except for the non-controlling interests in mutual funds under the Group's control, which are accounted for within Group's liabilities.

Structured entities. Structured entities are designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Judgement is also required to determine whether the substance of the relationship between the Group and a structured entity indicates that the structured entity is controlled by the Group.

The Group does not consolidate structured entities that it does not control. As it can sometimes be difficult to determine whether the Group does control a structured entity, management makes judgements about its exposure to the risks and rewards, as well as about its ability to make operational decisions for the structured entity in question. In many instances, elements are presented that, considered in isolation, indicate control or lack of control over a structured entity, but when considered together make it difficult to reach a clear conclusion.

Refer to Note 4 for the information about the Group's exposure to structured entities.

Purchases and sales of non-controlling interest. The Group applies the economic entity model to account for transactions with non-controlling shareholders. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded directly in equity.

The Group recognises the difference between sales consideration and carrying amount of non-controlling interest sold in the consolidated statement of changes in equity.

Disposals of subsidiaries, associates or joint ventures. When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss, where appropriate.

Financial instruments — key measurement terms. Depending on their classification, financial instruments are carried at fair value or amortised cost as described below.

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. Fair value is the current bid price for financial assets, current ask price for financial liabilities and the average of current bid and ask prices when the Group is both in short and long position for the financial instrument. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

Valuation techniques are used to fair value certain financial instruments for which external market pricing information is not available. Such valuation techniques include discounted cash flows models, generally accepted option pricing models, models based on recent arm's length transactions or consideration of financial data of the investees. Valuation techniques may require assumptions not supported by observable market data.

3 Summary of Significant Accounting Policies (Continued)

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for assets carried at fair value on a recurring basis if the Group: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same. Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available.

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 36.

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

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include interbank loans, deposits and reverse sale and repurchase agreements with other banks with original maturity of less than one month. Amounts which relate to funds that are of a restricted nature are excluded from cash and cash equivalents.

Precious metals. Gold and other precious metals are recorded at CBRF bid prices, which approximate fair values and are quoted at a discount to London Bullion Market rates. Changes in the CBRF bid prices are recorded as translation differences from precious metals in other income.

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

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

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

Sale and repurchase agreements and lending of securities. Sale and repurchase agreements ("repo agreements"), which effectively provide a lender's return to the counterparty, are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognised. The securities are not reclassified in the consolidated statement of financial position unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as Investment securities pledged under repurchase agreements. The corresponding liability is presented within amounts due to other banks or customer accounts.

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

Financial instruments designated at fair value through profit or loss. Financial instruments designated at fair value through profit or loss are financial assets designated irrevocably, at initial recognition, into this category. Management designates securities into this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and performance of these investments is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Group's key management personnel. Recognition and measurement of this category of financial assets is consistent with the above policy for trading securities.

Investment securities available for sale. This classification includes investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. The Group classifies investments as available for sale at the time of purchase or as a result of reclassification.

3 Summary of Significant Accounting Policies (Continued)

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

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

Investment securities held to maturity. This classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. An investment is not classified as held-to-maturity investment if the Group has the right to require that the issuer repay or redeem the investment before its maturity, because paying for such a feature is inconsistent with expressing an intention to hold the asset until maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at the end of each reporting period. The Group may reclassify financial assets into this category from fair value through profit or loss category in rare circumstances arising from a single event that is unusual and highly unlikely to reoccur in the near term. Investment securities held to maturity are carried at amortised cost.

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

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

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and significant financial difficulty of the debtor. Refer to Note 11 for the detailed principal criteria to determine whether there is objective evidence that an impairment loss has occurred.

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

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

3 Summary of Significant Accounting Policies (Continued)

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then derecognised and a new asset is recognised at its fair value only if the risks and rewards of the asset substantially changed. This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

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

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

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

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

Where repossessed collateral results in acquiring control over a business, the business combination is accounted for using the purchase method of accounting with fair value of the settled loan representing the cost of acquisition (refer to the accounting policy for consolidation).

Credit related commitments. The Group issues financial guarantees, letters of credit and commitments to provide loans. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of the reporting period.

Promissory notes purchased. Promissory notes purchased are included in trading securities or investment securities held to maturity or in due from other banks or in loans and advances to customers, depending on their substance and are recorded, subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Goodwill. Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill, and are not larger than an operating segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the disposed operation, generally measured on the basis of the relative values of the disposed operation and the portion of the cash-generating unit which is retained.

Premises and equipment. Premises and equipment are stated at cost, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2002 for assets acquired prior to 1 January 2003, or revalued amounts, as described below, less accumulated depreciation and provision for impairment, where required.

3 Summary of Significant Accounting Policies (Continued)

Premises owned by the Group and used in a banking activity were for the first time revalued at fair value as at 31 December 2007 and are subject to regular subsequent revaluation. The frequency of revaluation depends upon the movements in the fair values of the premises being revalued. The revaluation is recognised by proportionally restating the gross carrying amount and accumulated depreciation of the revalued premises. These changes in values are shown separately in the reconciliation of movements in premises in Note 14. The revaluation reserve for premises included in equity is transferred directly to retained earnings when the surplus is realised, i.e. either on the retirement or disposal of the asset, or as the asset is used by the Group; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

Premises owned by the Group and used in non-banking activities are stated at cost less accumulated depreciation and provision for impairment, where required.

Construction in progress is carried at historical cost less provision for impairment where required. Construction in progress is not depreciated until the asset is available for use.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired. Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

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

Depreciation. Land is not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate cost or revalued amounts of premises and equipment to their residual values over the estimated remaining useful lives. The following useful lives in years are applied for the main categories of premises and equipment:

Useful lives in years	**Used in banking activities**	**Used in non-banking activities**
Premises	40	20-40
Equipment	5-20	5-20
Leasehold improvements	10	-

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

Intangible assets. The Group's intangible assets other than goodwill have definite useful life and primarily include capitalised computer software.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of 5 years.

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss on a straight-line basis over the period of the lease.

3 Summary of Significant Accounting Policies (Continued)

Inventory. Inventories are stated at the lower of cost and net realisable value. The cost of inventories is determined using the first-in, first-out (FIFO) method. Net realisable value is the estimated selling price in the ordinary course of business less applicable variable selling expenses. The cost of finished goods and work in progress comprises packaging costs, raw materials, direct labour, other direct costs and related production overheads.

Non-current assets classified as held for sale. Non-current assets and disposal groups, which may include both non-current and current assets, are classified in the statement of financial position as 'Assets of the disposal groups held for sale and assets held for sale' if their carrying amount will be recovered principally through a sale transaction, including loss of control of a subsidiary holding the assets, within twelve months after the end of the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for a sale at a reasonable price; (d) the sale is expected within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Non-current assets or disposal groups classified as held for sale in the current period's statement of financial position are not reclassified or re-presented in the comparative consolidated statement of financial position to reflect the classification at the end of the current period.

A disposal group is a group of assets (current or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Goodwill is included if the disposal group includes an operation within a cash-generating unit, to which goodwill has been allocated on acquisition. Non-current assets are assets that include amounts expected to be recovered or collected more than twelve months after the end of the reporting period. If reclassification is required, both the current and non-current portions of an asset are reclassified.

Held for sale disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell.

Liabilities directly associated with disposal groups that will be transferred in the disposal transaction are reclassified and presented separately in the consolidated statement of financial position.

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Group by counterparty banks and banking groups. The non-derivative liability is carried at amortised cost.

Customer accounts. Customer accounts are represented by current/settlement accounts and term deposits and are non-derivative financial liabilities to individuals, state or corporate customers and are carried at amortised cost.

Promissory notes issued. Promissory notes issued by the Group are carried at amortised cost. If the Group purchases its own promissory notes issued, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains/(losses) arising from early retirement of debt.

Bonds issued. Bonds issued represent amounts attracted from Eurobonds issue and bonds issued on domestic market. Issued Eurobonds and bonds issued on domestic market carry a coupon and are redeemable on a specific date. Bonds issued are carried at amortised cost. If the Group repurchases its bonds issued, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains/(losses) arising from early retirement of debt.

Subordinated debts. Subordinated debts are carried at amortised cost. Creditors' claims on subordinated debts will be considered only after all claims of other creditors of the Group are satisfied.

Derivative financial instruments. Derivative financial instruments (including forwards and swaps on currency, securities, precious metals and interest rates; options; futures on commodities, currency and indexes) are carried at their fair value. Non-derivative transactions are aggregated and treated as a derivative when the transaction result, in substance, is a derivative.

3 Summary of Significant Accounting Policies (Continued)

An embedded derivative shall be separated from the host contract and accounted for as a derivative if, and only if:

a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;

b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

c) the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in profit or loss (i.e. a derivative that is embedded in a financial asset or financial liability at fair value through profit or loss is not separated).

If an embedded derivative is separated, the host contract shall be accounted for under IAS 39 *Financial Instruments: Recognition and Measurement*, and in accordance with other appropriate standards if it is not a financial instrument. If a contract contains one or more embedded derivatives, the Group may designate the entire hybrid (combined) contract as a financial asset or financial liability at fair value through profit or loss.

All derivative financial instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative financial instruments are included in gains less losses from derivative financial instruments. The Group does not apply hedge accounting.

Regular way transactions. Regular way transactions are purchases or sales of financials assets that require delivery of assets within the period generally established by regulation or convention in the market place. All regular way purchases and sales of financial assets are recognised or derecognised on the contractual settlement date which is the date when the asset is to be delivered to or by the Group. Regular way transactions are not recognised as derivatives because of the short duration of the commitment to deliver financial assets between the trade and settlement date.

Any changes in the fair value of the financial assets at fair value through profit and loss to be received during the period between the trade date and the settlement date is recognised in the income statement and for financial assets available for sale is recognised in other comprehensive income for financial assets purchased. For financial assets sold on a regular way basis no changes in fair value are recognised in the income statement or in other comprehensive income between the trade and settlement date. Assets carried at cost or amortised cost are not affected by the change in fair value during the period between the trade and settlement date.

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the tax authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within administrative and other operating expenses.

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

Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is provided on post-acquisition retained earnings and other post acquisition movements in reserves of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

3 Summary of Significant Accounting Policies (Continued)

Insurance operations. Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. As a general guideline, the Group defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur. Insurance risk exists when the Group has uncertainty in respect of the following matters at inception of the contract: the occurrence of the insurance event, the date of occurrence of the insurance event and the claim value in respect of it.

Gross insurance premiums written. Gross insurance premiums written, which the Group is contractually entitled to receive from the insured in relation to insurance contracts, are recognised when due from a policyholder. Specifically, the Group recognises premiums for the policies issued during the year and includes an estimate of premiums due but not yet received by the reporting date, less an allowance for cancellations. Premiums are shown before the deduction of commission. Gross insurance premiums written are recognised as result from insurance operations within losses net of gains from non-banking activities. Refer to Note 26.

Provision for unearned premiums. Unearned premiums represent the proportion of premiums written in the year that relate to the unexpired terms of policies in-force as at the reporting date, calculated on a time apportionment basis. Provisions for unearned premiums are recognised as result from insurance operations within losses net of gains from non-banking activities. Refer to Note 26.

Claims paid. Claims and claims handling expenses are charged to the consolidated statement of profit or loss and other comprehensive income as incurred based on the evaluated liability for compensation payable to policy-holders or third parties.

Loss provision. The loss provision represents the accumulation of estimates for ultimate insurance losses and includes the outstanding claims reserve ("OCR") and provision for losses incurred but not yet reported ("IBNR"). Estimates of the claims handling expenses are included in both the OCR and the IBNR.

The OCR is provided in respect of claims reported but not settled as at the reporting date. The estimation is made on the basis of information received by the Group during investigation of insurance cases as at and after the reporting date. IBNR is actuarially determined by the Group.

Deferred acquisition costs. Deferred acquisition costs ("DAC") are calculated (for non-life insurance contracts) separately for each insurance product. Acquisition costs include commission to agents for concluding agreements with corporate clients and individuals, commission and brokerage fee for underwriting of assumed reinsurance agreements. They vary with and fully depend on the premium earned under acquired or renewed insurance policies. These acquisition costs are deferred and amortised over the period in which the related written premiums are earned. They are reviewed by line of business at the time of the policy issue and at the end of each accounting period to ensure they are recoverable based on future estimates.

Liability adequacy test. At each reporting date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related DAC. In performing these tests, the current best estimates of the future contractual cash flows and claims handling and maintenance expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to the consolidated statement of comprehensive income, initially by writing off DAC and by subsequently establishing a provision for losses arising from the liability adequacy tests (the unexpired risk provision). When performing the liability adequacy test, the Group uses a combination of its own as well as externally available statistics and also includes a security margin. Insurance receivables are included as part of this test.

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

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

Trade and other payables. Trade payables are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

3 Summary of Significant Accounting Policies (Continued)

Perpetual Bonds. Due to undefined maturity and an option for non-cumulative cancellation of coupon payments (without occurrence of rights of investors for accumulation of unpaid coupons), the Group accounts for perpetual bonds as an equity instrument and as a Tier I eligible instrument for the purpose of Basel Capital Adequacy Ratio calculation. CBRF approved the inclusion of these subordinated bonds in the regulatory capital calculation of the Bank. Transaction costs are recorded in retained earnings. Coupon payments may be cancelled or deferred in accordance with the terms of the notes. At the moment the coupon under perpetual bonds becomes mandatory, it is recorded as a dividend declaration described below.

Share capital. Ordinary and preference shares, that are not redeemable and dividend payments are at the discretion of the management, are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Dividends. Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the reporting period and before the financial statements are authorised for issue are disclosed in the subsequent events note. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the current year net profit.

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

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents.

Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at fair value through profit or loss.

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

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

Commissions on agency services are recognised based on the applicable service contracts.

Revenue recognition — sale of goods. Revenues from sales of goods are recognised at the point of transfer of risks and rewards of ownership of the goods, normally when the goods are shipped. If the Group agrees to transport goods to a specified location, revenue is recognised when the goods are passed to the customer at the destination point. Sales are shown net of VAT and discounts.

Revenues are measured at the fair value of the consideration received or receivable. When the fair value of goods received in a barter transaction cannot be measured reliably, the revenue is measured at the fair value of the goods or service given up.

Foreign currency translation. The functional currency of each consolidated entity of the Group is the currency of the primary economic environment in which each entity operates. The functional currency of the Bank and its subsidiaries, and the Group's presentation currency, is the national currency of the Russian Federation, Russian Roubles ("RR").

Transactions in foreign currencies are initially recorded in the functional currency, translated into Russian Roubles at the rate of exchange at the date of the transaction.

Monetary assets and liabilities are translated into functional currency at the official exchange rate of the CBRF at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into functional currency at year-end official exchange rates of the CBRF, are recognised in profit or loss for the year (as foreign exchange translation gains less losses). Translation at year-end rates does not apply to non-monetary items that are measured at historical cost.

3 Summary of Significant Accounting Policies (Continued)

As at 31 December 2017 the principal rates of exchange used for translating foreign currency balances were USD 1 = RR 57.6002 (31 December 2016: USD 1 = RR 60.6569), EUR 1 = RR 68.8668 (31 December 2016: EUR 1 = RR 63.8111).

Fiduciary assets. Assets and liabilities held by the Group in its own name, but on the account of third parties, are not reported in the consolidated statement of financial position. Commissions received from fiduciary activities are shown in fee and commission income.

Offsetting. Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy of the entity or one of its counterparties. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

Accounting for the effects of hyperinflation. The Russian Federation has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 *Financial Reporting in Hyperinflationary Economies* ("IAS 29"). IAS 29 requires that the consolidated financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the end of the reporting period. It states that reporting operating results and financial position in the local currency without restatement is not useful because money loses purchasing power at such a rate that the comparison of amounts from transactions and other events that have occurred at different times, even within the same accounting period, is misleading.

The characteristics of the economic environment of the Russian Federation indicated that hyperinflation had ceased effective from 1 January 2003. Restatement procedures of IAS 29 are therefore only applied to share capital and equipment. For these balances, the amounts expressed in the measuring unit current as at 31 December 2002 are the basis for the carrying amounts in these consolidated financial statements. The restatement was calculated using the conversion factors derived from the Russian Federation Consumer Price Index ("CPI"), published by the Federal Statistics Agency, and from indices obtained from other sources for years prior to 1992.

Staff costs and related contributions. Wages, salaries, contributions to the Russian Federation state and non-state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group. These payments are included in staff expenses in consolidated profit or loss.

Segment reporting. IFRS 8 requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to that used for internal reporting purposes.

An operating segment is a component of the Group that engages in business activities from which it earns revenues and incurs expenses whose operating results are regularly reviewed by the Group's Chief Operating Decision Maker (CODM) to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The Management Board has been identified as the CODM.

In these consolidated financial statements the Group defined operating segments on the basis of organizational structure and geographical areas.

Amendments of the financial statements after issue. Any further changes to these consolidated financial statements require approval of the Group's Management who authorised these consolidated financial statements for issue.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

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

Management determined loan impairment provisions using the "incurred loss" model required by the applicable accounting standards. These standards require recognition of impairment losses that arose from past events and prohibit recognition of impairment losses that could arise from future events, including future changes in the economic environment, no matter how likely those future events are. Thus final impairment losses from financial assets could differ significantly from the current level of provisions. Refer to Note 11.

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

Held-to-maturity financial assets. Management applies judgement in assessing whether financial assets can be categorised as held-to-maturity, in particular its intention and ability to hold the assets to maturity. If the Group fails to keep these investments to maturity other than in certain specific circumstances — for example, selling an insignificant amount close to maturity — it will be required to reclassify the entire class as available for sale. The investments would therefore be measured at fair value rather than amortised cost. Refer to Note 13.

Fair value of derivatives. The fair values of financial derivatives that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect fair reported values. Refer to Note 35.

Deferred income tax asset recognition. The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits, and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances and approved by the management of the Bank. A key assumption in the business plan is to obtain profits in subsequent financial years through widening of product range and client base. Refer to Note 28.

Structured entities. The Group considers RSHB Capital S.A. incorporated for Eurobonds issue for the Bank as consolidated structured entity under IFRS 12 requirements. As at 31 December 2017 the Group guarantees all obligations of the consolidated structured entity represented by Eurobonds issued in the amount of RR 113 819 million and subordinated debts in the amount of RR 29 202 million (31 December 2016: Eurobonds issued in the amount of RR 294 941 million and subordinated debts in the amount of RR 30 735 million). During 2017 and 2016 the Group did not provide any other financial support to the consolidated structured entity. The Group has no current obligation or intention neither to provide financial or other support to the consolidated structured entity nor to assist it in obtaining financial support. Refer to Note 19.

Holding Corporate Eurobonds in the trading and investment portfolios of the Group is considered under IFRS 12 requirements as interest in unconsolidated structured entities. Maximum exposure equals to carrying value of Corporate Eurobonds.

5 Adoption of New or Revised Standards and Interpretations

The following new and/or revised standards and interpretations became effective for the Group from 1 January 2017:

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). The Group has provided the information for the current period in Note 40.

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised 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 deductible temporary difference related to unrealised 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 Group's financial position and performance as the Group's current accounting policy is consistent with 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 did not affect the Group's financial statements.

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2018 or later, and which the Group has not early adopted.

IFRS 9 Financial Instruments: Classification and Measurement (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018 with early adoption permitted). In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

6 New Accounting Pronouncements (Continued)

- IFRS 9 introduces a new model for the recognition of impairment losses — the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but is not expected to have an impact on classification and measurement of the Group's financial liabilities. The Group 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 available data and current implementation status, Group management estimates the adoption of IFRS 9 will decrease the equity attributable to the shareholders of the parent, predominantly related to the impairment requirements of IFRS 9. Group management continues to refine and monitor certain aspects, including data inputs, of the implementation process which may change the actual impact upon adoption.

Bank has reviewed its default definition, PD and LGD models to include where required 12-month and lifetime expectation of default to implement "three stage" approach for ECL calculation. Also, the definition and process of identification of "significant increase in credit risk" factors were updated and tailored to the existing credit risk models.

Bank has updated the classification process for financial instruments which will be based on business model and SPPI test compliance criterias. As a result of review of current portfolios of financial assets the majority of loans and investment securities held to maturity are expected to be measured at the amortised cost. Trading securities, investment securities available for sale are expected to be measured at the fair value through profit or loss and through other comprehensive income, respectively.

Group management expects to finalise the quantification of the impact of the adoption of IFRS 9 and include the required adoption disclosures in the interim consolidated financial statements for the three months ending 31 March 2018.

IFRS 15 Revenue from Contracts with Customers (issued in May 2014, amended in April 2016 and effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The amendments do not change the underlying principles of the Standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. 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 Group's income will not be impacted by the adoption of this standard.

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

IFRS 16 Leases (issued in January 2016 and effective for the annual periods beginning on or after 1 January 2019). IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 *Leases*. Lessees will recognise a 'right of use' asset and a corresponding financial liability on the balance sheet. The asset will be amortised over the length of the lease and the financial liability measured at amortised cost. Lessor accounting remains substantially the same as in IAS 17 *Leases*. In 2018, the Group will continue to assess the potential effect of IFRS 16 on its consolidated financial statements.

6 New Accounting Pronouncements (Continued)

Amendments to IFRS 10 and IAS 28 — Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued in September 2014 amended in December 2015; effective date is not set). The amendments address the acknowledged inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. The amendments clarify that an investor recognises a full gain or loss on the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture. The gain or loss resulting from the re-measurement at fair value of an investment retained in a former subsidiary is recognised only to the extent of unrelated investors' interests in that former subsidiary. The Group does not expect a material effect from application of these amendments.

Amendments to IFRS 2 Share-based Payment (issued in June 2016 and effective for annual periods beginning on or after 1 January 2018). The amendments mean that non-market performance vesting conditions will impact measurement of cash-settled share-based payment transactions in the same manner as equity-settled awards. The amendments also clarify classification of a transaction with a net settlement feature in which the entity withholds a specified portion of the equity instruments, that would otherwise be issued to the counterparty upon exercise (or vesting), in return for settling the counterparty's tax obligation that is associated with the share-based payment. Such arrangements will be classified as equity-settled in their entirety.

Finally, the amendments also clarify accounting for cash-settled share based payments that are modified to become equity-settled, as follows (a) the share-based payment is measured by reference to the modification-date fair value of the equity instruments granted as a result of the modification; (b) the liability is derecognised upon the modification, (c) the equity-settled share-based payment is recognised to the extent that the services have been rendered up to the modification date, and (d) the difference between the carrying amount of the liability as at the modification date and the amount recognised in equity at the same date is recorded in profit or loss immediately. The Group does not expect a material effect from application of these amendments.

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 Group will assess the potential effect of IFRS 17 on its consolidated financial statements, including treatment of non-financial guarantees issued by the Group.

Annual improvements to IFRSs 2014-2016 cycle (issued in December 2016 and effective for annual periods beginning on or after 1 January 2018 for amendments to IFRS 1 and IAS 28). The improvements impact two standards. IFRS 1 was amended and some of the short-term exemptions from IFRSs in respect of disclosures about financial instruments, employee benefits and investment entities were removed, after those short-term exemptions have served their intended purpose. The amendments to IAS 28 clarify that an entity has an investment-by-investment choice for measuring investees at fair value in accordance with IAS 28 by a venture capital organisation, or a mutual fund, unit trust or similar entities including investment linked insurance funds. Additionally, an entity that is not an investment entity may have an associate or joint venture that is an investment entity. IAS 28 permits such an entity to retain the fair value measurements used by that investment entity associate or joint venture when applying the equity method. The amendments clarify that this choice is also available on an investment-by-investment basis.

6 New Accounting Pronouncements (Continued)

Transfers of Investment Property — Amendments to IAS 40 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018). The amendments clarify the requirements on transfers to, or from, investment property in respect of properties under construction. Prior to the amendments, there was no specific guidance on transfers into, or out of, investment properties under construction in IAS 40. The amendment clarifies that there was no intention to prohibit transfers of a property under construction or development, previously classified as inventory, to investment property when there is an evident change in use. IAS 40 was amended to reinforce the principle of transfers into, or out of, investment property in IAS 40 to specify that a transfer into, or out of investment property should only be made when there has been a change in use of the property; and such a change in use would involve an assessment of whether the property qualifies as an investment property. Such a change in use should be supported by evidence.

IFRIC 22 Foreign Currency Transactions and Advance Consideration (issued in December 2016 and effective for annual periods beginning on or after 1 January 2018). The interpretation addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) on the derecognition of a non-monetary asset or non-monetary liability arising from an advance consideration in a foreign currency. Under IAS 21, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transaction for each payment or receipt of advance consideration. IFRIC 22 only applies in circumstances in which an entity recognises a non-monetary asset or non-monetary liability arising from an advance consideration. IFRIC 22 does not provide application guidance on the definition of monetary and non-monetary items. An advance payment or receipt of consideration generally gives rise to the recognition of a non-monetary asset or non-monetary liability, however, it may also give rise to a monetary asset or liability. An entity may need to apply judgment in determining whether an item is monetary or non-monetary.

IFRIC 23 Uncertainty over Income Tax Treatment (issued in June 2017 and effective for annual periods beginning on or after 1 January 2019). 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. 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.

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

The Group is considering the implications of these standards and amendments, the impact on the Group and the timing of their adoption by the Group. Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group’s consolidated financial statements.

7 Cash and Cash Equivalents

In millions of Russian Roubles	31 December 2017	31 December 2016
Cash on hand	147 866	30 622
Cash balances (other than mandatory) with the CBRF	382 304	128 335
Correspondent accounts and deposits with other banks with original maturities less than one month	48 586	83 014
Settlement accounts with stock and currency exchanges	1 038	2 402
Settlement accounts with clearing and brokerage organisations	840	3 338
Deals with securities pledged under repurchase agreements with original maturities of less than one month	5 803	78 322
Total cash and cash equivalents	**586 437**	**326 033**

As at 31 December 2017, correspondent accounts and deposits with other banks with original maturities less than one month within cash and cash equivalents included balances with one Russian banking group with rating of the parent bank at Ba2 (Moody`s), individually above 10% of the Group’s equity, in the amount of RR 35 835 million, or 6% of total cash and cash equivalents (31 December 2016: balances with one Russian banking group with rating of the parent bank at Ba2 (Moody`s) and one OECD banking group with rating of the parent bank at BBB- (S&P), each individually above 10% of the Group’s equity, in the amount of RR 48 259 million, or 15% of total cash and cash equivalents).

Analysis by credit quality of cash and cash equivalents is as follows:

In millions of Russian Roubles	31 December 2017	31 December 2016
Current and not impaired		
Cash on hand	147 866	30 622
Cash balances (other than mandatory) with the CBRF	382 304	128 335
Correspondent accounts and deposits with other banks with original maturities less than one month:		
- top 30 Russian banks (by net assets) and their subsidiary banks	46 956	62 767
- OECD banks and their subsidiary banks	1 145	19 549
- other Russian banks	460	658
- other non-resident banks	25	40
Settlement accounts with stock and currency exchanges	1 038	2 402
Settlement accounts with clearing and brokerage organisations	840	3 338
Deals with securities pledged under repurchase agreements with original maturities of less than one month:		
- top 30 Russian banks (by net assets) and their subsidiary banks	5 803	70 969
- other Russian banks	-	7 353
Total cash and cash equivalents	**586 437**	**326 033**

As at 31 December 2017, cash and cash equivalents in the amount of RR 5 803 million were effectively collateralized by securities purchased under reverse repo agreements with a fair value of RR 6 189 million (31 December 2016: cash and cash equivalents in the amount of RR 78 322 million were effectively collateralized by securities purchased under reverse repo agreements with a fair value of RR 86 853 million). The Group had the right to sell or repledge securities.

Refer to Note 36 for the disclosure of fair value and fair value hierarchy for cash and cash equivalents. Geographical and liquidity analyses of cash and cash equivalents are disclosed in Note 31. The information on related party transactions is disclosed in Note 38.

8 Trading Securities

In millions of Russian Roubles	**31 December 2017**	**31 December 2016**
Federal loan bonds (OFZ)	16 741	25 040
Corporate bonds	766	-
Total trading securities	**17 507**	**25 040**

Trading securities are carried at fair value which also reflects any credit risk related write-downs.

Analysis by credit quality of debt securities outstanding as at 31 December 2017 is as follows:

In millions of Russian Roubles	**Securities internationally rated not lower than BB- (S&P)***	**Total**
Federal loan bonds (OFZ)	16 741	16 741
Corporate bonds	766	766
Total debt trading securities	**17 507**	**17 507**

* or analogous ratings of other rating agencies.

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

In millions of Russian Roubles	**Securities internationally rated not lower than BB- (S&P)***	**Total**
Federal loan bonds (OFZ)	25 040	25 040
Total debt trading securities	**25 040**	**25 040**

* or analogous ratings of other rating agencies.

If a security’s rating is unavailable, the issuer’s rating is used.

Federal loan bonds (OFZ) are represented by state securities denominated in Russian Roubles issued by the Ministry of Finance of the Russian Federation. Federal loan bonds (OFZ) are traded at a discount or premium to face value and carry a coupon payable semi-annually. As at 31 December 2017, these bonds have maturity dates from March 2018 to January 2025 and coupon rates from 7.5% to 10.6% p.a. (31 December 2016: these bonds had maturity dates from April 2017 to December 2034 and coupon rates from 7.4% to 11.9% p.a.).

Corporate bonds in the Group’s portfolio are represented by securities denominated in Russian Roubles issued by major Russian banks. Corporate bonds are traded at a discount or premium to face value and carry a coupon payable semi-annually depending on the type of the bond issue and the issuer. As at 31 December 2017, these bonds have maturity dates from November 2019 to May 2027 and coupon rates from 8.3% to 9.1% p.a., depending on the type of the bond issue, the issuer and the market conditions.

Refer to Note 36 for the disclosure of fair value hierarchy for trading securities. Geographical and liquidity analyses of trading securities are disclosed in Note 31.

9 Financial Instruments Designated at Fair Value through Profit or Loss

In millions of Russian Roubles	31 December 2017	31 December 2016
Credit Linked Notes	2 091	2 374
Total financial instruments designated at fair value through profit or loss	**2 091**	**2 374**

International credit ratings of issuers of the notes and of counterparty banks were not less than A- (S&P) as at 31 December 2017 (31 December 2016: not less than BB- (S&P)).

Management classified financial instruments with embedded derivatives as financial instruments designated at fair value through profit or loss, although there was an option to separate the embedded derivative and value the host contract at amortised cost.

In May 2008, the Group purchased a Credit Linked Note from an OECD bank in the nominal amount of RR 2 500 million at the net price of 19.5% of the nominal amount with maturity date in May 2023 and a zero coupon. The Note has an embedded Credit Default Swap linked to the Bank's own credit risk.

In January 2016, the Group purchased a Credit Linked Note from an OECD bank in the nominal amount of RR 500 million at the net price of 100% of the nominal amount with maturity date in January 2017 and coupon rate of 12.5% p.a., payable annually. The Note has an embedded Credit Default Swap linked to Russian bank's credit risk. In January 2017, this Note was redeemed by the Group at maturity date of financial instrument.

In June 2016, the Group purchased a Credit Linked Note from an OECD bank in the nominal amount of RR 450 million at the net price of 100% of the nominal amount with maturity date in June 2019 and coupon rate of 10.8% p.a., payable annually. The Note has an embedded Credit Default Swap linked to Russian state-owned company's credit risk.

Refer to Note 36 for the disclosure of the fair value hierarchy for financial instruments designated at fair value through profit or loss. Geographical and liquidity analyses of financial instruments designated at fair value through profit or loss are disclosed in Note 31.

10 Due from Other Banks

In millions of Russian Roubles	31 December 2017	31 December 2016
Current term placements with other banks	18 697	50 454
Promissory notes	7 163	4 959
Overdue placements with other banks	280	281
Less: provision for impairment	(203)	(203)
Total due from other banks	**25 937**	**55 491**

Analysis of the movements in the provision for loan impairment for due from other banks is as follows:

In millions of Russian Roubles	2017	2016
Provision for loan impairment for due from other banks at 1 January	**203**	**181**
Provision for loan impairment for due from other banks during the year	-	22
Provision for loan impairment for due from other banks at 31 December	**203**	**203**

10 Due from Other Banks (Continued)

Analysis by credit quality of amounts due from other banks is as follows:

In millions of Russian Roubles	31 December 2017	31 December 2016
Current and not impaired		
- Top 30 Russian banks (by net assets) and their subsidiary banks	11 346	34 969
- Other non-resident banks	14 364	20 444
- Other Russian banks	150	-
Total current and not impaired	**25 860**	**55 413**
Individually assessed for impairment		
- watch list	99	100
- over 365 days overdue	181	181
Total individually assessed for impairment	**280**	**281**
Total due from other banks (before impairment)	**26 140**	**55 694**
Provision for impairment	**(203)**	**(203)**
Total due from other banks	**25 937**	**55 491**

Analysis of amounts due from other banks by collateral is as follows:

In millions of Russian Roubles	31 December 2017	31 December 2016
Unsecured due from other banks placements	25 860	55 344
Due from other banks placements collateralised by:		
- other assets	77	147
Total due from other banks	**25 937**	**55 491**

As at 31 December 2017, due from other banks included no balances with other banks individually above 10% of the Group's equity (31 December 2016: due from other banks included the balance with one Russian banking group with rating of the parent bank at Ba2 (Moody's), individually above 10% of the Group's equity, in the amount of RR 24 820 million, or 45% of total due from other banks). As at 31 December 2017, due from other banks included the balances with one Russian banking group with rating of the parent bank at B2 (Moody's) and three non-OECD banking groups with rating of the parent bank not lower than B (S&P) in aggregate above 10% of the Group's equity, in the amount of RR 20 645 million, or 80% of total due from other banks.

Refer to Note 36 for the disclosure of fair value and fair value hierarchy for due from other banks. Geographical and liquidity analyses of due from other banks are disclosed in Note 31. The information on related party transactions is disclosed in Note 38.

11 Loans and Advances to Customers

In millions of Russian Roubles	31 December 2017	31 December 2016
Loans to legal entities		
- Loans to corporates	1 565 345	1 446 442
- Lending for food interventions	36 458	33 921
- Investments in agricultural cooperatives	351	395
Subfederal bonds	3 279	-
Loans to individuals	363 408	327 131
Total loans and advances to customers (before impairment)	**1 968 841**	**1 807 889**
Less: provision for loan impairment	(203 081)	(189 952)
Total loans and advances to customers	**1 765 760**	**1 617 937**

As at 31 December 2017, included in gross amount of loans are loans in the principal amount of RR 611 247 million (31 December 2016: RR 665 447 million), where borrowers are eligible for interest subsidies from federal and regional budgets.

Lending for food interventions is represented by loans to the company under the control of the Government of the Russian Federation.

As at 31 December 2017, the Group has loans before impairment to ten largest borrowers (groups of borrowers) in the total amount of RR 487 922 million, or 25% of total loans and advances to customers before impairment (31 December 2016: the Group has loans before impairment to ten largest borrowers (groups of borrowers) in the total amount of RR 411 443 million, or 23% of total loans and advances to customers before impairment).

Investments in agricultural cooperatives represent contributions made by the Group as part of its participation in the National Project "Development of the Agro-Industrial Sector". According to the contracts with cooperatives the Group receives fixed annual dividends at the rate 1/2 of the rate of refinancing of Bank of Russia of the contributions made. The Group's management has a right to make cooperative member contributions for the period of 5 years and at the end to withdraw its contributions.

Analysis of the movements in the provision for loan impairment is as follows:

	2017				2016			
In millions of Russian Roubles	Loans to corporates	Invest-ments in agricultural coopera-tives	Loans to individuals	Total	Loans to corporates	Invest-ments in agricultural coopera-tives	Loans to individuals	Total
Provision for loan impairment at 1 January	**176 153**	**49**	**13 750**	**189 952**	**166 293**	**63**	**12 868**	**179 224**
Net provision/(recovery of provision) for loan impairment during the year	57 344	7	6 534	63 885	80 180	(14)	6 310	86 476
Provision for loans sold during the year	(33 733)	-	(2 963)	(36 696)	(45 756)	-	(5 401)	(51 157)
Loans and advances to customers written off during the year as uncollectible	(15 425)	-	(22)	(15 447)	(26 039)	-	(27)	(26 066)
Recovery of loans previously written off sold during the year	527	-	-	527	618	-	-	618
Recovery of loans previously written off	860	-	-	860	857	-	-	857
Provision for loan impairment at 31 December	**185 726**	**56**	**17 299**	**203 081**	**176 153**	**49**	**13 750**	**189 952**

No provision for "Lending for food interventions" and "Subfederal bonds" was recorded as at 31 December 2017 and 31 December 2016.

11 Loans and Advances to Customers (Continued)

The economic sector structure of the credit portfolio is as follows:

	31 December 2017		31 December 2016	
In millions of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Agriculture	930 874	48	980 848	55
Individuals	363 408	18	327 131	18
Construction	180 858	9	193 564	11
Manufacturing	175 297	9	114 634	6
Oil and gas	159 527	8	80 067	4
Trading	44 126	2	39 470	2
Other	114 751	6	72 175	4
Total loans and advances to customers (before impairment)	**1 968 841**	**100**	**1 807 889**	**100**

As at 31 December 2017, the aggregate amount of loans to individuals included loans in the principal amount of RR 22 384 million issued to individuals-sole farmers (31 December 2016: RR 37 565 million).

Loan portfolio analysis by credit quality. The Group estimates credit risk on the basis of professional judgement pronounced upon completing a comprehensive review of a borrower's activities taking into account debt service quality as well as all other information available to the Group related to any other risks of the borrower.

In accordance with the methodology of financial assets impairment evaluation, the Group includes loans, for which there is no identified loss event and/or a borrower/debtor default into the category *"collectively assessed for impairment".*

In accordance with the methodology of financial assets impairment evaluation, as a *loss event* the Group recognises objective evidence of asset impairment that emerged subsequent to initial recognition, namely:

- *for loans issued to legal entities (including individual entrepreneurs — sole farmers):*
  - breach of contract — principal or interest overdue by more than 30 days;
- *for loans issued to individuals:*
  - breach of contract — principal or interest overdue by more than 30 days.

As a *default* of a borrower/debtor, the Group recognises objective evidence that it is impossible for the creditor to claim future cash flows due under the contract, unless the collateral is used (default of the borrower/debtor), namely:

- *for legal entities (including individual entrepreneurs — sole farmers):*
  - the debtors excluded from the Single State Register of Legal Entities without legal succession (based upon the results of completed bankruptcy proceedings or on the basis of court decision on liquidation of the borrower at the presentation of the authorised body);
  - the debtors, with respect to whom bankruptcy proceedings are completed but they are not excluded from the Single State Register of Legal Entities;
  - the debtors, with respect to whom bankruptcy proceedings are conducted however the court has rejected the claim to include the amounts payable to the Bank into the register of creditors and/or there is no actual property used as a collateral that belongs to these debtors;
  - the debtors, with respect to whom court decision has entered into force and the court has rejected the claim to collect the debt in the Bank's favour or collection under a write-off execution is impossible due to expiry of the term, during which it can be presented for execution, or due to the end or termination of the execution proceedings;
  - the debtors, who actually discontinued their operation and with respect to whom there exists a documentary confirmation of their actual absence; and
  - principal or interest overdue by over 365 days;

11 Loans and Advances to Customers (Continued)

- *for individuals:*
  - death of the debtor in the absence of heirs and inheritance;
  - the debtors, with respect to whom court decision has entered into force and the court has rejected the claim to collect the debt in the Bank's favour or collection under a writ of execution is impossible due to expiry of the term, during which it can be presented for execution, or due to the end or termination of the execution proceedings;
  - the debtors, who do not reside at the place of residence indicated in the loan agreement and with respect to whom it is impossible to identify the new place of residence; and
  - principal or interest overdue by over 365 days.

Lending for food interventions and reverse repo agreements are assessed for impairment by the Group on the individual basis as the nature of the borrowers/products is unique and exposures could not be grouped with others.

Analysis by credit quality of loans outstanding as at 31 December 2017 is as follows:

In millions of Russian Roubles	Loans to corporates	Lending for food interventions	Investments in agricultural cooperatives	Subfederal bonds	Loans to individuals	Total
1. Current and not impaired						
- good financial position	-	36 458	-	-	-	36 458
Total current and not impaired	**-**	**36 458**	**-**	**-**	**-**	**36 458**
2. Collectively assessed for impairment						
Current						
- included in portfolios of similar risk loans	1 230 903	-	351	3 279	329 317	1 563 850
Overdue						
- overdue by: less than 31 days for legal entities and individuals	11 603	-	-	-	4 691	16 294
Total collectively assessed for impairment	**1 242 506**	**-**	**351**	**3 279**	**334 008**	**1 580 144**
3. Individually assessed for impairment						
- watch list	134 668	-	-	-	51	134 719
- 6 to 30 days overdue	330	-	-	-	-	330
- 31 to 90 days overdue	9 083	-	-	-	3 408	12 491
- 91 to 180 days overdue	16 673	-	-	-	2 439	19 112
- 181 to 365 days overdue	26 444	-	-	-	3 598	30 042
- over 365 days overdue	135 641	-	-	-	19 904	155 545
Total individually assessed for impairment	**322 839**	**-**	**-**	**-**	**29 400**	**352 239**
Total loans and advances to customers (before impairment)	**1 565 345**	**36 458**	**351**	**3 279**	**363 408**	**1 968 841**
Provision for loan impairment	**(185 726)**	**-**	**(56)**	**-**	**(17 299)**	**(203 081)**
Total loans and advances to customers	**1 379 619**	**36 458**	**295**	**3 279**	**346 109**	**1 765 760**

11 Loans and Advances to Customers (Continued)

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

In millions of Russian Roubles	Loans to corporates	Lending for food interventions	Investments in agricultural cooperatives	Loans to individuals	Total
1. Current and not impaired					
- good financial position	-	33 921	-	-	33 921
Total current and not impaired	**-**	**33 921**	**-**	**-**	**33 921**
2. Collectively assessed for impairment					
Current					
- included in portfolios of similar risk loans	1 089 428	-	395	292 470	1 382 293
Overdue					
- overdue by: less than 31 days for legal entities and individuals	15 506	-	-	5 461	20 967
Total collectively assessed for impairment	**1 104 934**	**-**	**395**	**297 931**	**1 403 260**
3. Individually assessed for impairment					
- watch list	147 235	-	-	-	147 235
- 31 to 90 days overdue	17 970	-	-	3 241	21 211
- 91 to 180 days overdue	16 318	-	-	2 777	19 095
- 181 to 365 days overdue	21 933	-	-	4 334	26 267
- over 365 days overdue	138 052	-	-	18 848	156 900
Total individually assessed for impairment	**341 508**	**-**	**-**	**29 200**	**370 708**
Total loans and advances to customers (before impairment)	**1 446 442**	**33 921**	**395**	**327 131**	**1 807 889**
Provision for loan impairment	**(176 153)**	**-**	**(49)**	**(13 750)**	**(189 952)**
Total loans and advances to customers	**1 270 289**	**33 921**	**346**	**313 381**	**1 617 937**

Overdue loans represent not only past due payments but the whole outstanding balances of such loans.

Loans included in the watch list are in the process of restructuring and/or renegotiation. Watch list includes loans and advances to customers overdue from 1 to 180 days of RR 13 679 million (31 December 2016: RR 13 927 million) and loans and advances to customers overdue more than 180 days of RR 96 601 million (31 December 2016: RR 96 025 million). The remaining loans included in the watch list are not overdue.

As at 31 December 2017, interest accrued on impaired loans included in carrying value of loans and advances to customers amounts to RR 34 156 million (31 December 2016: RR 40 482 million).

Loans included in portfolio with similar risk loans consist of small value loans with homogeneous credit characteristics without any signs of impairment. According to internal policies the bank before granting each particular loan analyses sufficiency of earnings and collateral (where applicable), obtains confirmation from external sources on positive credit history and reputation of each borrower.

As at 31 December 2017, current collectively assessed loans to individuals comprises: loans to the sole farmers — 6% (31 December 2016: 12%), mortgage loans — 51% (31 December 2016: 45%) and consumer and other individual loans — 43% (31 December 2016: 43%).

The table below summarizes the results of quality analysis of the loan portfolio:

In millions of Russian Roubles	31 December 2017	31 December 2016
Current loans	1 624 747	1 453 497
Past due instalments	246 205	227 118
Current portion of past due loans	97 889	127 274
Provision for loan impairment	(203 081)	(189 952)
Total loans and advances to customers	**1 765 760**	**1 617 937**

11 Loans and Advances to Customers (Continued)

Loan collateral

The Group accepts different types of collateral, such as: inventories (finished products, raw materials, goods in turnover), equipment, including agricultural machinery, motor vehicles, real estate, land plots, construction in progress, sea and other vessels, farm animals, future crop, property acquired in the future, property rights, warranties, banking guarantees, government guarantees of Russian Federation and municipal guarantees.

Where appropriate, the value of collateral was incorporated in the assessment of recoverable amount of loans and advances to customers.

Among other measures aimed at credit enhancement is the Group's requirement to insure the subject of collateral. Property is insured by insurance companies that have accreditation with the Bank.

The Group monitors the condition and reviews the structure of the collateral. The primary purpose of the review of the structure of collateral as well as monitoring of the collateral rights by the Group includes:

- obtaining complete and objective information on the available collateral property and its structure;
- development of optimal schemes of realisation of collateral rights with account for the specifics of regional distribution;
- improving the effectiveness and timeliness of collateral foreclosure process.

The majority of collateral (over 82%) (31 December 2016: over 80%) relates to the following types: real estate – 59% (31 December 2016: 57%), equipment – 15% (31 December 2016: 15%) and vehicles – 8% (31 December 2016: 8%).

According to the Group's internal documents it is allowed to issue unsecured loans in the following cases:

- *for legal entities* — overdrafts; and
- *for individuala:*
    - loans up to RR 750 thousand (for employees of companies that participate in salary project and the Bank employees who receive salary on bank accounts opened in the Bank for not less than 6 months — up to RR 1.5 million) inclusive under the programs “Consumer loan without collateral” and “Consumer loan without collateral for members of the Russian public organization “The union of gardeners of Russia”;
    - loans up to RR 1 million (for clients of the Bank who receive salary on bank accounts opened in the Bank for not less than 6 months — up to RR 1.5 million), inclusive under the program “Consumer loan to individuals — JSC Rosselkhozbank salary card holder”;
    - loans up to RR 1 million (or equivalent to RR 1 million in a foreign currency) under the program “Credit card” and overdrafts (up to RR 300 thousand or equivalent in a foreign currency);
    - loans up to RR 750 thousand inclusive under the program “Refinancing consumer loans” (for employees of companies that participate in salary project and the Bank employees — up to RR 1 million);
    - loans up to RR 700 thousand inclusive under the program “loans to the sole farmers without collateral”;
    - loans up to RR 500 thousand inclusive under the programs “Pension loan” and “Pension loan plus”.

Refer to Note 36 for the disclosure of fair value of each class of loans and advances to customers and fair value hierarchy for loans and advances to customers. Geographical and liquidity analyses of loans and advances to customers are disclosed in Note 31. The information on related party transactions is disclosed in Note 38.

12 Investment Securities Available for Sale

In millions of Russian Roubles	31 December 2017	31 December 2016
Federal loan bonds (OFZ)	129 536	119 341
Corporate bonds	102 086	68 497
Bank of Russia bonds	24 672	-
Corporate Eurobonds	11 776	33 885
Municipal and subfederal bonds	5 499	8 546
Corporate shares	284	584
State Eurobonds	-	1 556
Total investment securities available for sale	**273 853**	**232 409**

The primary factor that the Group considers in determining whether a debt security is impaired is its overdue status. Furthermore, the Group analyzes reasons for a decline in the fair value of investment securities available for sale in order to identify whether there is objective evidence that these securities are impaired. In 2016 the Group reclassified from equity the cumulative loss that had been recognised in other comprehensive income in the amount of RR 558 million (2017: none) and recognised losses from impairment of investment securities available for sale in the consolidated statement of profit or loss and other comprehensive income. The Group estimates that for the year ended 31 December 2017 losses from impairment of investment securities available for sale amounted to RR 441 million (2016: RR 519 million).

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

In millions of Russian Roubles	Securities internationally rated not lower than BB- (S&P)*	Securities internationally rated lower than BB- (S&P)*	Internationally unrated securities	Total
Federal loan bonds (OFZ)	129 536	-	-	129 536
Corporate bonds	56 945	8 278	36 863	102 086
Bank of Russia bonds	24 672	-	-	24 672
Corporate Eurobonds	11 736	40	-	11 776
Municipal and subfederal bonds	1 940	2 432	1 127	5 499
Total debt investment securities available for sale	**224 829**	**10 750**	**37 990**	**273 569**

* or analogous ratings of other rating agencies.

Analysis by credit quality of debt investment securities available for sale outstanding as at 31 December 2016 is as follows:

In millions of Russian Roubles	Securities internationally rated not lower than BB- (S&P)*	Securities internationally rated lower than BB- (S&P)*	Internationally unrated securities	Total
Federal loan bonds (OFZ)	119 341	-	-	119 341
Corporate bonds	30 944	3 260	34 293	68 497
Corporate Eurobonds	33 852	33	-	33 885
Municipal and subfederal bonds	5 818	1 623	1 105	8 546
State Eurobonds	1 556	-	-	1 556
Total debt investment securities available for sale	**191 511**	**4 916**	**35 398**	**231 825**

* or analogous ratings of other rating agencies.

As at 31 December 2017 and 31 December 2016, federal loan bonds (OFZ) are represented by state securities denominated in Russian Roubles issued by the Ministry of Finance of the Russian Federation. Federal loan bonds (OFZ) are traded at a discount or premium to face value and carry a coupon payable semi-annually. As at 31 December 2017, these bonds have maturity dates from August 2018 to February 2036 (31 December 2016: from October 2019 to December 2034) and coupon rates from 5.0% to 10.6% p.a. (31 December 2016: from 2.5% to 11.9% p.a.), depending on the type of the bond issue and the market conditions.

12 Investment Securities Available for Sale (Continued)

Corporate bonds in the Group's portfolio are represented by securities denominated in Russian Roubles and US Dollars issued by major Russian companies and banks. Corporate bonds are traded at a discount or premium to face value and carry a coupon payable quarterly or semi-annually depending on the type of the bond issue and the issuer. As at 31 December 2017, these bonds have maturity dates from January 2018 to October 2052 (31 December 2016: from January 2017 to July 2031) and coupon rates from 4.8% to 15.8% p.a. (31 December 2016: from 0.1% to 16.4% p.a.), depending on the type of the bond issue, the issuer and the market conditions.

Corporate Eurobonds are bonds denominated in Russian Roubles and US Dollars issued by major Russian companies and banks. As at 31 December 2017, these bonds have maturity dates from February 2018 to October 2023 (31 December 2016: from May 2017 to June 2023) and coupon rates from 4.1% to 9.3% p.a. (31 December 2016: from 3.8% to 9.0% p.a.), payable quarterly or semi-annually, depending on the type of the bond issue, the issuer and the market conditions.

Municipal and subfederal bonds are represented by Russian Roubles bonds of Russian municipal and subfederal authorities. These bonds are traded at a discount or premium to face value and carry a coupon payable quarterly or semi-annually depending on the type of the bond issue and the issuer. As at 31 December 2017, these bonds have maturity dates from July 2018 to December 2026 (31 December 2016: from May 2017 to September 2026) and coupon rates from 7.4% to 12.7% p.a. (31 December 2016: from 6.9% to 12.7% p.a.), depending on the type of the bond issue, the issuer and the market conditions.

Bank of Russia bonds are denominated in Russian Roubles. As at 31 December 2017, these bonds had maturity dates from January 2018 to March 2018 and coupon rate 7.8% p.a., payable quarterly.

During 2016 and 2017 the Group reclassified certain financial assets from the available for sale category as a result of reassessment of its intention to hold these investments till maturity. As at 31 December 2017, the amount of financial investment securities that have been reclassified from investment securities available for sale and which were not yet repaid, were as follows:

In millions of Russian Roubles	**Amount reclassified**	**Undiscounted cash flows expected to be recovered**	**Effective interest rate (%)**
Reclassified into held to maturity during 2017			
Corporate bonds	33 338	44 844	7.3-9.6
Municipal and subfederal bonds	20 407	20 678	6.4-10.4
Total	**53 745**	**65 522**	

As at 31 December 2016, the amount of financial investment securities that have been reclassified from investment securities available for sale and which were not repaid, were as follows:

In millions of Russian Roubles	**Amount reclassified**	**Undiscounted cash flows expected to be recovered**	**Effective interest rate (%)**
Reclassified into held to maturity during 2016			
Corporate bonds	2 601	3 672	11.1
Municipal and subfederal bonds	2 023	1 698	10.2-10.6
Total	**4 624**	**5 370**	

Refer to Note 36 for the disclosure of the fair value hierarchy for investment securities available for sale. Geographical and liquidity analyses of investment securities available for sale are disclosed in Note 31.

13 Investment Securities Held to Maturity

In millions of Russian Roubles	**31 December 2017**	**31 December 2016**
Corporate bonds	42 553	7 975
Municipal and subfederal bonds	20 136	1 501
Federal loan bonds (OFZ)	1 996	2 154
Total investment securities held to maturity	**64 685**	**11 630**

Analysis by credit quality of investment securities held to maturity as at 31 December 2017 is as follows:

In millions of Russian Roubles	**Securities internationally rated not lower than BB- (S&P)***	**Internationally unrated securities**	**Total**
Corporate bonds	42 553	-	42 553
Municipal and subfederal bonds	18 746	1 390	20 136
Federal loan bonds (OFZ)	1 996	-	1 996
Total investment securities held to maturity	**63 295**	**1 390**	**64 685**

* or analogous ratings of other rating agencies.

Analysis by credit quality of investment securities held to maturity as at 31 December 2016 is as follows:

In millions of Russian Roubles	**Securities internationally rated not lower than BB- (S&P)***	**Total**
Corporate bonds	7 975	7 975
Municipal and subfederal bonds	1 501	1 501
Federal Loan bonds (OFZ)	2 154	2 154
Total investment securities held to maturity	**11 630**	**11 630**

* or analogous ratings of other rating agencies.

If a security's rating is unavailable, the issuer's rating is used.

The primary factor that the Group considers when deciding whether a debt security is impaired is its overdue status. Since the Group did not have overdue securities held to maturity, no provisions for impairment of these securities were recognised.

Corporate bonds are represented by securities denominated in Russian Roubles, issued by major Russian companies. Corporate bonds are traded at a discount or premium to face value and carry a coupon payable quarterly or semi-annually, depending on the type of the bond issue and the issuer. As at 31 December 2017, these bonds have maturity dates from January 2018 to September 2052 (31 December 2016: from November 2018 to May 2030) and coupon rates from 7.65% to 12.05% p.a. (31 December 2016: from 7.95% to 11.75% p.a.), depending on the type of the bond issue, the issuer and the market conditions.

Municipal and subfederal bonds are represented by bonds issued by Russian municipal and subfederal authorities denominated in Russian Roubles. These bonds are traded at a discount or premium to face value and carry coupon payable quarterly. As at 31 December 2017, these bonds have maturity dates from June 2018 to November 2024 (31 December 2016: July 2018 to July 2021) and coupon rates from 6.0% to 12.7% p.a. (31 December 2016: from 7.6% to 10.0% p.a.), depending on the type of the bond issue, the issuer and the market conditions.

Federal loan bonds (OFZ) are represented by the state securities denominated in Russian Roubles issued by the Ministry of Finance of Russian Federation. As at 31 December 2017, these OFZ have maturity dates from August 2018 to February 2036 (31 December 2016: from August 2018 to February 2036) and coupon rates from 5.0% to 7.0% p.a. (31 December 2016: from 5.0% to 7.0% p.a.), payable quarterly or semi-annually, depending on the type of the bond issue and the market conditions.

Refer to Note 36 for the disclosure of the fair value and fair value hierarchy for investment securities held to maturity. Geographical and liquidity analyses of securities held to maturity are disclosed in Note 31.

14 Premises, Equipment and Intangible Assets

In millions of Russian Roubles	Note	Used in banking activities: Office premises and construction in progress	Used in banking activities: Leasehold (premises) improvements	Used in banking activities: Office and computer equipment	Used in banking activities: Land	Used in non-banking activities: Production premises	Used in non-banking activities: Equipment	Used in non-banking activities: Land	Total premises and equipment	Intangible assets	Total
Cost or valuation at 1 January 2016		**9 500**	**1 354**	**11 897**	**410**	**9 944**	**1 734**	**233**	**35 072**	**4 910**	**39 982**
Accumulated depreciation		(1 673)	(944)	(5 286)	-	(2 879)	(666)	-	(11 448)	(2 297)	(13 745)
Carrying amount at 1 January 2016		**7 827**	**410**	**6 611**	**410**	**7 065**	**1 068**	**233**	**23 624**	**2 613**	**26 237**
Additions		102	312	1 097	-	91	447	4	2 053	1 277	3 330
Disposals		(260)	-	(427)	(2)	(281)	(133)	(17)	(1 120)	-	(1 120)
Disposals of entities		-	-	-	-	(1 418)	(33)	-	(1 451)	-	(1 451)
Impairment	26	-	-	-	-	(3 420)	(6)	(24)	(3 450)	-	(3 450)
Reclassification to assets of disposal groups held for sale		-	-	-	-	(903)	(331)	(109)	(1 343)	-	(1 343)
Depreciation charge: before revaluation	26, 27	(223)	(86)	(1 249)	-	(283)	(253)	-	(2 094)	(842)	(2 936)
Depreciation charge: realised revaluation reserve	27	(31)	-	-	-	-	-	-	(31)	-	(31)
Carrying amount at 31 December 2016		**7 415**	**636**	**6 032**	**408**	**851**	**759**	**87**	**16 188**	**3 048**	**19 236**
Cost or valuation at 31 December 2016		**9 185**	**1 350**	**12 579**	**408**	**1 883**	**1 158**	**87**	**26 650**	**5 816**	**32 466**
Accumulated depreciation		(1 770)	(714)	(6 547)	-	(1 032)	(399)	-	(10 462)	(2 768)	(13 230)
Carrying amount at 31 December 2016		**7 415**	**636**	**6 032**	**408**	**851**	**759**	**87**	**16 188**	**3 048**	**19 236**

14 Premises, Equipment and Intangible Assets (Continued)

		Used in banking activities				Used in non-banking activities					
In millions of Russian Roubles	Note	Office premises and construction in progress	Leasehold (premises) improvements	Office and computer equipment	Land	Production premises	Equipment	Land	Total premises and equipment	Intangible assets	Total
Cost or valuation at 1 January 2017		**9 185**	**1 350**	**12 579**	**408**	**1 883**	**1 158**	**87**	**26 650**	**5 816**	**32 466**
Accumulated depreciation		(1 770)	(714)	(6 547)	-	(1 032)	(399)	-	(10 462)	(2 768)	(13 230)
Carrying amount at 1 January 2017		**7 415**	**636**	**6 032**	**408**	**851**	**759**	**87**	**16 188**	**3 048**	**19 236**
Additions		19 802	-	1 735	14	180	315	282	22 328	1 705	24 033
Reclassification from assets of disposal groups held for sale		-	-	-	-	750	325	109	1 184	-	1 184
Disposals (cost)		-	(72)	(314)	-	(79)	(111)	(112)	(688)	(405)	(1 093)
Reclassification to assets of disposal groups held for sale		(4)	-	-	(37)	-	-	-	(41)	-	(41)
Depreciation charge: before revaluation	26, 27	(165)	(41)	(1 408)	-	(137)	(66)	-	(1 817)	(892)	(2 709)
Realised revaluation reserve	27	(30)	-		-	-	-	-	(30)	-	(30)
Depreciation release		-	-	314	-	-	-	-	314	405	719
Carrying amount at 31 December 2017		**27 018**	**523**	**6 359**	**385**	**1 565**	**1 222**	**366**	**37 438**	**3 861**	**41 299**
Cost or valuation at 31 December 2017		**28 983**	**1 278**	**14 000**	**385**	**2 734**	**1 687**	**366**	**49 433**	**7 116**	**56 549**
Accumulated depreciation		(1 965)	(755)	(7 641)	-	(1 169)	(465)	-	(11 995)	(3 255)	(15 250)
Carrying amount at 31 December 2017		**27 018**	**523**	**6 359**	**385**	**1 565**	**1 222**	**366**	**37 438**	**3 861**	**41 299**

14 Premises, Equipment and Intangible Assets (Continued)

Non-banking premises are mainly represented by grain storages and production premises related to subsidiaries activities.

Intangible assets mainly include capitalised computer software.

Construction in progress in respect of banking and non-banking premises at 31 December 2017 was RR 17 741 million (31 December 2016: RR 51 million)

Carrying amount of office premises without revaluation at 31 December 2017 is RR 26 739 million, including cost in amount of RR 28 524 million and accumulated depreciation of RR 1 785 million (31 December 2016: carrying amount of office premises without revaluation was RR 7 190 million, including cost in amount of RR 8 802 million and accumulated depreciation of RR 1 612 million).

The Group believes that fair value of premises used in banking activities has not changed significantly during 2017 and 2016. Therefore as at 31 December 2017 and 2016 the Group has not recognised revaluation of premises in the consolidated financial statements.

Fair value of premises and equipment used in non-banking activities has changed significantly during 2016. Therefore as at 31 December 2016 the Group has recognised impairment of premises in the amount of RR 3 450 recognised in the consolidated statement of profit or loss and other comprehensive income.

Refer to Note 36 for the disclosure of the fair value hierarchy for office premises.

15 Other Assets

In millions of Russian Roubles	Note	31 December 2017	31 December 2016
Non-financial assets			
Prepayment for services		3 103	2 267
Repossessed collateral		2 889	2 254
Inventory		1 587	1 726
Prepayment for goods		841	296
Precious metals		776	643
Prepaid taxes		155	324
Settlements on social insurance and security		121	141
Prepayments on lease		36	7
Other		725	515
Total non-financial assets		**10 233**	**8 173**
Financial assets			
Due from State Corporation Deposit Insurance Agency		4 499	5 884
Settlements on banking cards		3 659	2 305
Trade receivables		1 268	1 001
Settlements on funds transfer operations		907	925
Credit support annex agreements for derivatives		679	-
State duty		235	841
Restricted cash	34	202	202
Government assistance on loans to customers receivable		3	432
Other		3 379	1 388
Provision for impairment of other financial assets		(3 098)	(2 720)
Total financial assets		**11 733**	**10 258**
Insurance assets		**3 215**	**2 863**
Total other assets		**25 181**	**21 294**

Repossessed collateral mainly represents the land and production premises. The Group is not going to use repossessed collateral in its own operations. The Group has a plan for disposal of repossessed collateral within a certain time horizon that is updated and monitored on a regular basis.

Due from State Corporation Deposit Insurance Agency represents amounts due on settlements with individuals — former clients of banks with revoked licences.

15 Other Assets (Continued)

Trade receivables, inventory and prepayment for goods are related to trade activities of subsidiaries.

The movements in the provision for impairment of other financial assets are as follows:

In millions of Russian Roubles	2017	2016
Provision for impairment of other financial assets at 1 January	**2 720**	**1 463**
Provision for impairment of other financial assets during the year	392	1 272
Other financial assets written off during the year as uncollectible	(14)	(15)
Provision for impairment of other financial assets at 31 December	**3 098**	**2 720**

The movements in repossessed collateral are as follows:

In millions of Russian Rouble	Note	2017	2016
Repossessed collateral at 1 January		**2 254**	**2 324**
Additions for the year		1 976	1 380
Disposal during the year		(979)	(403)
Reclassification to assets held for sale	39	(294)	(383)
Net losses from changes in net realisable value		(68)	(664)
Repossessed collateral at 31 December		**2 889**	**2 254**

During 2017 and as at 31 December 2016, significant part of the Bank’s repossessed collateral was evaluated by an independent appraisers firm, which hold a relevant professional qualification and which have experience in valuation of assets of similar location and category.

Refer to Note 36 for the disclosure of fair value and fair value hierarchy for other financial assets. Geographical analysis of other assets and maturity analysis of other financial assets are disclosed in Note 31. The information on related party transactions is disclosed in Note 38.

16 Due to Other Banks

In millions of Russian Roubles	31 December 2017	31 December 2016
Correspondent accounts and overnight placements of other banks	1 150	7 900
Borrowings from other banks with term to maturity:		
- less than 30 days	9 622	3 627
- from 31 to 180 days	738	18 109
- from 181 days to 1 year	81	109
- from 1 year to 3 years	444	800
- more than 3 years	19 248	19 114
Borrowings from the Bank of Russia with term to maturity:		
- less than 30 days	150	75
- from 31 to 180 days	1 689	3 910
- from 181 days to 1 year	8 601	2 191
- from 1 year to 3 years	11 034	22 759
Total due to other banks	**52 757**	**78 594**

As at 31 December 2017, due to other banks included balances with CBRF above 10% of the Group's equity in the amount of RR 21 474 million, or 41% of total due to other banks (31 December 2016: due to other banks included balances with CBRF above 10% of the Group's equity in the amount of RR 28 930 million, or 37% of total due to other banks).

15 Due to Other Banks (Continued)

As at 31 December 2017, due to other banks included no balances with other banks individually above 10% of the Group's equity (31 December 2016: due to other banks included the balances with one OECD banking group individually above 10% of the Group's equity with rating of the parent bank at A+ (S&P) in the amount of RR 17 502 million, or 22% of total due to other banks). As at 31 December 2017, due to other banks included the balances with one OECD banking group with rating of the parent bank at A- (S&P) and two Russian banking groups with rating of the parent bank not lower than Ba2 (Moody's) in aggregate above 10% of the Group's equity, in the amount of RR 20 158 million, or 38% of total due to other banks.

Refer to Note 36 for the disclosure of the fair value and fair value hierarchy for due to other banks. Geographical and liquidity analyses of due to other banks are disclosed in Note 31. The information on related party transactions is disclosed in Note 38.

17 Customer Accounts

In millions of Russian Roubles	**31 December 2017**	**31 December 2016**
State and public organisations		
- Current/settlement accounts	24 243	11 476
- Term deposits	532 264	381 482
Other legal entities		
- Current/settlement accounts	144 487	115 026
- Term deposits	644 962	456 752
Individuals		
- Current/demand accounts	73 414	53 402
- Term deposits	784 207	559 629
Total customer accounts	**2 203 577**	**1 577 767**

State and public organisations exclude state-controlled joint-stock companies.

Economic sector concentrations within customer accounts are as follows:

	31 December 2017		**31 December 2016**	
In millions of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Individuals	857 621	39	613 031	39
State and public organisations	556 507	25	392 958	25
Manufacturing	206 930	9	100 843	6
Financial services and pension funds	146 062	7	145 522	9
Trading	81 587	4	44 155	3
Construction	78 444	4	75 590	5
Agriculture	70 577	3	62 338	4
Insurance	41 040	2	58 479	4
Real estate	26 730	1	11 040	1
Transport	20 102	1	8 293	1
Leasing	8 706	-	4 296	-
Communication	3 161	-	631	-
Other	106 110	5	60 591	3
Total customer accounts	**2 203 577**	**100**	**1 577 767**	**100**

As at 31 December 2017, customer accounts included balances with nine customers each above 10% of the Group's equity (31 December 2016: balances with six customers each individually above 10% of the Group's equity). The aggregate balance of these customers was RR 698 763 million, or 32% of total customer accounts (31 December 2016: RR 478 554 million, or 30% of total customer accounts).

Refer to Note 36 for the disclosure of the fair value and fair value hierarchy for customer accounts. Geographical and liquidity analyses of customer accounts are disclosed in Note 31. The information on related party transactions is disclosed in Note 38.

18 Promissory Notes Issued

In millions of Russian Roubles	31 December 2017	31 December 2016
Promissory notes issued	36 946	13 761
Total promissory notes issued	**36 946**	**13 761**

As at 31 December 2017, promissory notes issued are represented by interest bearing and at a discount to nominal value promissory notes denominated in Russian Roubles, US Dollars and Euros with effective interest or discount rates from zero p.a. (for promissory notes on demand) up to 9.8% p.a. and maturity dates from January 2018 to May 2021 (31 December 2016: interest bearing and at a discount to nominal value promissory notes denominated in Russian Roubles, US Dollars and Euros with effective interest or discount rates from zero % p.a. (for promissory notes on demand) up to 12.0% p.a. and maturity dates from January 2017 to December 2025).

As at 31 December 2017, promissory notes issued included promissory notes, which were initially purchased by one counterparty, in aggregate above 10% of the Group's equity in the amount of RR 20 874 million, or 56% of total promissory notes issued. As at 31 December 2016, the Group did not have promissory notes issued, which were initially purchased by one counterparty, individually or in aggregate above 10% of the Group's equity.

Refer to Note 36 for the disclosure of the fair value and fair value hierarchy for promissory notes issued. Geographical and liquidity analyses of promissory notes issued are disclosed in Note 31.

19 Bonds Issued

In millions of Russian Roubles	31 December 2017	31 December 2016
Bonds issued on domestic market	130 742	160 943
Eurobonds issued	113 819	294 941
Total bonds issued	**244 561**	**455 884**

19 Bonds Issued (Continued)

As at 31 December 2017, bonds issued consist of US Dollars and Russian Roubles denominated Eurobonds issued by the Group through its structured entity RSHB Capital S.A. as well as Russian Roubles denominated bonds issued on domestic market.

Currency of denomination	Nominal value, in million of currency, in circulation	Issue date	Maturity date	Put option date	Coupon rate	Coupon payment
Eurobonds issued						
US Dollars						
- tranche B	786	29 May 2008	29 May 2018	-	7.750%	6 months
Russian Roubles	8 500	7 February 2013	7 February 2018	-	7.875%	6 months
US Dollars	800	25 July 2013	25 July 2018	-	5.100%	6 months
US Dollars	500	25 February 2014	25 July 2018	-	5.100%	6 months
Bonds issued on domestic market						
Russian Roubles	3 087	22 February 2008	9 February 2018	-	9.900%	6 months
Russian Roubles	2 244	17 June 2008	5 June 2018	-	8.700%	6 months
Russian Roubles	66	9 December 2008	27 November 2018	-	7.600%	6 months
Russian Roubles	5 000	26 November 2009	14 November 2019	21 May 2018	10.900%	6 months
Russian Roubles	5 000	26 November 2009	14 November 2019	21 May 2018	10.900%	6 months
Russian Roubles	572	11 February 2010	29 January 2020	-	8.300%	6 months
Russian Roubles	581	12 February 2010	30 January 2020	-	8.300%	6 months
Russian Roubles	4 514	12 July 2011	29 June 2021	10 January 2018	9.900%	6 months
Russian Roubles	1 381	14 July 2011	1 July 2021	10 January 2018	9.900%	6 months
Russian Roubles	2 360	15 July 2011	2 July 2021	10 January 2018	9.900%	6 months
Russian Roubles	4 117	8 November 2011	26 October 2021	30 April 2020	8.000%	6 months
Russian Roubles	10 000	16 April 2012	4 April 2022	11April 2018	11.250%	6 months
Russian Roubles	4 210	23 October 2012	11 October 2022	18 October 2018	8.500%	6 months
Russian Roubles	5 000	25 October 2012	13 October 2022	22 April 2019	9.350%	6 months
Russian Roubles	10 000	23 April 2013	11 April 2023	19 April 2018	11.100%	6 months
Russian Roubles	10 000	30 July 2013	18 July 2023	26 July 2018	10.000%	6 months
Russian Roubles	843	30 September 2013	18 September 2023	28 March 2018	8.500%	6 months
Russian Roubles	3 350	22 November 2013	10 November 2023	20 November 2018	8.500%	6 months
Russian Roubles	5 000	10 October 2014	27 September 2024	8 October 2019	11.100%	3 months
Russian Roubles	4 985	13 October 2014	30 September 2024	9 October 2019	11.100%	3 months
Russian Roubles	661	26 December 2014	13 December 2024	22 December 2020	8.600%	3 months
Russian Roubles	10 000	11 February 2015	29 January 2025	7 February 2020	15.000%	3 months
Russian Roubles	902	26 February 2015	13 February 2025	26 August 2019	8.300%	3 months
Russian Roubles	2 820	30 October 2015	17 October 2025	28 April 2020	7.950%	3 months
Russian Roubles	9 938	31 March 2017	25 September 2020	-	9.500%	3 months
Russian Roubles	9 949	25 June 2017	21 June 2021	-	8.650%	6 months
Russian Roubles	7 000	3 October 2017	28 September 2021	-	8.400%	6 months
Russian Roubles	4 964	5 December 2017	9 December 2020	-	8.100%	6 months

19 Bonds Issued (Continued)

As at 31 December 2016, bonds issued consist of US Dollars and Russian Roubles denominated Eurobonds issued by the Group through its structured entity RSHB Capital S.A. as well as Russian Roubles denominated bonds issued on domestic market.

Currency of denomination	Nominal value, in million of currency, in circulation	Issue date	Maturity date	Put option date	Coupon rate	Coupon payment
Eurobonds issued						
US Dollars	1 148	14 May 2007	15 May 2017	-	6.299%	6 months
US Dollars - tranche B	876	29 May 2008	29 May 2018	-	7.750%	6 months
Russian Roubles	-	17 February 2012	17 February 2017	-	8.625%	6 months
US Dollars	461	27 June 2012	27 December 2017	-	5.298%	6 months
US Dollars	350	5 July 2012	27 December 2017	-	5.298%	6 months
Russian Roubles	9 853	26 July 2012	17 February 2017	-	8.625%	6 months
US Dollars	450	31 August 2012	27 December 2017	-	5.298%	6 months
Russian Roubles	5 375	7 February 2013	7 February 2018	-	7.875%	6 months
US Dollars	770	25 July 2013	25 July 2018	-	5.100%	6 months
US Dollars	500	25 February 2014	25 July 2018	-	5.100%	6 months
Bonds issued on domestic market						
Russian Roubles	6 949	22 February 2007	9 February 2017	-	12.000%	6 months
Russian Roubles	10 000	11 October 2007	27 September 2017	31 March 2017	12.350%	6 months
Russian Roubles	2 562	22 February 2008	9 February 2018	-	9.900%	6 months
Russian Roubles	5 000	17 June 2008	5 June 2018	8 June 2017	11.550%	6 months
Russian Roubles	4 730	10 December 2008	27 November 2018	30 November 2017	10.750%	6 months
Russian Roubles	4 993	26 November 2009	14 November 2019	21 May 2018	10.900%	6 months
Russian Roubles	5 000	26 November 2009	14 November 2019	21 May 2018	10.900%	6 months
Russian Roubles	5 000	11 February 2010	29 January 2020	4 August 2017	11.950%	6 months
Russian Roubles	5 000	12 February 2010	30 January 2020	7 August 2017	11.950%	6 months
Russian Roubles	10 000	12 July 2011	29 June 2021	10 January 2017	12.400%	6 months
Russian Roubles	5 000	14 July 2011	1 July 2021	10 January 2017	12.400%	6 months
Russian Roubles	5 000	15 July 2011	2 July 2021	10 January 2017	12.400%	6 months
Russian Roubles	9 998	8 November 2011	26 October 2021	2 November 2017	11.000%	6 months
Russian Roubles	10 000	16 April 2012	4 April 2022	11April 2018	11.250%	6 months
Russian Roubles	559	23 October 2012	11 October 2022	18 October 2018	8.500%	6 months
Russian Roubles	5 000	25 October 2012	13 October 2022	24 April 2017	12.150%	6 months
Russian Roubles	9 997	23 April 2013	11 April 2023	19 April 2018	11.100%	6 months
Russian Roubles	6 951	30 July 2013	18 July 2023	26 July 2018	10.000%	6 months
Russian Roubles	413	30 September 2013	18 September 2023	28 March 2018	8.500%	6 months
Russian Roubles	67	22 November 2013	10 November 2023	20 November 2018	8.500%	6 months
Russian Roubles	4 492	25 June 2014	21 June 2017	-	10.250%	6 months
Russian Roubles	1 452	27 June 2014	23 June 2017	-	10.250%	6 months
Russian Roubles	4 503	10 October 2014	27 September 2024	8 October 2019	11.100%	3 months
Russian Roubles	4 766	13 October 2014	30 September 2024	9 October 2019	11.100%	3 months
Russian Roubles	5 000	26 December 2014	13 December 2024	27 June 2017	11.800%	3 months
Russian Roubles	10 000	11 February 2015	29 January 2025	7 February 2020	15.000%	3 months
Russian Roubles	5 000	26 February 2015	13 February 2025	28 August 2017	11.500%	3 months
Russian Roubles	10 000	30 October 2015	17 October 2025	31 October 2017	11.700%	3 months

Refer to Note 36 for the disclosure of the fair value and fair value hierarchy for bonds issued. Geographical and liquidity analyses of bonds issued are disclosed in Note 31. Refer to Note 41 for information on redemptions after the end of the reporting period.

20 Other Liabilities

In millions of Russian Roubles	Note	31 December 2017	31 December 2016
Non-financial liabilities			
Accrued staff costs		4 194	3 516
Taxes payable other than on income		1 149	830
Insurance contribution		999	718
Litigations provision		11	51
Other		780	755
Total non-financial liabilities		**7 133**	**5 870**
Financial liabilities			
Amounts due under credit support annex agreements		4 462	1 708
Settlements on banking cards		1 942	622
Trade payables		1 284	793
Amounts due under perpetual bonds		669	665
Other provisions	34	552	339
Carrying value of guarantees issued		111	92
Non-controlling interests in consolidated mutual funds		17	520
Other		452	146
Total financial liabilities		**9 489**	**4 885**
Insurance liabilities			
Provision for unearned premiums		3 971	3 401
Loss provision		2 154	1 463
Insurance payables		676	657
Total insurance liabilities		**6 801**	**5 521**
Total other liabilities		**23 423**	**16 276**

Trade payables are related to the business activities of subsidiaries.

Movements in the provision for unearned premiums are as follows:

In millions of Russian Roubles	Note	2017	2016
Provision for unearned premiums as at 1 January		**3 401**	**2 805**
Premium earned	26	(5 029)	(3 890)
Premium written		5 599	4 486
Provision for unearned premiums as at 31 December		**3 971**	**3 401**

Movements in the loss provision are as follows:

In millions of Russian Roubles		2017	2016
Loss provision as at 1 January		**1 463**	**1 160**
Claims incurred during the period	26	1 175	1 544
Insurance claims settled		(484)	(1 241)
Loss provision as at 31 December		**2 154**	**1 463**

Refer to Note 36 for the disclosure of the fair value and fair value hierarchy for other financial liabilities. Geographical analysis of other liabilities and liquidity analysis of other financial liabilities are disclosed in Note 31.

21 Subordinated Debts

As at 31 December 2017, the Group's subordinated debts equal to RR 133 444 million (31 December 2016: RR 153 124 million).

In October 2013, the Group attracted a subordinated debt totalling USD 500 million equivalent to RR 16 134 million in Eurobonds issued by the Group through its structured entity RSHB Capital S.A. The Eurobonds mature in October 2023 and have contractual interest rate of 8.5% p.a.

In July 2015, the Group issued RR 30 000 million subordinated bonds (placed at par) maturing in July 2025 with quarterly payments of coupon at 13.1% p.a. for the first interest period and at CBRF key rate plus 1.6% p.a. for the next interest periods. As at 31 December 2017, coupon rate amounts to 10.1% p.a. (31 December 2016: 11.6% p.a.).

In October 2015, the Group attracted a subordinated deposit in the amount of 1 150 million US Dollars equivalent to RR 73 025 million maturing in October 2021.

In December 2015, the Group issued RR 10 000 million subordinated bonds (placed at par) maturing in December 2021 with quarterly payments of coupon at 12.9% p.a.

In June 2017, the Group repaid at the maturity date subordinated loan denominated in US Dollars in the amount of US Dollars 200 million, equivalent to RR 12 000 million as at maturity date, issued in June 2007.

Refer to Note 36 for the disclosure of the fair value and fair value hierarchy for subordinated debts. Geographical and liquidity analyses of subordinated debts are disclosed in Note 31. The information on related party transactions is disclosed in Note 38.

22 Perpetual Bonds

In July 2016, the Group issued on the domestic market RR 10 000 million subordinated perpetual bonds (placed at par). Perpetual bonds have an unlimited term and are redeemable at the Group's option starting from July 2026 at their principal amount in the end date of each next duration 10-year-period. Coupon rate is fixed at 14.5% p.a. and will be reset every 10 years as 10-year OFZ yield increased by initial spread plus 100 b.p. Coupon payments are paid semi-annually and may be cancelled or deferred in accordance with the terms of the notes.

In October 2016, the Group issued on the domestic market RR 5 000 million subordinated perpetual bonds (placed at par). Perpetual bonds have an unlimited term and are redeemable at the Group's option starting from September 2026 at their principal amount in the end date of each next duration 10-year-period. Coupon rate is fixed at 14.25% p.a. and will be reset every 10 years as 10-year OFZ yield increased by initial spread plus 100 b.p. Coupon payments are paid semi-annually and may be cancelled or deferred in accordance with the terms of the notes.

Transaction costs in the amount of RR 229 million were recorded on retained earnings.

In January 2017, the Group paid the amount due under perpetual bonds in the total amount of RR 723 million including coupon accrued in 2017 in the amount of RR 58 million for the coupon period ended in January 2017.

In 2017, the Group paid the amount due under perpetual bonds in the total amount of RR 1 433 million for the coupon periods ended in April, July and October 2017.

As at 31 December 2017, the Group accrued amounts due under perpetual bonds in the amount of RR 669 million.

23 Share Capital

Share capital issued and fully paid comprises:

In millions of Russian Roubles (except for number of shares)	**Number of outstanding shares**	**Nominal amount**	**Inflation adjusted amount**
At 1 January 2016	**264 928**	**326 848**	**327 598**
New ordinary shares issued	8 000	8 000	8 000
At 31 December 2016	**272 928**	**334 848**	**335 598**
New ordinary shares issued	50 000	50 000	50 000
At 31 December 2017	**322 928**	**384 848**	**385 598**

As at 31 December 2017, issued and fully paid share capital comprises 291 048 issued and registered ordinary shares and 31 880 preference shares (31 December 2016: 241 048 issued and registered ordinary shares and 31 880 preference shares). All ordinary and preference shares have a nominal value of RR 1 million per share, except for 6 880 type A preference shares issued in November 2015 with nominal value of RR 10 million per share, and rank equally within the same class. Each ordinary share carries one vote.

The terms of the preference shares do not include any fixed dividends and the decision on repayment of dividends is approved by the shareholder of the Bank.

In 2017, the Bank increased its share capital by issuing 50 000 ordinary shares (2016: 8 000 ordinary shares) with the total nominal amount of RR 50 000 million (2016: RR 8 000 million).

In 2017 and 2016, all ordinary shares were purchased by the Bank's only shareholder — the Government of the Russian Federation represented by the Federal Agency for Managing State Property.

24 Interest Income and Expense

In millions of Russian Roubles	2017	2016
Interest income on financial instruments carried at fair value through profit or loss		
Trading securities	2 527	1 719
Financial instruments designated at fair value through profit or loss	211	228
Total interest income on financial instruments carried at fair value through profit or loss	**2 738**	**1 947**
Interest income on other financial instruments		
Loans and advances to legal entities	139 143	146 750
Loans and advances to individuals	48 932	47 318
Investment securities available for sale including pledged under repurchase agreements	21 868	23 434
Cash equivalents	14 084	7 505
Due from other banks	5 931	11 099
Investment securities held to maturity including pledged under repurchase agreements	2 634	2 866
Total interest income on other financial instruments	**232 592**	**238 972**
Total interest income	**235 330**	**240 919**
Interest expense		
Term deposits of legal entities	(77 247)	(76 092)
Term deposits of individuals	(46 920)	(42 525)
Bonds issued	(30 152)	(43 714)
Subordinated debts	(9 291)	(13 487)
Current/settlement accounts	(3 682)	(2 336)
Promissory notes issued	(2 123)	(1 506)
Term deposits of the Bank of Russia	(1 846)	(3 163)
Term deposits of other banks	(795)	(1 583)
Total interest expense	**(172 056)**	**(184 406)**
Net interest income	**63 274**	**56 513**

The information on related party transactions is disclosed in Note 38.

25 Fee and Commission Income and Expense

In millions of Russian Roubles	2017	2016
Fee and commission income		
Commission on cash and settlements transactions	10 852	8 684
Fees for sale of insurance contracts	5 879	3 326
Commission on guarantees issued	2 333	2 450
Commission on banking cards and acquiring	2 217	707
Commission received from the Deposit Insurance Agency	707	294
Fees for currency control	222	209
Other	687	514
Total fee and commission income	**22 897**	**16 184**
Fee and commission expense		
Commission on settlement transactions	(1 720)	(856)
Commission on cash collection	(496)	(511)
Other	(491)	(375)
Total fee and commission expense	**(2 707)**	**(1 742)**
Net fee and commission income	**20 190**	**14 442**

26 Gains less Losses from Non-banking Activities

In millions of Russian Roubles	Note	2017	2016
Sales of goods		6 069	6 273
Cost of goods sold		(6 069)	(5 960)
Provision for trade receivables, prepayments and other financial assets		(158)	(559)
Net income from insurance operations		1 860	645
Other non-banking income		1 356	849
Other non-banking expenses		(2 322)	(2 808)
Impairment of premises and equipment	14	-	(3 450)
Total gains less losses/(losses net of gains) from non-banking activities		**736**	**(5 010)**

Sales of goods mainly represent sales of grain, sugar, meat and milk products, animal feedstuff and other non-foods agricultures.

In 2017 cost of goods sold includes depreciation of non-banking premises and equipment in the total amount of RR 203 million (2016: RR 536 million).

Net income from insurance operations is as follows:

In millions of Russian Roubles	Note	2017	2016
Insurance premiums			
Premium earned	20	5 029	3 890
Reinsurers share in premiums earned		(2 066)	(1 853)
Net insurance premiums earned		**2 963**	**2 037**
Insurance benefits and claims			
Net claims incurred during the year	20	(1 175)	(1 544)
Acquisition costs		(526)	(644)
Reinsurers share in claims incurred during the year		598	796
Net insurance benefits and claims		**(1 103)**	**(1 392)**
Net income from insurance operations		**1 860**	**645**

27 Administrative and Other Operating Expenses

In millions of Russian Roubles	Note	2017	2016
Staff costs		26 843	25 542
Rental expenses		4 382	4 630
Deposit Insurance expenses		3 269	2 209
Communications and information services		1 703	1 408
Depreciation of premises and equipment	14	1 644	1 589
Taxes other than on income		1 512	1 577
Other costs of premises and equipment		1 142	1 642
Supplies and other materials		974	702
Advertising and marketing services		948	662
Security services		963	945
Amortization of intangible assets	14	892	842
Losses net of gains on subsidies		-	2 277
Other		3 242	3 081
Total administrative and other operating expenses		**47 514**	**47 106**

In 2017 staff costs include statutory social security and contributions to a state pension fund in the amount of RR 4 944 million (2016: RR 4 915 million). Also in 2017 staff costs include expenses for defined contribution pension plans in the amount of RR 870 million. The information on related party transactions is disclosed in Note 38.

28 Income Taxes

Income tax expense comprises the following:

In millions of Russian Roubles	2017	2016
Current tax	3 465	2 682
Deferred tax	1 379	(1 749)
Income tax expense for the year	**4 844**	**933**

The income tax rate applicable to the majority of the Group's income is 20% (2016: 20%). Reconciliation between the theoretical and the actual taxation charge is provided below.

In millions of Russian Roubles	2017	2016
IFRS loss before tax	**(14 635)**	**(57 993)**
Theoretical tax charge at statutory rate (2017: 20%; 2016: 20%)	**(2 927)**	**(11 599)**
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-deductible staff costs	15	12
- Non-deductible charity costs	48	28
- Non-taxable income arising from disposal of subsidiaries	-	(740)
Income on government securities taxed at different rates	(945)	(781)
Unrecognised deferred tax asset	8 399	13 786
Other non-temporary differences	254	227
Income tax expense for the year	**4 844**	**933**

Differences between IFRS and Russian statutory tax regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their value for tax purposes. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% (2016: 20%), except for income on government securities that is taxed at 15% (2016: 15%).

Based on the Group's current structure and Russian tax legislation, tax losses and current tax assets of different companies of the Group may not be set off against current tax liabilities and taxable profits of other companies of the Group and, accordingly, taxes may be accrued even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are set off against each other only when they relate to the same taxable entity (subject to certain conditions).

In millions of Russian Roubles	31 December 2016	Credited/ (charged) to profit or loss	Charged directly to other comprehensive income	31 December 2017
Tax effect of deductible/(taxable) temporary differences				
Accruals on loans	13 919	2 476	-	16 395
Tax losses carried forward	17 013	2 994	-	20 007
Provision for impairment	19 112	85	-	19 197
Fair valuation of derivative financial instruments	(692)	796	-	104
Accrued staff costs	672	467	-	1 139
Accruals on due to other banks	111	(88)	-	23
Fair valuation of securities	(1 091)	420	674	3
Deferral of fees on guarantees issued	18	4	-	22
Promissory notes issued	120	156	-	276
Premises and equipment	(189)	(642)	-	(831)
Accruals on bonds issued and subordinated debts	(312)	(557)	432	(437)
Intangible assets	(109)	145	-	36
Other	645	764	-	1 409
Deferred tax asset	**49 217**	**7 020**	**1 106**	**57 343**
Unrecognised deferred tax asset	(33 158)	(8 399)	-	(41 557)
Net deferred income tax asset	**16 059**	**(1 379)**	**1 106**	**15 786**
Recognised deferred income tax asset	16 298	-	-	16 298
Recognised deferred income tax liability	(239)	(1 379)	1 106	(512)
Net deferred income tax asset	**16 059**	**(1 379)**	**1 106**	**15 786**

28 Income Taxes (Continued)

In millions of Russian Roubles	31 December 2015	Credited/ (charged) to profit or loss	Credited directly to other comprehen-sive income	Transfer to disposal groups classified as held for sale	Disposal of subsidiaries	31 December 2016
Tax effect of deductible/(taxable) temporary differences						
Accruals on loans	15 341	(1 423)	-	-	1	13 919
Tax losses carried forward	14 340	2 757	-	(8)	(76)	17 013
Provision for impairment	6 609	12 503	-	-	-	19 112
Fair valuation of derivative financial instruments	(186)	(506)	-	-	-	(692)
Accrued staff costs	490	182	-	-	-	672
Accruals on due to other banks	214	(103)	-	-	-	111
Fair valuation of securities	(2 027)	2 301	(1 365)	-	-	(1 091)
Deferral of fees on guarantees issued	12	6	-	-	-	18
Promissory notes issued	16	104	-	-	-	120
Premises and equipment	(2 196)	1 243	-	158	606	(189)
Accruals on bonds issued and subordinated debts	(339)	27	-	-	-	(312)
Intangible assets	(66)	(43)	-	-	-	(109)
Other	2 197	(1 513)	-	(38)	(1)	645
Deferred tax asset	**34 405**	**15 535**	**(1 365)**	**112**	**530**	**49 217**
Unrecognised deferred tax asset	(19 677)	(13 786)	-	97	208	(33 158)
Net deferred income tax asset	**14 728**	**1 749**	**(1 365)**	**209**	**738**	**16 059**
Recognised deferred income tax asset	15 911	(560)	-	209	738	16 298
Recognised deferred income tax liability	(1 183)	2 309	(1 365)	-	-	(239)
Net deferred income tax asset	**14 728**	**1 749**	**(1 365)**	**209**	**738**	**16 059**

As at 31 December 2017, deferred tax assets included RR 20 007 million resulting from tax losses carried forward (31 December 2016: RR 17 013 million). The existing tax losses eligible for carry forward are expected to be fully utilized within limits envisaged by the Russian tax legislation.

29 Dividends

In millions of Russian Roubles	2017 Ordinary shares	2016 Ordinary shares
Dividends payable at 1 January	**-**	**-**
Dividends declared during the year	257	-
Dividends paid during the year	(257)	-
Dividends payable at 31 December	**-**	**-**
Dividends per share declared during the year	**0.0009**	**-**

30 Segment Analysis

(a) Description of geographic areas from which each reportable segment derives its revenue and factors that management used to identify the reportable segments

Operational decision making is the responsibility of the Management Board of the Bank. The Management Board of the Bank reviews internal management reporting in order to assess efficiency and allocate resources.

The Management Board of the Bank performs geographic analysis of the Bank's operations and therefore the Bank's regional branches have been designated as operating segments.

Taking into account the administrative-territorial division of Russia, federal districts of the Russian Federation have been designated as reportable segments.

Based on IFRS 8 requirements the Group also discloses those operational segments where revenue, profit or total assets are higher than 10% of related Group's indicators.

As at 31 December 2017 and 31 December 2016 the Group defines the following reportable segments:

- Head office;
- Central federal district;
- Far Eastern federal district;
- Volga federal district;
- North-West federal district;
- North-Caucasian federal district;
- Siberian federal district;
- Ural federal district;
- Southern federal district.

For analysis of revenue by products refer to Notes 24, 25.

(b) Measurement of operating segment profit or loss and assets

The Management Board of the Bank assesses efficiency of operating segments based on a financial performance measure prepared from statutory accounting data and not adjusted for an intersegment income and expenses. Intersegment income and expenses are used by CODM for information purpose only and not for identification of profit or loss of the operating segments. Intersegment income/(expense) represents mainly income from/(costs of) funding provided by Head Office to other reportable segments.

The accounting policy of the operating segments is based on Russian Accounting Rules (RAR) and thus materially differs from policies described in the summary of significant accounting policies in these consolidated financial statements.

30 Segment Analysis (Continued)

(c) Information about reportable segment profit or loss and assets

Segment reporting of the Group's revenue and profit/(loss) for the reporting period ended 31 December 2017 and 31 December 2016 and segment reporting of the Group's assets as at 31 December 2017 and 31 December 2016 is as follows:

In millions of Russian Roubles	Head office	Central federal district	Far Eastern federal district	Volga federal district	North-west federal district	North-Caucasian federal district	Siberian federal district	Ural federal district	Southern federal district	Total
For the year ended 31 December 2017										
Revenue from external customers	**54 735**	**72 590**	**7 539**	**43 258**	**17 590**	**11 036**	**18 141**	**8 043**	**32 082**	**265 014**
- Interest income from loans and advances to customers, due from other banks and other placed funds	53 009	66 073	6 423	38 638	15 581	9 331	15 399	7 256	29 623	241 333
- Net fee and commission income from credit related operations	1 726	6 517	1 116	4 620	2 009	1 705	2 742	787	2 459	23 681
Gains less losses/(losses net of gains) arising from securities, derivative financial instruments and foreign currency	24 545	(4 085)	(102)	339	(1 134)	23	430	(502)	638	20 152
Interest expenses from due to other banks, customer accounts and bonds issued	(101 018)	(23 214)	(5 887)	(15 919)	(9 854)	(2 993)	(7 598)	(4 298)	(5 710)	(176 491)
(Provision)/recovery of provision for impairment*	(2 724)	(9 531)	107	(3 572)	157	(3 915)	125	(1 193)	10 099	(10 447)
Administrative and maintenance expense	(33 786)	(2 202)	(614)	(1 842)	(732)	(778)	(1 290)	(407)	(829)	(42 480)
- Including depreciation charge	(1 216)	(268)	(61)	(216)	(95)	(118)	(186)	(47)	(87)	(2 294)
Other expenses less other income*	(3 431)	(12 553)	(892)	(2 696)	(4 853)	(9 425)	(4 719)	(83)	(12 470)	(51 122)
Current income tax expense	(2 859)	-	-	-	-	-	-	-	-	(2 859)
(Loss)/profit of reportable segments	**(64 538)**	**21 005**	**151**	**19 568**	**1 174**	**(6 052)**	**5 089**	**1 560**	**23 810**	**1 767**
Intersegment income/(expense)**	**106 966**	**(43 816)**	**475**	**(19 388)**	**(3 666)**	**(7 175)**	**(8 604)**	**(1 676)**	**(23 116)**	**-**
For the year ended 31 December 2016										
Revenue from external customers	**49 800**	**74 936**	**8 017**	**46 170**	**20 127**	**12 185**	**20 845**	**8 225**	**29 768**	**270 073**
- Interest income from loans and advances to customers, due from other banks and other placed funds	49 091	68 488	7 111	42 704	18 481	10 819	18 588	7 592	27 783	250 657
- Net fee and commission income from credit related operations	709	6 448	906	3 466	1 646	1 366	2 257	633	1 985	19 416
(Losses net of gains)/gains less losses arising from securities, derivative financial instruments and foreign currency	38 816	(23 103)	420	917	(651)	704	511	(4 674)	(4 910)	8 030
Interest expenses from due to other banks, customer accounts and bonds issued	(116 665)	(21 347)	(5 141)	(13 713)	(11 067)	(3 026)	(6 465)	(3 197)	(5 676)	(186 297)
Provision for impairment*	(1 060)	783	155	4 086	5 978	317	(219)	(257)	2 598	12 381
Administrative and maintenance expense	(30 634)	(3 352)	(605)	(1 768)	(754)	(766)	(1 257)	(384)	(774)	(40 294)
- Including depreciation charge	(1 150)	(294)	(71)	(245)	(105)	(136)	(201)	(49)	(104)	(2 355)
Other expenses less other income*	(2 370)	(21 620)	(777)	(12 294)	(7 042)	(4 707)	(2 589)	(785)	(8 885)	(61 069)
Current income tax expense	(2 329)	-	-	-	-	-	-	-	-	(2 329)
Deferred income tax credit	20	-	-	-	-	-	-	-	-	20
(Loss)/profit of reportable segments	**(64 422)**	**6 297**	**2 069**	**23 398**	**6 591**	**4 707**	**10 826**	**(1 072)**	**12 121**	**515**
Intersegment income/(expense)**	**81 133**	**(18 319)**	**(1 114)**	**(23 017)**	**(5 665)**	**(8 319)**	**(11 377)**	**1 954**	**(15 276)**	**-**
Total assets										
31 December 2017	2 511 037	1 004 039	126 332	475 689	249 471	167 927	248 668	133 765	334 919	5 251 847
31 December 2016	2 377 777	959 545	88 717	445 551	243 212	155 549	200 360	121 400	323 305	4 915 416
Provision for loan impairment (RAR)										
31 December 2017	(261)	(38 709)	(6 407)	(22 746)	(13 892)	(19 964)	(15 805)	(3 562)	(18 272)	(139 618)
31 December 2016	(241)	(31 459)	(6 913)	(21 625)	(14 238)	(18 516)	(16 865)	(2 534)	(31 422)	(143 813)

* Other expenses less other income include losses from disposal of loans under cession agreements that is calculated under RAR as consideration received less nominal amount of sold loans, whereas provision for loan impairment under RAR at the date of sale of loans is recorded as provision recovery.

** Intersegment income and expense are used by CODM for information purpose only and not for identification of profit or loss of the operating segments.

30 Segment Analysis (Continued)

Intersegment income and expenses include transfer income and expenses, earned insurance premiums, staff costs, gains less losses/(losses net of gains) from dealing in foreign currency, income and expenses from operations with federal customers.

(d) Reconciliation of reportable segment revenues, profit or loss, assets and provision for loan impairment

The Group recognizes losses net of gains from cessions on loans and advances to customers as part of the provision for loan impairment. Refer to Note 4.

Reconciliation of income/(loss) of the reportable segments for the reporting period ended 31 December 2017 and 31 December 2016 is as follows:

In millions of Russian Roubles	**2017**	**2016**
Total income of reportable segments after tax	**1 767**	**515**
Adjustments of provision for impairment	(6 350)	(38 924)
Results of non-reportable segments, including the effect of consolidation*	(3 081)	(9 608)
Accounting for financial instruments at fair value	(6 503)	(4 546)
Adjustments of deferred tax	258	1 012
Losses net of gains from revaluation of other financial instruments at fair value through profit and loss	137	(232)
Accrued staff costs	69	(972)
Adjustments of financial assets and liabilities carried at amortised cost	(4 714)	(5 232)
Other	(1 062)	(939)
The Group's loss under IFRS after tax	**(19 479)**	**(58 926)**

* Non-reportable segments are represented by subsidiaries of the Group.

Reconciliation of assets of the reportable segments for the reporting period ended 31 December 2017 and 31 December 2016 is as follows:

In millions of Russian Roubles	**31 December 2017**	**31 December 2016**
Assets of reportable segments	**5 251 847**	**4 915 416**
Elimination of settlements between branches	(1 959 045)	(2 025 150)
Provision for loan impairment	(203 284)	(190 155)
Elimination of back-to-back deposits	(46 613)	(106 629)
Accounting for financial instruments at fair value	(13 255)	(11 068)
Adjustments of financial assets carried at amortised cost	(48 187)	(35 624)
Assets of non-reportable segments, including the effect of consolidation*	(33 496)	(26 447)
Other	(58 948)	(57 814)
The Group's assets under IFRS	**2 889 019**	**2 462 529**
Provision for loan impairment for loans and advances to customers of reportable segments	**(139 618)**	**(143 813)**
Accounting for provision under IFRS	(63 531)	(45 018)
Provision related to non-reportable segments, including the effect of consolidation*	68	(1 121)
The Group's provision for loan impairment for loans and advances to customers under IFRS	**(203 081)**	**(189 952)**

* Non-reportable segments are represented by subsidiaries of the Group.

30 Segment Analysis (Continued)

Reconciliation of material items of income and expenses for the years ended 31 December 2017 and 31 December 2016 is as follows:

In millions of Russian Roubles	2017	2016
Total revenue of reportable segments from external customers	**265 014**	**270 073**
Reclassification of income not included in segment revenue	2 475	5 609
Interest income related to effective interest rate implication	(85)	(1 711)
Results of non-reportable segments, including the effect of consolidation*	2 404	(3 171)
Effect of disposal of loans (interest income)	(14 288)	(15 429)
Other	-	(10)
The Group's revenue under IFRS**	**255 520**	**255 361**
Total interest expenses from due to other banks, customer accounts and bonds issued of reportable segments	**(176 491)**	**(186 297)**
Reclassification of interest expense not included in segment interest expenses	2 551	1 929
Effective interest rate adjustments	851	(1 569)
Results of non-reportable segments, including the effect of consolidation*	1 031	1 513
Other	2	18
The Group's interest expense under IFRS	**(172 056)**	**(184 406)**
Provision charge for impairment	**(10 447)**	**12 381**
Accounting for provision under IFRS and effect of disposal of loans	(49 660)	(92 454)
Provision related to non-reportable segments, including the effect of consolidation*	(4 170)	(7 521)
The Group's provision charge for impairment under IFRS	**(64 277)**	**(87 594)**
Administrative and maintenance expenses of reportable segments	**(42 480)**	**(40 294)**
Reclassification of payments to the Deposit Insurance Agency not included in segment administrative and maintenance expenses	(3 269)	(2 209)
Accrued staff costs	(722)	(1 004)
Results of non-reportable segments, including the effect of consolidation*	777	(1 720)
Other	(1 820)	(1 879)
The Group's administrative and other operating expenses under IFRS	**(47 514)**	**(47 106)**

* Non-reportable segments are represented by subsidiaries of the Group.

** Group's revenue under IFRS comprises of interest income and net fee and commission income.

The CODM reviews financial information prepared based on Russian accounting standards adjusted to meet the requirements of internal reporting. Such financial information differs in certain aspects from International Financial Reporting Standards:

- Adjustments of provisions for impairment are related to the difference between the methodology applied to calculate provisions for loan impairment under RAR used for preparation of management reporting and the methodology used for IFRS reporting. The provision under RAR is calculated based mainly on formal criteria depending on the financial position of the borrower, quality of debt service and collateral, whereas the provision under IFRS requirement is calculated based on incurred loss model.
- Adjustments of derivative financial instruments to their fair value arise from the difference in the accounting treatment of currency swaps under RAR (which are the basis for management reporting) and IFRS reporting. Under RAR foreign exchange swaps are recognised as back-to-back deposits, whereas in IFRS financial statements such transactions are recognised at fair value. Refer to Note 35. Providing reconciliation, accounting for deals described above under RAR assumes also adjustments related to interest income/expense and total assets of reportable segments.
- Adjustments to fair value of financial assets including derivative financial assets (both at initial recognition and subsequent measurement) resulted from application of different valuation techniques and input data.
- Adjustments to financial assets and liabilities carried at amortised cost resulted from accruals of interest income/expenses using effective interest rate method in IFRS, whereas there is nominal rate accrual approach under RAR.

30 Segment Analysis (Continued)

- Interest income and interest expense under IFRS are accounted using the effective interest rate method, whereas there is nominal rate accrual approach under RAR.
- Balances of intercompany settlements related to regional branches of the Bank are presented under RAR as assets and liabilities, while in IFRS such balances are shown on a net basis.
- Adjustments of deferred income tax expense and accrued staff costs arise from the timing difference in recognition of certain expenses (mainly related to unused vacations provision and bonuses paid after the end of the reporting period) under RAR compared to IFRS and regulatory requirements of tax-filing date.

All other adjustments also result from the differences between RAR (used as the basis for management reporting) and IFRS.

(e) Major customers

The Group does not have any customer, from which it earns revenue representing 10% or more of the total revenues.

31 Risk Management

The purpose of the Group's risk management policy is to maintain acceptable levels of risks determined by the Group with consideration of its approved strategic goals. The Group's priority task is to ensure the maximum safety of assets and capital through minimizing exposures that can lead to unforeseen losses. Group provides coordinated management of significant risks such as credit and market risk, liquidity risk and operational risk across all levels of activity.

The Group has a multi-level system of decision-making, monitoring and risk management.

The Bank's Supervisory Board approves the risk management policy and, consequently, is responsible for creating and monitoring the operation of the Bank's risk management system in general. Its competence also covers decisions relating to significant risks.

The Bank's Management Board monitors the functioning of the risk management system, approves documents and procedures for identification, evaluation, determination of acceptable risk level, selection of response actions (acceptance, limitation, reallocation, hedging, avoidance) and monitoring thereof.

Operational risk management is carried out by the Bank's Management Board, its Chairman, special collegiate bodies of the Group, and also by separate structural divisions of the Group and executives on the basis of their competence.

The Risks Department (hereinafter, the RD) provides independent analysis and evaluation of risks. The competence of the Risk Department also includes methodological support of risk management system, the implementation of the principles and methods of identification, assessment and monitoring of financial risks (credit, market, liquidity risk) and operational risk, including at the regional level.

Additionally, the function of certain risks management is performed by other departments of the Bank: Legal department, Strategy and corporate development department, Public and marketing relations department, Internal treasury and Internal audit.

The Bank's authorized bodies on a regular basis consider the Bank's performance, approve and revise measures to facilitate the early detection of changes in the external and internal factors, and to minimize the adverse consequences for the Bank.

According to the Risk management policy, the key objectives of the bank's risk management system are as follows:

- maintaining the Bank's activity on the "going concern" basis;
- providing the Bank's financial stability;
- development of risk culture/risk-oriented model within the Bank.

The Bank's risk management strategy defines target model, main stages and directions for the Bank's risk management system development till 2020.

In order to ensure stable operation, the Bank took the following steps.

31 Risk Management (Continued)

In 2017 the Bank carried out and/or initiated the following measures related to the development of credit risk management.

- The Bank continues to develop a rating system by widening the amount of internal credit rating models for more accurate credit risk assessment and increase of the amount of balance sheet assets and credit equivalents of credit related commitments subject to internal credit rating models.
- The further development and implementation of approaches to the use of internal credit ratings in the system of decision-making, as well as in determining the premium for credit risk, establishing and incorporation of risk-rules on credit products and determining the authority to take on credit risk is in progress.
- The Bank has implemented a multi-level system of authorities and limits for the acceptance of different types of risks. In 2016 the automated limits control system for credit risk has been introduced and functionally incorporated in order to improve limits control system.
- There is a vertical hierarchy to the RD in regional branches operating through Risk Assessment and Control Units for independent on-site control over the level of risks taken by the branches and operating offices. Also, the role of risk managers in decision-making process was increased.
- The Bank has adopted a set of measures aimed at enhancing the work with problem debts, as well as the development of infrastructure for various methods of dealing with problem debts.

In order to develop market risk management system, in 2017 The Bank continued to implement measures for automation of the system for control over the level of risk taken by the Bank.

The decision-making process of lending to individuals is centralized at the level of Head Office of the Bank, process is standardized and automated by conveyor technology for all retail loan products. Due to automated process credits are issued within a given quality. The decision-making process is held under constant improvement. For instance, in 2016 the decision-making methodology was updated in the following way:

- New approach to solvency assessment based on PTI (payment-to-income ratio) for all retail credit products; new approach to accounting of incomes for retirement clients during loan term, taking into account the Bank and the Federal State Statistics Service statistical data;
- New approach to the credit history analysis for all retail credit products;
- Specialized decision-making procedures depending on the clients categorization;
- Automated services Big data that allow access and usage of information from social networks and customers geolocation data in the decision-making process;
- Automated services for checking the existence of outstanding debt from the Federal Court Marshals Service;
- Additional service provided by the largest Russian credit history bureau to identify potential fraud;
- Service for market valuation of real estate for mortgage loans for apartments on secondary commodity market, land plots, houses with land plots;
- Decision-making procedures for pre-approved Credit cards for Salary program customers based on Automated Analysis of the Salary Enrollments and for depositors based on client’s behavioral profile.

In order to improve liquidity control risk system, in 2017 the Bank continued implementing measures for the system automation and enhancing approaches to liquidity control risk management in accordance with recommendations by CBRF and Basel Committee on Banking Supervision (BCBS).

In order to enhance financial stability of the Group in case of crisis events in the economy and financial markets, the Bank’s Management Board approved the Plan of stabilizing activities developed in accordance with recommendations of CBRF # 193-T. This Plan provides activities for solving potential problems with capital, liquidity, financial results and quality of the Bank’s assets in case of unfavorable for the Bank scenarios.

In order to avoid going concern issue and limiting loss in case unfavorable issues that can negatively affect the activity, the Bank has continued implementation of the Action Plan, which aims to ensure the on-going operations and (or) recovery of the Bank’s operations in case of non-standard and emergency situations. The Bank tested the Action Plan according to internally established order including the regional level testing.

31 Risk Management (Continued)

Credit risk. The Group is exposed to credit risk, which is the risk that counterparty and/or third party under the financial obligations contract will cause a financial loss for the other party by failing to discharge an obligation completely and timely in accordance with contract terms (including operations in financial markets). The credit risk assessment of derivative financial instruments and repo transactions also includes counterparty credit risk, which is the risk of the counterparty's default before transactions settlement.

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the consolidated statement of financial position. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 34.

Credit risk management aims to maintain the proper quality of the loan portfolio by optimizing the industry, regional and product structure of the loan portfolio of the Group, the implementation of a systematic approach to the management of credit risk, based on the principles of risk awareness, power-sharing assessment and risk-taking, monitoring and control.

The management of credit risk of the Bank comprises determination and evaluation risk before transactions, limitation of credit risk, with correspondent limits, structuring of the deals, subsequent monitoring and controlling of credit risk level.

Credit risk management is carried out by the Bank's Management Board, its Chairman, special collegiate bodies of the Bank, and also by structural departments of the Bank and executives within their scope of authorities.

The Bank's authorized management bodies approve internal regulations that contain formalized descriptions of risk evaluation procedures and processes for provision and servicing of credit products.

The Bank selects credit projects with consideration of the purpose of lending, primary sources of repayment of the loan. On the mandatory basis Bank assesses risk factors associated with borrower's financial position and its trends, borrower's property structure and reputation, credit history, state of the economic sector and region, all relationships between the Bank and related persons.

In selecting lending and investment programs, priority rests with the agricultural sector and related industries, which support and service agricultural producers. The loan portfolio industry concentration risk is mitigated by:

- limiting one borrower's risk exposure;
- lending to the entire cycle of agricultural product turnover (production, storage, processing and sales to ultimate consumers);
- lending to borrowers with different specialisation in different regions;
- a combination of several types of production in one entity typical for agricultural producers; and
- diversification of investments in effective and reliable projects of other economic sectors.

Within credit risk management process (including counterparty credit risk), the Bank uses risk mitigating instruments (including accepting liquid collateral, guarantees, entering into general agreements to regulate collateral provision terms) and price making that takes into account assumed credit risk.

The Bank assesses residual risks arising from the fact that the instruments used can provide not expected effect (for example, in result of accepted collateral sale legal or liquidity risk can be lost) while using instruments that reduce credit risk. Residual risk can be realized in inability to sell accepted collateral, refusal or deferral of guaranteed payments, as well as the usage of improperly drawn documents.

Control of credit risk concentration related to the accepted security on financial market (credit, market) is mainly carried out by setting limits on accepted securities in the form of collateral. The Bank also establishes transaction restrictions on counterparties with securities for individual issuers. These restrictions are designed to diversify portfolio of counterparties, as a result, they reduce risk concentration.

Credit risk is monitored at different levels on the basis of the Bank's regulatory documents: at the level of regional branch, additional office and the Head Office of the Bank.

31 Risk Management (Continued)

In order to decrease the Bank's credit risk and reduce problem loans, the Bank performs cession agreements. The main purpose of the Bank in making cessions is a full or partial termination of obligations of the borrower (groups of related borrowers) to the Bank by selling rights of the Bank's claims to borrowers, aimed at reducing problem loans. The extent to which this activity enables the Bank to pass credit risk of the loans transferred under cession agreements to third parties, as well as the share of credit risk that is not transferred, depends on the specific conditions of cession agreements. At the same time, credit risk appears and turns to be the main risk to the Bank only in case of cession to third parties with the delay of payment. In other cases, the credit risk of the Bank in cession transactions does not exist.

The Bank uses different methods of securing execution by borrowers of their contractual obligations in the form of pledge of property or ownerhip rights (with approval of a list of pledged items subject to obligatory insurance by insurers accredited by the Bank), guarantees and warranties from third parties.

Market risk. The Group takes on exposure to market risk arising from open positions in (a) currency, (b) interest and (c) equity products. The market risk of the subsidiaries is estimated to be non-material due to proportion and structure of their assets and liabilities.

Market risks are managed by means of identifying, evaluating, forecasting market prices, currency rates and market interest rates, determining the acceptable level of risk on open positions, setting limits (creating a system of limits enabling to minimise losses in case of unfavourable market changes) and developing risk hedging mechanisms.

The Bank's authorized bodies perform qualitative evaluation of market risk by means of expert analysis method.

The responsibility of managing the Bank's market risk rests with the Management Board, Risk Management Committee and the Asset and Liabilities Management Committee within their competence.

The responsibility for operational managing of market risk, implementing market risk management policies and complying with set limits rests with the heads of structural units that carry out transactions exposed to market risk.

The Bank's exposure to market risks is analysed by the Department of Operations on Financial Markets, Internal Treasury, the Capital Markets Department and the RD within their competence.

The Bank has contingency plans in case of unfavourable market fluctuations in the value of trading financial instruments, derivative financial instruments, exchange rates and potential losses associated with changes in interest rates. These actions constitute an integral part of the Bank's risk management system and serve a preventive measure for ensuring the continuity of the Bank's operations and safety of the Bank's capital.

Decision-making authority in the event of sudden market changes is on the Chairman of the Management Board, Risk Management Committee or the Asset and Liabilities Management Committee depending on specified limiting control procedure.

Any additional expenses that need to be incurred for covering financial losses are approved by the Bank's Management Board.

The responsibility for reviewing and preparation of reports for the Bank's management, for providing information for assigning credit ratings by international rating agencies and for regulators rests with the RD.

The RD's functional duties cover independent of the business unit evaluation, review and control of the actual level of the Bank's market risk exposure, agreeing and monitoring limits, monitoring transactions with financial instruments, evaluating the effectiveness of the given operations and the comparison with the level of market risk.

The Bank's business units (the Capital Markets Department, Department of Operations on Financial Markets, the Internal Treasury and the Operations Department) are also in charge of current monitoring over exposed to market risks positions in the process of entering into and accounting for transactions.

The RD jointly with business units, creates the regulatory basis for risks evaluation and interaction of the Bank's units in the process of identification and management of market risks, and also summarizes and optimises the system of monitoring market risk.

Market risk is also mitigated by setting limits, which are set taking into account the portfolio (instruments) risk and the Bank's strategy. When setting limits, the Bank considers several factors, such as market environment, financial position, business trends and management experience.

31 Risk Management (Continued)

Limits are regularly reviewed and update by the Bank's authorised bodies. The RD monitors limits and reports information on compliance with the set limits to the Bank's management. The RD also considers and agrees all limits proposed by business units for carrying out new transactions.

The Bank has a hierarchy of limits: structural limits, positional limits, stop-loss limits, limits on transactions' parameters, etc. The RD is improving the system of limits on an ongoing basis.

The Bank sets limits on:

- the maximum volume of investments in certain types of assets or liabilities;
- the maximum level of losses and gains in case of changes in financial instruments' prices (stop-loss);
- authorities of the Bank's staff to adopt independent decisions concerning certain types of transactions (personal limits);
- the maximum allowed relation between certain ratios on assets and liabilities, including off-balance sheet claims and liabilities (open position limit, limits on other comparative figures); and
- various characteristics of financial instruments (discounts, etc.).

The Bank monitors currency position for each currency and the amount of all foreign currency positions to comply with CBRF requirements.

Interest rate risk. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase or decrease in the event if unexpected movements arise.

The sources of interest rate risk are:

- Mismatching of the maturities of assets, liabilities and off-balance sheet claims and liabilities associated with fixed or floating rate instruments (repricing risk).
- Mismatching of the level of interest rates changes for various liquidity (risk of interest rates curve changes).
- Mismatching of the level of interest rate changes for floating rate instruments with the same regularity of repricing (basic risk).

The main method of interest rate risk measurement is evaluating the gaps between the Group's assets and liabilities that are sensitive to changes in the interest rate level (GAP method).

The tables below are based on management reports on the Bank's interest rate risk at the stated dates, that were prepared in accordance with the Interest Rate Evaluation Methodology approved by the Bank. Interest rate reports are issued on a monthly basis using the information extracted from the accounting system, which is based on RAR with the assumption of stability of the structure of the Bank's assets and liabilities.

The table below summarises the Group's exposure to interest rate risk as at 31 December 2017 by showing the Group's interest bearing financial assets and liabilities in categories based on the earlier of contractual repricing or maturity dates:

In millions of Russian Roubles	Demand and less than 30 days	Due between 31 and 90 days	Due between 91 and 180 days	Due between 181 days and 1 year	Due between 1 and 3 years	More than 3 years	Total
Total interest bearing financial assets*	621 382	348 732	270 165	278 437	515 052	558 234	2 592 002
Total interest bearing financial liabilities*	724 063	631 884	441 925	406 257	310 544	163 789	2 678 462
Sensitivity gap	**(102 681)**	**(283 152)**	**(171 760)**	**(127 820)**	**204 508**	**394 445**	**(86 460)**
Cummulative sensitivity gap	**(102 681)**	**(385 833)**	**(557 593)**	**(685 413)**	**(480 905)**	**(86 460)**	**-**

* Total interest-bearing financial assets and total interest-bearing financial liabilities include positions in derivative financial instruments with gross settlements valued at spot foreign exchange rates as they are accounted in accordance with RAR.

31 Risk Management (Continued)

The table below summarises the Group's exposure to interest rate risk as at 31 December 2016 by showing the Group's interest bearing financial assets and liabilities in categories based on the earlier of contractual repricing or maturity dates:

In millions of Russian Roubles	**Demand and less than 30 days**	**Due between 31 and 90 days**	**Due between 91 and 180 days**	**Due between 181 days and 1 year**	**Due between 1 and 3 years**	**More than 3 years**	**Total**
Total interest bearing financial assets*	309 825	379 165	286 917	355 185	517 323	431 214	2 279 629
Total interest bearing financial liabilities*	446 411	372 874	336 787	390 911	482 661	166 044	2 195 688
Sensitivity gap	**(136 586)**	**6 291**	**(49 870)**	**(35 726)**	**34 662**	**265 170**	**83 941**
Cummulative sensitivity gap	**(136 586)**	**(130 295)**	**(180 165)**	**(215 891)**	**(181 229)**	**83 941**	**-**

* Total interest-bearing financial assets and total interest-bearing financial liabilities include positions in derivative financial instruments with gross settlements valued at spot foreign exchange rates as they are accounted in accordance with RAR.

Securities included in the tables above are presented by maturity (repricing) dates.

For the year ended 31 December 2017, if interest rates at that date had been 100 basis points lower with all other variables held constant, profit before tax for the year would have been RR 5 550 million higher (31 December 2016: if interest rates at that date had been 100 basis points lower with all other variables held constant, profit before tax for the year would have been RR 1 861 million higher). As at 31 December 2017, other components of equity (pre-tax) would have been RR 2 596 million higher (31 December 2016: RR 3 621 million higher), as a result of an increase in the fair value of debt investments classified as available for sale.

For the year ended 31 December 2017, if interest rates at that date had been 100 basis points higher with all other variables held constant, profit before tax for the year would have been RR 5 550 million lower (31 December 2016: if interest rates at that date had been 100 basis points higher with all other variables held constant, profit before tax for the year would have been RR 1 861 million lower). As at 31 December 2017, other components of equity (pre-tax) would have been RR 2 596 million lower (31 December 2016: RR 3 621 million lower), as a result of a decrease in the fair value of debt investments classified as available for sale.

Currency and equity risk management

Currency and equity risks are assessed on the basis of the VAR method (Value At Risk). This method represents a statistical evaluation of the ratio characterising the maximum amount of possible losses on a financial instrument/portfolio of different financial instruments with a specified probability and for a certain period of time. Reports on the level of market risk are issued on the basis of the approved Methodology for Market Risk Evaluation and provided by the RD to the Bank's management and heads of interested units in compliance with the internal regulatory documents.

The Bank calculates VAR on the basis of a 95% or 99% (depending on the purpose of calculations) confidence level and makes evaluations on the basis of retrospective information on closing prices (as the most dynamic and precise in terms of risk evaluation) for 250 days, evaluation horizon is one day or ten day. Therefore, VAR shows the maximum loss that can be received from the open position during one trading day with a 95% (99%) probability; however, in 5% (1%) of cases losses may exceed this level.

VAR is calculated by historical method and, subsequently, the most adequate evaluation of calculations' parameters is chosen on the basis of analysing the changes in a financial instrument (group of instruments).

31 Risk Management (Continued)

VAR calculation is based on the data extracted from RAR accounting system and is shown in management reports in two forms: relative (in percentage terms) and absolute (in Roubles). Relative VAR shows the maximum possible loss as per RR 1 of investments, and absolute VAR — losses on the current open position during the period of evaluation.

Together with VAR, the Bank calculates ES indicator (Expected Shortfall), which represents monetary value of expected losses in case of excess VAR.

The procedure of back-testing of methods used is conducted quarterly.

Although VAR is a most common tool for measuring market risk exposures, it has a number of limitations, especially in less liquid markets:

- The use of historic data as a basis for determining future events may not encompass all possible scenarios, particularly those which are of an extreme nature;
- A one day holding period assumes that all positions can be liquidated or hedged within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situation in which there is a severe market illiquidity for a prolonged period;
- The use of 95% (99%) confidence level does not take into account losses that may occur beyond this level. There is a 5% (1%) probability that the loss could exceed the VAR; and
- VAR is calculated only on the end-of-day basis and does not necessarily reflect exposures that may arise on positions during the trading day.

Currency risk

The below table shows possible changes in financial results and equity during one day as a result of possible fluctuations in exchange rates of foreign currencies, evaluated on the basis of VAR and ES methods with 99% confidence level for the horizon of one day.

In millions of Russian Roubles	**31 December 2017**	**31 December 2016**
Long/(short) position	1 215	1 156
VAR	18	52
Expected Shortfall	20	55

31 Risk Management (Continued)

Geographical risk concentration

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

In millions of Russian Roubles	Russia	OECD*	Other countries	Total
Assets				
Cash and cash equivalents	585 292	1 144	1	586 437
Mandatory cash balances with the CBRF	19 112	-	-	19 112
Trading securites	17 507	-	-	17 507
Financial instruments designated at fair value through profit or loss	-	2 091	-	2 091
Due from other banks	11 414	-	14 523	25 937
Derivative financial instruments	12 262	37 852	-	50 114
Loans and advances to customers	1 765 760	-	-	1 765 760
Investment securities available for sale	273 741	88	24	273 853
Investment securities held to maturity	64 685	-	-	64 685
Current income tax assets	407	-	-	407
Deferred income tax asset	16 298	-	-	16 298
Intangible assets	3 861	-	-	3 861
Premises and equipment	37 438	-	-	37 438
Other assets	25 181	-	-	25 181
Assets of the disposal groups held for sale and assets held for sale	338	-	-	338
Total assets	**2 833 296**	**41 175**	**14 548**	**2 889 019**
Liabilities				
Derivative financial instruments	2 666	697	-	3 363
Due to other banks	37 578	14 093	1 086	52 757
Customer accounts	2 203 234	91	252	2 203 577
Promissory notes issued	36 946	-	-	36 946
Bonds issued	130 742	113 819	-	244 561
Current income tax liability	20	-	-	20
Deferred income tax liability	512	-	-	512
Other liabilities	23 423	-	-	23 423
Total liabilities before subordinated debts	**2 435 121**	**128 700**	**1 338**	**2 565 159**
Subordinated debts	105 531	27 913	-	133 444
Total liabilities	**2 540 652**	**156 613**	**1 338**	**2 698 603**
Net position in on-balance sheet instruments	**292 644**	**(115 438)**	**13 210**	**190 416**

* OECD — Organisation for Economic Cooperation and Development.

Assets and liabilities have been classified according to the country in which the counterparty is located. Balances with Russian counterparties actually outstanding to/from offshore companies of these Russian counterparties, are allocated to the caption "Russia". Cash on hand and premises and equipment have been classified according to the country in which they are physically held.

31 Risk Management (Continued)

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

In millions of Russian Roubles	**Russia**	**OECD***	**Other countries**	**Total**
Assets				
Cash and cash equivalents	323 489	2 533	11	326 033
Mandatory cash balances with the CBRF	11 266	-	-	11 266
Trading securites	25 040	-	-	25 040
Financial instruments designated at fair value through profit or loss	-	2 374	-	2 374
Due from other banks	34 027	-	21 464	55 491
Derivative financial instruments	17 150	102 912	-	120 062
Loans and advances to customers	1 617 937	-	-	1 617 937
Investment securities available for sale	232 378	31	-	232 409
Investment securities held to maturity	11 630	-	-	11 630
Current income tax assets	371	-	-	371
Deferred income tax asset	16 298	-	-	16 298
Intangible assets	3 048	-	-	3 048
Premises and equipment	16 188	-	-	16 188
Other assets	21 274	19	1	21 294
Assets of the disposal groups held for sale and assets held for sale	3 088	-	-	3 088
Total assets	**2 333 184**	**107 869**	**21 476**	**2 462 529**
Liabilities				
Derivative financial instruments	1 010	43	-	1 053
Due to other banks	44 858	33 680	56	78 594
Customer accounts	1 577 146	593	28	1 577 767
Promissory notes issued	13 761	-	-	13 761
Bonds issued	160 943	294 941	-	455 884
Current income tax liability	19	-	-	19
Deferred income tax liability	239	-	-	239
Other liabilities	16 276	-	-	16 276
Liabilities directly associated with disposal groups held for sale	1 193	-	-	1 193
Total liabilities before subordinated debts	**1 815 445**	**329 257**	**84**	**2 144 786**
Subordinated debts	110 191	42 933	-	153 124
Total liabilities	**1 925 636**	**372 190**	**84**	**2 297 910**
Net position in on-balance sheet instruments	**407 548**	**(264 321)**	**21 392**	**164 619**

* OECD — Organisation for Economic Cooperation and Development.

Liquidity risk. Liquidity risk is defined as the risk of the Group's inability to meet its obligations on a timely and full basis. The Group is exposed to daily calls on its available cash resources from customer accounts, demand deposits, maturing interbank loans (deposits), term deposits and issued securities, loan draw downs, guarantees and from margin and other calls on cash settled derivative instruments. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty.

The Group manages liquidity risk on the basis of the following principles:

- segregation of duties between the Groups's management bodies, its collegial working bodies, structural units and executives;
- setting limits ensuring an optimal liquidity level and corresponding to the Group's financial position;
- priority of maintaining liquidity over profit maximisation;
- excluding conflicts of interest in organising the liquidity management system; and
- optimal matching of the volumes and maturities of funding sources with the volumes and maturities of placed assets.

31 Risk Management (Continued)

The responsibility for liquidity management rests with the Bank's Management Board, Risk Management Committee, Assets and Liabilities Management Committee and the Internal Treasury within their competence. Ensuring the solvency of the Bank within one business day and controlling the liquidity within 30 days is carried by the Department of Operations on Financial Markets within the established limits on attraction/placement of funds in the money market. In case of necessity to attract/place funds in the volumes exceeding the set limits, such decisions are made by the Bank's Management Board (Assets and Liabilities Management Committee). Medium-term and long-term liquidity management is carried out with consideration of information and proposals provided by the RD at each end of reporting period.

The Group manages liquidity risk using the following basic methods:

- evaluating the daily payment position on the basis of cash flow analysis;
- reviewing the actual values and changes in mandatory liquidity ratios;
- evaluating structure and quality of assets and liabilities;
- analysing maturity gaps of the Group on the basis of the most likely claim/repayment dates by main currencies; and
- analysing the Group's exposure to liquidity risk with consideration of stress factors's impact on various scenarios covering standard and more unfavourable market conditions.

Information on financial assets and liabilities (their structure and gaps within certain time intervals) is used in management decisions on the Group's liquidity maintenance at an adequate level. Internal Treasury is responsible to maintain short-term assets portfolio of liquid trading securities, deposits with banks and other interbank instruments.

The Group maintains a stable financing base consisting mainly of funds that were attracted through placing of bonds in Russian roubles and other currencies, increasing the volume of deposits (including interbank deposits), issuing promissory notes and also current resources of the Group as a result of an increase in customer current accounts, and due to other banks.

The Group develops and instantly reviews a contingency plan for maintaining the necessary liquidity level with consideration of any changes in the Group's financial position and volume and nature of its transactions. In case of a liquidity crisis and additional expenses to be incurred in this respect, as well as for coverage of incurred or potential financial losses all decision-making responsibilities are transferred to the Management Board, Risk Management Committee and Assets and Liabilities Management Committee.

Compliance with liquidity requirements set by the CBRF is forecasted on a regular basis for the Group and for the Bank in general with consideration of the branch network.

For the purpose of additional management of the Group's term liquidity in general, the Group uses liquidity limits compliance with which is supervised by the RD as part of ongoing monitoring.

The table below shows distribution of financial liabilities as at 31 December 2017 by their remaining contractual maturity. The amounts disclosed in the table are the contractual undiscounted cash flows of the Group's financial liabilities and off-balance sheet credit related committments. Such undiscounted cash flows differ from the amount included in the statement of financial position, since the amount in statement of financial position is based on discounted cash flows. Net settled derivative financial instruments are included at the net amounts expected to be paid. In respect of gross settled derivative financial instruments, payments are presented for related cash inflows and outflows separately.

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

31 Risk Management (Continued)

The maturity analysis of undiscounted financial liabilities as at 31 December 2017 is as follows:

In millions of Russian Roubles	**Demand and less than 30 days**	**Due between 31 and 180 days**	**Due between 181 days and 1 year**	**From 1 to 3 years**	**More than 3 years**	**Total**
Financial liabilities						
Gross settled derivative financial instruments						
- inflow	(1 175)	(35 746)	(47 255)	-	(10 230)	(94 406)
- outflow	238	15 940	28 059	-	4 500	48 737
Net settled derivative financial instruments (liabilities)	(134)	(322)	(331)	(2 575)	-	(3 362)
Due to other banks	10 875	2 827	9 213	13 439	21 603	57 957
Customer accounts	823 511	833 533	287 761	243 911	52 658	2 241 374
Promissory notes issued	8 566	5 383	2 071	24 837	25	40 882
Bonds issued	11 086	93 687	84 804	59 330	17 986	266 893
Other financial liabilities	8 033	566	225	669	82	9 575
Subordinated debts	755	4 162	4 892	19 558	158 933	188 300
Off-balance sheet financial liabilities						
Financial guarantees issued	187 970	-	-	-	-	187 970
Letters of credit	6 414	-	-	-	-	6 414
Other credit related commitments*	102 724	-	-	-	-	102 724
Total potential future payments for financial obligations	**1 158 863**	**920 030**	**369 439**	**359 169**	**245 557**	**3 053 058**

* Other credit related commitments include cancellable commitments, which are dependent on borrowers' compliance with certain creditworthiness criteria.

The maturity analysis of undiscounted financial liabilities as at 31 December 2016 is as follows:

In millions of Russian Roubles	**Demand and less than 30 days**	**Due between 31 and 180 days**	**Due between 181 days and 1 year**	**From 1 to 3 years**	**More than 3 years**	**Total**
Financial liabilities						
Gross settled derivative financial instruments						
- inflow	(1 237)	(65 118)	(67 512)	(99 607)	-	(233 474)
- outflow	494	30 530	37 401	48 778	-	117 203
Net settled derivative financial instruments (liabilities)	(28)	(303)	(29)	(688)	-	(1 048)
Due to other banks	11 462	23 412	2 838	25 546	22 556	85 814
Customer accounts	596 008	496 304	245 918	234 262	49 133	1 621 625
Promissory notes issued	3 188	8 023	1 222	89	1 945	14 467
Bonds issued	23 973	131 295	128 039	199 172	10 374	492 853
Other financial liabilities	4 112	363	21	365	6	4 867
Subordinated debts	868	16 895	5 380	21 500	179 763	224 406
Off-balance sheet financial liabilities						
Financial guarantees issued	105 257	-	-	-	-	105 257
Letters of credit	7 014	-	-	-	-	7 014
Other credit related commitments*	157 550	-	-	-	-	157 550
Total potential future payments for financial obligations	**908 661**	**641 401**	**353 278**	**429 417**	**263 777**	**2 596 534**

* Other credit related commitments include cancellable commitments, which are dependent on borrowers' compliance with certain creditworthiness criteria.

The future minimum lease payments under non-cancellable operating lease commitments where the Group is a lessee is disclosed in Note 34.

31 Risk Management (Continued)

Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with Russian Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right for accrued interest. Refer to Note 17.

The Group does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Group monitors expected maturities.

The table below summarizes contractual maturity analysis as at 31 December 2017:

In millions of Russian Roubles	Less than 1 year	More than 1 year	Total
Financial assets			
Cash and cash equivalents	586 437	-	586 437
Mandatory cash balances with the CBRF	19 112	-	19 112
Trading securities	16 613	894	17 507
Financial instruments designated at fair value through profit or loss	-	2 091	2 091
Due from other banks	11 749	14 188	25 937
Derivative financial instruments	42 388	7 726	50 114
Loans and advances to customers	786 316	979 444	1 765 760
Investment securities available for sale	33 217	240 636	273 853
Investment securities held to maturity	3 649	61 036	64 685
Other financial assets	11 673	59	11 732
Total financial assets	**1 511 154**	**1 306 074**	**2 817 228**
Financial liabilities			
Derivative financial instruments	(788)	(2 575)	(3 363)
Due to other banks	(22 030)	(30 727)	(52 757)
Customer accounts	(1 918 266)	(285 311)	(2 203 577)
Promissory notes issued	(15 898)	(21 048)	(36 946)
Bonds issued	(122 069)	(122 492)	(244 561)
Other financial liabilities	(8 743)	(746)	(9 489)
Total financial liabilities before subordinated debts	**(2 087 794)**	**(462 899)**	**(2 550 693)**
Subordinated debts	(1 651)	(131 793)	(133 444)
Total financial liabilities	**(2 089 445)**	**(594 692)**	**(2 684 137)**
Net liquidity gap	**(578 291)**	**711 382**	**133 091**
Cumulative liquidity gap	**(578 291)**	**133 091**	**-**

31 Risk Management (Continued)

The table below summarizes contractual maturity analysis as at 31 December 2016:

In millions of Russian Roubles	**Less than 1 year**	**More than 1 year**	**Total**
Financial assets			
Cash and cash equivalents	326 033	-	326 033
Mandatory cash balances with the CBRF	11 266	-	11 266
Trading securities	25 040	-	25 040
Financial instruments designated at fair value through profit or loss	559	1 815	2 374
Due from other banks	50 369	5 122	55 491
Derivative financial instruments	67 749	52 313	120 062
Loans and advances to customers	792 704	825 233	1 617 937
Investment securities available for sale	3 790	228 619	232 409
Investment securities held to maturity	-	11 630	11 630
Other financial assets	10 037	221	10 258
Total financial assets	**1 287 547**	**1 124 953**	**2 412 500**
Financial liabilities			
Derivative financial instruments	(365)	(688)	(1 053)
Due to other banks	(35 923)	(42 671)	(78 594)
Customer accounts	(1 310 622)	(267 145)	(1 577 767)
Promissory notes issued	(12 308)	(1 453)	(13 761)
Bonds issued	(186 739)	(269 145)	(455 884)
Other financial liabilities	(4 514)	(371)	(4 885)
Total financial liabilities before subordinated debts	**(1 550 471)**	**(581 473)**	**(2 131 944)**
Subordinated debts	(14 000)	(139 124)	(153 124)
Total financial liabilities	**(1 564 471)**	**(720 597)**	**(2 285 068)**
Net liquidity gap	**(276 924)**	**404 356**	**127 432**
Cumulative liquidity gap	**(276 924)**	**127 432**	**-**

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

Management believes that in spite of a substantial portion of customers' accounts being on demand diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide a long-term and stable source of funding for the Group.

Operational risk. Operational risk is the risk of losses in a result of mismatch of character and range of Bank's activity, internal rules and procedures of making bank operations and other deals, staff or other person infraction (as a result of unintentional or intended activity or inactivity), mismatch (insufficiency) functional abilities using information technical and other system and (or) there multifunction (disrupting operation) and also as a result of influence of external events.

Main principles of Operational risk management are incorporated in Bank's internal documents.

The main goal of Bank's operational risk management is maintain acceptable operation risk level, undertake by Bank for secure Bank reliability during its usual operation activity and achievement strategic aims and objectives.

31 Risk Management (Continued)

The Bank's Management Board, Risk Management Committee of the Bank and other collegial bodies of the Bank perform operational risk management in the Bank within their authorities.

Responsibility for completeness, quality and timeliness of reporting on operational risks, inherent in the activities of the independent structural bodies of the Bank, and losses in case of its realization, as well as responsibility for compliance with principles and procedures of operational risk management in the process of operational activity lies with the heads of divisions of the Bank and regional branches.

The Group manages operational risk using the following methods:

- creating internal culture of operational risk management on all levels of Groups organizational structure, including levels of regional branches;
- methodological support of operational risk management process. Developing and enhancing Groups internal documents regulating the process of operational risk management;
- identification and assessment of operational risk on all material business lines, business processes, products and information systems of the Group, as well as developing and providing measures necessary for maintaining operational risk at the acceptable for the Bank level;
- selection and analyse of any data relating to operational risks, supporting the Data warehouse of operational risk trigger events and losses in case of its realization;
- developing and implementing the actual plan for minimization of operational risk and probable subsequent losses in case of its realization;
- developing actual plans for providing regularity or/and recover ability of the Group's activity in case of unobservable and unexpected circumstances, and for limiting Groups losses in case of adverse circumstances arisen;
- monitoring and preparing the report of operational risk level on regular basis;
- maintaining effective internal control environment within the framework of operational risk management.

The internal culture of operational risk management is the combination of individual and corporate values, settings, competences and behavioural models which determine Bank's attitude to operational risk management and assume knowledge by the Bank's employees of the main operational risk management principles and methods and their active participation in the process of operational risk management.

Insurance risk. The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable. The Group provides non-life insurance services, i.e. property insurance, agricultural insurance and personal accident insurance.

For a portfolio of insurance contracts where the theory of probabilities is applied to pricing and reserving, the principal risk that the Insurance Company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate established using actuarial techniques. Factors that aggravate insurance risk include a lack of risk diversification in terms of the type and amount of risk, the geographical location and the type of policyholder base covered.

32 Offsetting Financial Assets and Financial Liabilities

The tables below show financial assets offset against financial liabilities and financial liabilities offset against financial assets in the statement of financial position, as well as the effect of enforceable master netting agreements (ISDA, RISDA and other) and similar arrangements that does not result in an offset in the statement of financial position as at 31 December 2017 and 31 December 2016:

In millions of Russian Roubles	Gross amounts before offsetting in the statement of financial position	Gross amounts set off in the statement of financial position	Net amount after offsetting in the statement of financial position	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		Net amount of exposure
				Financial instruments	Cash collateral received	
Assets subject to offsetting, master netting and similar arrangement						
Derivative financial instruments	5 128	-	5 128	(414)	(4 127)	587
Cash and cash equivalents (reverse repurchase agreements)	5 803	-	5 803	(5 803)	-	-
Liabilities subject to offsetting, master netting and similar arrangement						
Derivative financial instruments	3 363	-	3 363	(414)	-	2 949

In millions of Russian Roubles	Gross amounts before offsetting in the statement of financial position	Gross amounts set off in the statement of financial position	Net amount after offsetting in the statement of financial position	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		Net amount of exposure
				Financial instruments	Cash collateral received	
Assets subject to offsetting, master netting and similar arrangement						
Derivative financial instruments	1 781	-	1 781	(146)	(1 285)	350
Cash and cash equivalents (reverse repurchase agreements)	69 134	-	69 134	(69 134)	-	-
Liabilities subject to offsetting, master netting and similar arrangement						
Derivative financial instruments	1 053	-	1 053	(146)	-	907

The Group has master netting arrangements with stock exchange and counterparty banks, which are enforceable in case of default. In addition, applicable legislation allows an entity to unilaterally set off trade receivables and payables that are due for payment, denominated in the same currency and outstanding with the same counterparty. Information on such balances is subject to disclosure as they were set off in the statement of financial position.

33 Management of Capital

The Group's objectives when managing capital are:

i. to comply with the capital requirements set by the CBRF;

ii. to ensure the Group's ability to continue as a going concern; and

iii. to maintain a sufficient capital base and to achieve a capital adequacy ratio of at least 8% in accordance with the requirements as defined in the June 2004 Basel II Framework and in the reference on the application of Basel II to Trading activities and the Treatment of Double Default Effects, and elements of the 1988 Basel Capital Accord, and the 1996 Amendment to the Capital Accord to Incorporate Market risks.

33 Management of Capital (Continued)

Compliance with the capital adequacy ratio set by the CBRF is monitored by the Group's management on a monthly basis.

Under the capital requirements set by the CBRF effective at 31 December 2017 and 2016, banks had to maintain a ratio of capital and assets weighted to risk ("Capital Adequacy Ratio") above a prescribed minimum level of 8% (N1.0), while a prescribed minimum level for Common Equity Tier 1 Ratio (CET1 ratio) (N1.1) is set at 4.5% and for Tier 1 Ratio (N1.2) is set at 6%.

During 2017 and 2016 the Bank's capital adequacy ratio in accordance with CBRF requirements exceeded the minimum level and as at 31 December 2017 and 31 December 2016 was as follows:

In millions of Russian Roubles	**31 December 2017**	**31 December 2016**
Capital of the Bank	419 348	395 252
CET1 Ratio (N1.1)	10.5%	9.6%
Tier1 Ratio (N1.2)	11.0%	10.2%
Capital Adequacy Ratio (N1.0)	15.5%	16.3%

Capital of the Bank and capital adequacy is calculated as required by the CBRF Regulation # 395-P *Methodology for Capital Adequacy Calculation by Credit Organizations (Basel III)* and CBRF Instruction # 180-I *Methodology for Mandatory Prudential Ratios Calculation by Banks*.

The Group is also subject to minimum capital requirements established by covenants stated in loan agreements, including capital adequacy levels calculated in accordance with Basel Accord and based on the IFRS figures. The level of capital adequacy ratio under Basel II requirements equals 8%.

The composition of the Group's capital calculated based on IFRS in accordance with Basel II Capital Accord is as follows:

In millions of Russian Roubles	**31 December 2017**	**31 December 2016**
Share capital	385 598	335 598
Retained earnings	(214 214)	(192 807)
Goodwill	(8)	(8)
Perpetual bonds	15 000	15 000
Total tier 1 capital	*186 376*	*157 783*
Revaluation reserves	2 402	3 675
Subordinated debts	93 188	78 826
Total tier 2 capital	*95 590*	*82 501*
Total capital	**281 966**	**240 284**
Risk weighted assets	**2 599 696**	**2 412 736**
Tier 1 capital adequacy ratio	7.2%	6.5%
Total capital adequacy ratio	10.9%	10.0%

Management of the Group is of the opinion that the Group complied with all the external capital adequacy requirements imposed by the CBRF and loan covenants.

34 Contingencies and Commitments

Legal proceedings. From time to time in the normal course of business, claims against the Group are received. As at 31 December 2017, based on its own estimates and both internal and external professional advice the Group's management is of the opinion that no material losses will be incurred in respect of claims and accordingly no material provision for cover of such losses has been made in the consolidated financial statements (31 December 2016: Group's management is of the opinion that no material losses will be incurred in respect of claims and accordingly no material provision for cover of such losses has been made in the consolidated financial statements). Refer to Note 20.

34 Contingencies and Commitments (Continued)

Tax contingencies. Certain provisions of Russian tax, currency and customs legislation as currently in effect are vaguely drafted which may often result in their different interpretation (which, inter alia, may apply retrospectively), inconsistent and selective application and frequent and unpredictable changes. Interpretation of this legislation by the Group in relation to the operations and activities of the Group may be challenged by the respective state authorities. The tax authorities may be taking a more assertive position in their interpretation of the applicable legislation, in carrying out tax audits and in making tax assessments. Consequently, the tax authorities may challenge transactions and tax accounting methods that have not been challenged in the past.

Fiscal periods remain open and subject to review by the tax authorities in course of the on-site tax audits 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 tax reviews may cover longer periods.

Russian transfer pricing legislation allows the Russian tax authority under certain circumstances to apply transfer pricing adjustments and impose additional profits tax and VAT liabilities in respect of all “controlled” transactions if the transaction price differs from the market level of prices determined for tax purposes and such deviation resulted in the underpayment of the tax to the revenue. The list of “controlled” transactions includes transactions performed with related parties (subject to certain conditions) and certain types of cross-border transactions. Special transfer pricing rules apply to transactions with securities, derivatives and interest.

During the year ended 31 December 2017, the Group determined its tax liabilities arising from the “controlled” transactions using actual transaction prices.

Due to the absence of the stable practice of the application of the Russian transfer pricing legislation, the Russian tax authorities may challenge the level of prices applied by the Russian companies of the Group for tax purposes under the “controlled” transactions and accrue additional tax liabilities in relation to such transactions, unless the Group is able to demonstrate that the respective transactions are arms’ length for tax purposes.

As at 31 December 2017, the Management of the Group believes that its interpretation of the applicable legislation is reasonable and will be sustained.

Capital expenditure commitments. As at 31 December 2017, the Group has contractual capital expenditure commitments of RR 710 million (31 December 2016: RR 802 million).

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

In millions of Russian Roubles	**31 December 2017**	**31 December 2016**
Not later than 1 year	3 299	5 281
Later than 1 year and not later than 5 years	3 869	4 701
Later than 5 years	1 638	1 067
Total operating lease commitments	**8 806**	**11 049**

Compliance with covenants. The Group is subject to certain covenants primarily relating to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including an increase of the borrowing costs and announcement of the default. The Group’s Management believes that the Group is in compliance with the covenants.

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Financial guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

34 Contingencies and Commitments (Continued)

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Outstanding credit related commitments are as follows:

In millions of Russian Roubles	**Note**	**31 December 2017**	**31 December 2016**
Undrawn credit lines		56 114	117 963
Financial guarantees issued		187 970	105 257
Letters of credit		6 414	7 014
Less: provision for impairment	20	(552)	(339)
Total credit related commitments		**249 946**	**229 895**

Analysis of the movements in the provision for impairment of credit related commitments is as follows:

In millions of Russian Roubles	**2017**	**2016**
Provision for impairment of credit related commitments at 1 January	**339**	**100**
Provision for impairment of credit related commitments during the year	213	239
Provision for impairment of credit related commitments at 31 December	**552**	**339**

As at 31 December 2017, credit related commitments included financial guarantees issued for two Russian companies individually above 10% of the Group's equity in the amount of RR 56 350 million, or 30% of total financial guarantees issued (31 December 2016: credit related commitments included financial guarantees issued for one Russian company individually above 10% of the Group's equity in the amount of RR 24 619 million, or 23% of total financial guarantees issued).

Undrawn credit lines are represented by revocable credit lines. The Group has the right to revoke unused portion of credit line in response to a material adverse change of the borrower. As at 31 December 2017 and 31 December 2016, there were no grounds for cancellation of disclosed amount of unused credit lines.

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

Credit related commitments are denominated in currencies as follows:

In millions of Russian Roubles	**31 December 2017**	**31 December 2016**
Russian Roubles	193 935	222 046
Euros	50 305	6 054
US Dollars	5 706	1 795
Total credit related commitments	**249 946**	**229 895**

34 Contingencies and Commitments (Continued)

Assets pledged and restricted. The Group has the following assets pledged and restricted:

In millions of Russian Roubles	Note	31 December 2017	31 December 2016
Assets pledged under loan agreements with banks (including CBRF)		20 799	28 469
Security deposit under the lease agreement	15	202	202

As at 31 December 2017, mandatory cash balances with the CBRF of RR 19 112 million (31 December 2016: RR 11 266 million) represent mandatory reserve deposits which are not available to finance the Group’s day to day operations.

As at 31 December 2017 and 31 December 2016, assets pledged under loan agreements with banks (including CBRF) mainly include loans and advances to customers pledged to CBRF under loan agreements in accordance with the CBRF Act # 312-P *On the Procedures of Granting Loans Secured by Assets or Guarantees by CBRF to Credit Organisations* dated 12 November 2007.

35 Derivative Financial Instruments

Foreign exchange derivative financial instruments entered into by the Group are generally traded in an over-the-counter market with professional market counterparties. As a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms, derivative financial instruments are recognised as assets (in case of positive fair value) or liabilities (in case of negative fair value).

As at 31 December 2017, in the aggregate amount of foreign exchange swaps with original settlement dates of more than 30 working days prevails swaps structured as loans issued by the Group in US Dollars and Japanese yens (31 December 2016: in US Dollars and Japanese yens) to three large OECD banks and one Russian banking group with maturities from May 2018 to May 2023, and deposits in Russian Roubles received from the same counterparties with the same maturities (“back-to-back loans”). These transactions are aimed at economically hedging the currency exposure of the Group.

Part of these agreements contain special procedures for counterparties upon the occurrence of a credit event or an event of default (for example bankruptcy, failure to pay, obligation acceleration, repudiation/moratorium or restructuring external unsubordinated public liabilities, providing incorrect or misleading representation). The subjects of such events are the Group, and in some instances, the counterparty of the agreement, and/or the Russian Federation. Some of the agreements provide that no further mutual payment obligation between the parties is due, if a credit event or default event happens. Some agreements on the exchange of resources provide termination of liabilities with a mark-to-market payment in the case of a relevant event (e.g., a default event).

As at 31 December 2017, international credit ratings of these counterparties were not less than BB+ (S&P) (31 December 2016: not less than BB- (S&P)).

Interest rate swaps entered into by the Group has underlying assets of RR and USD floating interest rates and are entered into with the aim of interest rate risk management.

The table below reflects gross positions in derivative financial instruments before netting of any counterparty positions as at 31 December 2017 and covers the contracts with settlement dates after the respective end of the reporting period:

In millions of Russian Roubles	Principal or agreed amount at fair value of assets receivable	Principal or agreed amount at fair value of assets payable	Positive fair value	Negative fair value
Forwards and swaps				
- Currency	253 142	(206 377)	50 038	(3 273)
- Precious metals	147	(147)	-	-
Options	1 870	(1 883)	76	(90)
Contracts with securities	107	(107)	-	-
Total derivative financial instruments	**255 266**	**(208 514)**	**50 114**	**(3 363)**

35 Derivative Financial Instruments (Continued)

The table below reflects gross positions in derivative financial instruments before netting of any counterparty positions as at 31 December 2016 and covers the contracts with settlement dates after the respective end of the reporting period:

In millions of Russian Roubles	Principal or agreed amount at fair value of assets receivable	Principal or agreed amount at fair value of assets payable	Positive fair value	Negative fair value
Forwards and swaps				
- Currency	298 559	(179 595)	119 756	(792)
- Precious metals	164	(167)	-	(3)
- Interest rate	1 169	(1 120)	306	(257)
Contracts with securities	1 541	(1 542)	-	(1)
Futures				
- Index	141	(141)	-	-
- Currency	124	(124)	-	-
- Commodity	57	(57)	-	-
Total derivative financial instruments	**301 755**	**(182 746)**	**120 062**	**(1 053)**

As at 31 December 2017, the Group had no foreign exchange swaps with fair value individually above 10% of the Group's equity (31 December 2016: three foreign exchange swaps with two foreign banks and one Russian banking group with rating not lower than BB- (S&P) with fair value each individually above 10% of the Group's equity). As at 31 December 2016, receivables and payables on settlement of these foreign exchange swap amounted to RR 160 099 million and RR 73 788 million, respectively, or 71% of total receivables or 69% of total payables on settlement of foreign exchange swaps).

Refer to Note 36 for the disclosure of fair value hierarchy for derivative financial instruments. Geographical and liquidity analyses of derivative financial instruments are disclosed in Note 31. The information on related party transactions is disclosed in Note 38.

36 Fair Value of Financial Instruments

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 estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial instruments carried at fair value. Trading securities, securities available for sale, and related trading and investment securities pledged under repurchase agreements are carried on the consolidated statement of financial position at their fair value based on quoted market prices and valuation techniques with all material inputs observable.

Financial instruments designated at fair value through profit or loss and derivative financial instruments are carried on the consolidated statement of financial position at their fair value based on valuation technique with inputs observable in markets. Derivative financial instruments are measured at fair value as assets when fair value is positive and as liabilities when fair value is negative. The Group uses discounted cash flow techniques with observable market data inputs as offshore and onshore yield curves, as well as market data, reflecting the distribution of the probability of default over time.

Cash and cash equivalents are carried at amortised cost which approximates current fair value.

Loans and receivables carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate bearing placements is based on discounted cash flows using current market interest rates for instruments with similar credit risk and similar maturity.

36 Fair Value of Financial Instruments (Continued)

Held to maturity securities carried at amortised cost. The fair value for held to maturity securities is based on quoted market prices and valuation techniques with all material inputs observable.

Liabilities carried at amortised cost. The fair value of bonds issued is based on market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and similar remaining maturity.

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

	31 December 2017		31 December 2016	
In millions of Russian Roubles	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Financial assets carried at amortised cost				
Cash and cash equivalents	586 437	586 437	326 033	326 033
Mandatory cash balances with the CBRF	19 112	19 112	11 266	11 266
Due from other banks	25 937	26 986	55 491	55 448
Loans and advances to customers				
- Loans to corporates	1 379 619	1 392 600	1 270 289	1 261 375
- Lending for food interventions	36 458	36 458	33 921	33 921
- Investments in agricultural cooperatives	295	295	346	346
- Municipal and subfederal bonds	3 279	3 305	-	-
- Loans to individuals	346 109	369 387	313 381	326 406
Investment securities held to maturity				
- Corporate bonds	42 553	42 585	7 975	7 745
- Municipal and subfederal bonds	20 136	20 265	1 501	1 515
- Federal Loan bonds (OFZ)	1 996	1 928	2 154	1 967
Other financial assets	11 733	11 733	10 258	10 258
Total financial assets carried at amortised cost	**2 473 664**	**2 511 091**	**2 032 615**	**2 036 280**
Financial assets carried at fair value	**343 565**	**343 565**	**379 885**	**379 885**
Total financial assets	**2 817 229**	**2 854 656**	**2 412 500**	**2 416 165**
Financial liabilities carried at amortised cost				
Due to other banks				
- Term borrowings from other banks	30 133	32 175	41 759	44 346
- Term borrowings from the CBRF	21 474	21 175	28 935	28 421
- Correspondent accounts and overnight placements of other banks	1 150	1 150	7 900	7 900
Customer accounts				
- State and public organisations	556 507	556 845	392 958	393 134
- Other legal entities	789 449	790 524	571 778	573 084
- Individuals	857 621	859 212	613 031	612 192
Promissory notes issued	36 946	36 946	13 761	13 761
Bonds issued				
- Eurobonds issued	113 819	115 652	294 941	303 058
- Bonds issued on domestic market	130 742	135 055	160 943	165 056
Other financial liabilities	9 489	9 489	4 885	4 885
Total financial liabilities carried at amortised cost before subordinated debts	**2 547 330**	**2 558 223**	**2 130 891**	**2 145 837**
Subordinated debts	133 444	142 245	153 124	158 940
Total financial liabilities carried at amortised cost	**2 680 774**	**2 700 468**	**2 284 015**	**2 304 777**
Financial liabilities carried at fair value	**3 363**	**3 363**	**1 053**	**1 053**
Total financial liabilities	**2 684 137**	**2 703 831**	**2 285 068**	**2 305 830**

36 Fair Value of Financial Instruments (Continued)

(b) Analysis by fair value hierarchy of financial instruments

Fair value measurements are analysed by level in the fair value hierarchy as follows:

(i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities;

(ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and

(iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs).

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

Fair value hierarchy

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

Analysis of financial and non-financial instruments as at 31 December 2017 is as follows:

In millions of Russian Roubles	**Quoted price in an active market (Level 1)**	**Valuation technique with inputs observable in markets (Level 2)**	**Valuation technique with non-observable inputs (Level 3)**	**Total**
Assets measured at fair value				
Trading securities	17 507	-	-	17 507
Financial instruments designated at fair value through profit or loss	-	2 091	-	2 091
Investment securities available for sale	232 934	40 919	-	273 853
Derivative financial instruments	-	50 114	-	50 114
Office premises	-	-	27 018	27 018
Assets for which fair values are disclosed				
Cash and cash equivalents	-	586 437	-	586 437
Mandatory cash balances with the CBRF	-	-	19 112	19 112
Due from other banks	-	26 986	-	26 986
Loans and advances to customers	1 178	2 127	1 798 740	1 802 045
Investment securities held to maturity	57 443	7 335	-	64 778
Other financial assets carried at amortised cost	-	-	11 733	11 733
Total financial and non-financial assets	**309 062**	**716 009**	**1 856 603**	**2 881 674**
Liabilities measured at fair value				
Derivative financial instruments	-	3 363	-	3 363
Liabilities for which fair values are disclosed				
Due to other banks	-	54 500	-	54 500
Customer accounts	-	-	2 206 581	2 206 581
Promissory notes issued	-	-	36 946	36 946
Bonds issued				
- Eurobonds issued	115 652	-	-	115 652
- Bonds issued on domestic market	122 574	12 481	-	135 055
Other financial liabilities	-	-	9 489	9 489
Total financial liabilities before subordinated debts	**238 226**	**70 344**	**2 253 016**	**2 561 586**
Subordinated debts	38 640	103 605	-	142 245
Total financial liabilities	**276 866**	**173 949**	**2 253 016**	**2 703 831**

36 Fair Value of Financial Instruments (Continued)

Analysis of financial and non-financial instruments as at 31 December 2016 is as follows:

In millions of Russian Roubles	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with non-observable inputs (Level 3)	Total
Assets measured at fair value				
Trading securities	25 040	-	-	25 040
Financial instruments designated at fair value through profit or loss	-	2 374	-	2 374
Investment securities available for sale	188 323	44 086	-	232 409
Derivative financial instruments	-	120 062	-	120 062
Office premises	-	-	7 415	7 415
Assets for which fair values are disclosed				
Cash and cash equivalents	-	326 033	-	326 033
Mandatory cash balances with the CBRF	-	-	11 266	11 266
Due from other banks	-	55 448	-	55 448
Loans and advances to customers	-	-	1 622 048	1 622 048
Investment securities held to maturity	8 282	2 945	-	11 227
Other financial assets carried at amortised cost	-	-	10 258	10 258
Total financial and non-financial assets	**221 645**	**550 948**	**1 650 987**	**2 423 580**
Liabilities measured at fair value				
Derivative financial instruments	-	1 053	-	1 053
Liabilities for which fair values are disclosed				
Due to other banks	-	80 667	-	80 667
Customer accounts	-	-	1 578 410	1 578 410
Promissory notes issued	-	-	13 761	13 761
Bonds issued				
- Eurobonds issued	303 058	-	-	303 058
- Bonds issued on domestic market	159 576	5 480	-	165 056
Other financial liabilities	-	-	4 885	4 885
Total financial liabilities before subordinated debts	**462 634**	**87 200**	**1 597 056**	**2 146 890**
Subordinated debts	39 045	119 895	-	158 940
Total financial liabilities	**501 679**	**207 095**	**1 597 056**	**2 305 830**

There were no financial instruments carried at fair value based on a valuation technique with non-observable inputs (Level 3) as at 31 December 2017 (31 December 2016: none).

The table below reflects transfers of financial instruments measured at fair value between Level 1 and Level 2 of the fair value hierarchy during 2017:

	Transfers between Level 1 and Level 2	
In millions of Russian Roubles	From Level 1 to Level 2	From Level 2 to Level 1
Financial assets		
Investment securities available for sale	1 035	1 616
Total transfers of financial assets	**1 035**	**1 616**

36 Fair Value of Financial Instruments (Continued)

The table below reflects transfers of financial instruments measured at fair value between Level 1 and Level 2 of the fair value hierarchy during 2016:

	Transfers between Level 1 and Level 2	
In millions of Russian Roubles	**From Level 1 to Level 2**	**From Level 2 to Level 1**
Financial assets		
Investment securities available for sale	2 226	48 094
Total transfers of financial assets	**2 226**	**48 094**

Financial instruments are transferred from Level 2 to Level 1 of the fair value hierarchy when they become traded in active markets and fair value can be determined based on quoted prices in active markets.

Financial instruments are transferred from Level 1 to Level 2 when they ceased to be traded in active markets. The liquidity on the market is not sufficient to use market prices for valuation and as a result fair value is determined using valuation techniques with all material inputs observable.

There were no other transfers between levels of the fair value hierarchy during 2017 and 2016.

The following table shows the quantitative information as at 31 December 2017 about significant unobservable inputs used in the fair value measurement categorized within Level 3 of the fair value hierarchy:

			Inputs used		
Assets	**Fair value, in millions of Russian Roubles**	**Valuation technique**	**Input**	**Min**	**Max**
Office premises and construction in progress (based on valuation at 31 December 2015, fair value of new objects acquired in 2016 and 2017 equals to current value)	27 018	Comparative method	Trade discount	8.0%	20.0%

The following table shows the quantitative information as at 31 December 2016 about significant unobservable inputs used in the fair value measurement categorized within Level 3 of the fair value hierarchy:

			Inputs used		
Assets	**Fair value, in millions of Russian Roubles**	**Valuation technique**	**Input**	**Min**	**Max**
Office premises and construction in progress (based on valuation at 31 December 2015, fair value of new objects acquired in 2016 equals to current value)	7 415	Comparative method	Trade discount	8.0%	20.0%

37 Presentation of Financial Instruments by Measurement Category

According to the IAS 39 *Financial Instruments: Recognition and Measurement*, the Group classifies its financial assets into the following categories: (a) loans and receivables; (b) available for sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit and loss. Financial assets at fair value through profit and loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) financial assets held for trading.

The table below provides a reconciliation of classes of financial assets with these measurement categories as at 31 December 2017.

In millions of Russian Roubles	Loans and receivables	Available for sale assets	Trading assets	Financial instruments designated at fair value through profit or loss	Held-to-maturity assets	Total
Financial assets						
Cash and cash equivalents						
- Cash on hand	147 866	-	-	-	-	147 866
- Cash balances with the CBRF (other than mandatory reserve deposits)	382 304	-	-	-	-	382 304
- Correspondent and settlement accounts and placements with other banks with original maturities of less than one month	48 586	-	-	-	-	48 586
- Settlement accounts with stock and currency exchanges, clearing organisations and other	7 681	-	-	-	-	7 681
Mandatory cash balances with the CBRF	19 112	-	-	-	-	19 112
Trading securities	-	-	17 507	-	-	17 507
Financial instruments designated at fair value through profit or loss	-	-	-	2 091	-	2 091
Due from other banks	25 937	-	-	-	-	25 937
Derivative financial instruments	-	-	50 114	-	-	50 114
Loans and advances to customers						
- Loans to corporates	1 379 619	-	-	-	-	1 379 619
- Lending for food interventions	36 458	-	-	-	-	36 458
- Investments in agricultural cooperatives	295	-	-	-	-	295
- Subfederal bonds	3 279	-	-	-	-	3 279
- Loans to individuals	346 109	-	-	-	-	346 109
Investment securities available for sale	-	273 853	-	-	-	273 853
Investment securities held to maturity	-	-	-	-	64 685	64 685
Other financial assets	11 733	-	-	-	-	11 733
Total financial assets	**2 408 979**	**273 853**	**67 621**	**2 091**	**64 685**	**2 817 229**
Non-financial assets						**71 790**
Total assets	**2 408 979**	**273 853**	**67 621**	**2 091**	**64 685**	**2 889 019**

37 Presentation of Financial Instruments by Measurement Category (Continued)

The table below provides a reconciliation of classes of financial assets with measurement categories mentioned above as at 31 December 2016.

In millions of Russian Roubles	Loans and receivables	Available for sale assets	Trading assets	Financial instruments designated at fair value through profit or loss	Held-to-maturity assets	Total
Financial assets						
Cash and cash equivalents						
- Cash on hand	30 622	-	-	-	-	30 622
- Cash balances with the CBRF (other than mandatory reserve deposits)	128 335	-	-	-	-	128 335
- Correspondent and settlement accounts and placements with other banks with original maturities of less than one month	83 014	-	-	-	-	83 014
- Settlement accounts with stock and currency exchanges and clearing organisations and other	84 062	-	-	-	-	84 062
Mandatory cash balances with the CBRF	11 266	-	-	-	-	11 266
Trading securities	-	-	25 040	-	-	25 040
Financial instruments designated at fair value through profit or loss	-	-	-	2 374	-	2 374
Due from other banks	55 491	-	-	-	-	55 491
Derivative financial instruments	-	-	120 062	-	-	120 062
Loans and advances to customers						
- Loans to corporates	1 270 289	-	-	-	-	1 270 289
- Lending for food interventions	33 921	-	-	-	-	33 921
- Investments in agricultural cooperatives	346	-	-	-	-	346
- Loans to individuals	313 381	-	-	-	-	313 381
Investment securities available for sale	-	232 409	-	-	-	232 409
Investment securities held to maturity	-	-	-	-	11 630	11 630
Other financial assets	10 258	-	-	-	-	10 258
Total financial assets	**2 020 985**	**232 409**	**145 102**	**2 374**	**11 630**	**2 412 500**
Non-financial assets						**50 029**
Total assets	**2 020 985**	**232 409**	**145 102**	**2 374**	**11 630**	**2 462 529**

All of the Group's financial liabilities except for derivative financial instruments are carried at amortised cost. Derivative financial instruments are classified as held for trading.

38 Related Party Transactions

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial or operational decisions. The Bank's only shareholder is the Government of the Russian Federation represented by the Federal Agency for Managing State Property, the Ministry of Finance of the Russian Federation and The State Corporation Deposit Insurance Agency. Refer to Note 1.

In these consolidated financial statements, significant balances and transactions with the state-controlled entities and parties that are related to such entities and balances and transactions with related parties represented by key management and their family members are disclosed.

38 Related Party Transactions (Continued)

The outstanding balances with related parties were as follows:

In millions of Russian Roubles	31 December 2017	31 December 2016
Cash and cash equivalents		
CBRF	382 304	128 335
Other banks	55 062	110 097
Loans and advances to customers		
Loans and advances to customers (before impairment)	179 008	59 782
Less: provision for loan impairment	(5 631)	(2 961)
Derivative financial instruments — assets	12 095	17 145
Securities		
Securities issued by Russian Federation	148 273	148 091
Securities of entities and banks	138 479	50 584
Due from other banks	11 496	28 510
Other assets		
State Corporation Deposit Insurance Agency	4 499	5 884
Accrued subsidies under the government program to subsidise mortgage and car loans	3	432
Customer accounts		
Entities	827 286	508 515
Key management and their family members	2 050	1 565
Due to other banks		
CBRF	21 474	28 930
Other banks	10 036	13 286
Derivative financial instruments — liabilities	48	100
Subordinated debts	66 939	70 524
Credit related commitments		
Undrawn credit lines	4 169	71 133
Financial guarantees issued	9 086	9 044
Financial guarantees received	29 117	22 721

38 Related Party Transactions (Continued)

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

In millions of Russian Roubles	2017	2016
Interest income on cash and cash equivalents		
CBRF	9 470	1 282
Other banks	4 917	8 415
Interest income on due from other banks	2 512	1 005
Interest income on loans and advances to customers	11 770	10 661
Interest income on securities		
Securities issued by Russian Federation	14 387	14 481
Securities of entities and banks	6 915	4 113
Gains less losses/(losses net of gains) from securities		
Securities issued by Russian Federation	9 867	1 114
Securities of entities and banks	(269)	469
(Losses net of gains)/gains less losses from derivative financial instruments	(5 547)	(7 097)
Interest expense on customer accounts		
Entities	(51 252)	(45 667)
Key management and their family members	(121)	(93)
Interest expense on subordinated debts	(3 426)	(3 925)
Interest expense on due to other banks		
CBRF	(1 846)	(3 163)
Other banks	(630)	(1 167)
Administrative and other operating expenses		
Payments to the Deposit Insurance Fund	(3 269)	(2 209)

In 2017 transactions with the shareholder included share capital increase, dividends paid, taxes paid and subsidies received under the government program to subsidize mortgage and car loans (2016: share capital increase, taxes paid and subsidies received under the government program to subsidize mortgage and car loans). Refer to Notes 23, 28 and 29.

In 2017, the Bank increased its share capital by issuing 50 000 ordinary shares with the total nominal amount of RR 50 000 million. All shares were purchased by the Bank's only shareholder — the Government of the Russian Federation represented by the Federal Agency for Managing State Property.

In July 2017, dividends were paid out to the Bank's shareholder in the amount of RR 257 million.

Key management of the Group represents members of the Supervisory Board, the Management Board and Chief Accountant of the Bank. In 2017 total remuneration of the key management amounted of RR 324 million (2016: RR 342 million) including the payments to pension funds and social fund amounted of RR 46 million (2016: RR 39 million). Total remuneration of the key management includes salaries, discretionary bonuses and other short-term benefits. In 2017, the Group adopted a corporate pension plan for employees (Note 27). Expenditures for the key management in respect of defined pension contribution plans amounted of RR 184 million (2016: none) and are payable on the occurrence of a retirement conditions in accordance with the laws of the Russian Federation.

39 Disposal of Subsidiaries, Groups Classified as Held for Sale and Assets Held for Sale

(a) Groups Classified as Held for Sale

As at 31 December 2016, the Group has classified the assets and liabilities related to companies in Leningrad region as disposal groups held for sale. The Group intended to complete the sale by the end of 2017, however due to unforeseeable circumstances the sale has not been completed, and the Group can not expect the date of disposal in 2018 with reasonable assurance. Thus these assets do not qualify for IFRS 5 requirements.

In order to comply with the requirements of IFRS 5, as at 31 December 2017 the Group transferred the assets and liabilities related to companies in Leningrad Region from disposal groups held for sale. Major part of such assets were represented by premises and equipment of RR 1 184 million, Refer to Note 14.

(b) Assets held for sale

During previous years the Group transferred certain assets from premises and equipment and repossessed collateral to assets held for sale. The Group expects the sale to be completed by the end of 2017.

Assets held for sale are accounted for at the lower of net carrying value and fair value less costs to sell with expenses recognised in profit or loss after reclassification.

As at 31 December 2017, the carrying value of premises and equipment and repossessed collateral that have been reclassified to assets held for sale is as follows:

In millions of Russian Roubles	**Note**	**Balance amount (before reclassi-fication)**	**Accumula-ted depre-ciation (before reclassi-fication)**	**Net carrying value before reclassi-fication**	**Impairment**	**Carrying value after reclassi-fication**
Reclassified from repossessed collateral before 2017		342	(29)	313	-	313
Reclassified from repossessed collateral in 2017	15	294	-	294	(56)	238
Assets disposed of in 2017		(213)	-	(213)	-	(213)
Total		**423**	**(29)**	**394**	**(56)**	**338**

As at 31 December 2016, the carrying value of premises and equipment and repossessed collateral that have been reclassified to assets held for sale is as follows:

In millions of Russian Roubles	**Note**	**Balance amount (before reclassi-fication)**	**Accumula-ted depre-ciation (before reclassi-fication)**	**Net carrying value before reclassi-fication**	**Impairment**	**Carrying value after reclassi-fication**
Reclassified from repossessed collateral before 2016		1 246	(2)	1 244	(158)	1 086
Reclassified from repossessed collateral in 2016	15	383	(27)	356	-	356
Assets disposed of in 2016		(1 287)	-	(1 287)	158	(1 129)
Total		**342**	**(29)**	**313**	**-**	**313**

39 Disposal of Subsidiaries, Groups Classified as Held for Sale and Assets Held for Sale (Continued)

The movement in net carrying value of assets held for sale before reclassification is as follows:

In millions of Russian Roubles	Note	Reclassified from repossessed collateral	Reclassified from premises and equipment	Total
Net carrying value before reclassification as at 1 January 2017		**278**	**35**	**313**
Reclassified during the period	15	238	-	238
Disposed during the period		(213)	-	(213)
Net carrying value before reclassification as at 31 December 2017		**303**	**35**	**338**

40 Changes in Liabilities Arising from Financing Activities

	Note	Bonds issued	Eurobonds issued	Subordinated loans	Total liabilities from financing activities
Carrying amount at 31 December 2016		**160 943**	**294 941**	**153 126**	**609 010**
Proceeds from issue		47 881	-	-	47 881
Redemption		(80 146)	(167 401)	(12 911)	(260 458)
Foreign currency translation		-	(11 683)	(5 175)	(16 858)
Other		2 064	(2 038)	(1 596)	(1 570)
Carrying amount at 31 December 2017		**130 742**	**113 819**	**133 444**	**378 005**

The “Other” line includes the effect of accrued but not yet paid interest on bonds issued, other borrowed funds and subordinated loans. The Group classifies interest paid as cash flows from operating activities.

41 Events after the End of the Reporting Period

In January 2018, the Group paid the amount due under perpetual bonds in the total amount of RR 723 million.

In January 2018, the Group repurchased bonds denominated in RR issued on the domestic market in the amount of RR 2 256 million at the put option date.

In February 2018, the Group redeemed at the maturity date bonds denominated in Russian Roubles issued on the domestic market with a total nominal value of RR 5 000 million.

In March 2018, the Group issued on the domestic market RR 25 000 million bonds maturing in March 2022 with semi-annual payments for the eight semi-annual interest period at 7.4% p.a.