Russian Agricultural Bank

ANNUAL REPORT
2018

Boris P. Listov
Chairman of the Board and CEO

CEO'S STATEMENT[1]

Dear clients and partners,

It can now be said with confidence that our Group's 2018 financial results are better than were expected, with **RUB 1.5 billion** in net profit by IFRS. This is due to the efforts we have consistently made over the course of several years to improve the quality of our loan portfolio, develop transaction business and increase operating income.

In 2018 our total loan portfolio reached approximately **RUB 2.2 trillion**. With the easing of monetary policy, we gradually reduced our lending interest rates, delivering a better growth rate for our loan portfolio. Our retail loans climbed 17 per cent to a **RUB 422 billion** mark, spearheaded by mortgages, as our mortgage loan book recorded a 33 per cent boost to **RUB 242.6 billion**.

In reworking our liabilities structure to replace foreign borrowings with customer accounts we performed better than the market. In 2018 our customer accounts went up 10 per cent to **RUB 2.4 trillion**, including a 21 per cent surge in retail accounts (up to **RUB 1 trillion**). By actively engaging with the market we were able to come third among Russian banks by retail deposits. In 2018 we increased our authorised capital by placing additional ordinary registered e-shares worth **RUB 25 billion**. In addition to capital increases enabled by our shareholder, we used our own efforts to raise capital through subordinated bonds and placed three RUB-denominated perpetual subordinated bond issues for **RUB 20 billion**, keeping the 'subordinated' servicing premium under 120 bp.

It is also worth noting that we were the first Russian issuer in 2018 to place domestically USD 50 million worth of perpetual subordinated RUB-denominated bonds, 80 per cent of which were taken up by our retail customers.

Our first priority remains to ensure comprehensive support for agribusiness. As a key financial institution for agriculture, RAB successfully meets the targets set by its shareholder (primarily in supporting agriculture development) and offers a broad range of corporate, transaction and investment products.

[1] Note: Financial data is under Russian Accounting Standards (RAS) as at January 1, 2019.

In 2018 our financing for agribusiness exceeded **RUB 1.2 trillion**, which is up by 6 per cent from 2017.

We successfully consolidated our leading positions in seasonal work financing and in facilitating sowing and harvesting campaigns by providing **RUB 326 billion** in financing (20 per cent more than in 2017).

The subsidised lending scheme launched by the Russian Ministry of Agriculture in 2017 remains one of the key drivers of investment growth in agribusiness. RAB is a key participant and originator of the most of the loans in this scheme (over **RUB 223 billion** in 2018).

Special mention must be made of our engagement with rural-based small businesses that have a great potential and continue to be our priority. In 2018 we were the absolute leader in small business lending, providing businesses with **RUB 190 billion** in financing, up by 12 per cent from last year. In addition, we offer excellent financial service to rural residents.

In 2019 we will continue to grow as a universal commercial bank, offering a full range of products and services for the real sector of the economy, with a special focus on agriculture. We intend to raise the availability of credit, primarily for farmers, and broaden our product line and competencies to support their export activities.

I want to thank everyone in our team for their input. I am confident that we will continue our strong growth, creating a long-term value for our shareholder and making a significant contribution to the development of the sector and the economy as we open up new opportunities for the people to live and work on their land for the benefit of our country.

Boris P. Listov
Chairman of the Board and CEO
Russian Agricultural Bank

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Disclaimer

1 BANK PROFILE

Joint stock company Russian Agricultural Bank (RusAg, the Bank) is one of the leading Russian banks, established in 2000 to facilitate the development of the national credit and financial system for agribusiness and rural areas. Today the Bank is the leader in domestic agribusiness financing and a universal commercial bank offering a full range of banking services. 100% of the Bank's voting shares are owned by the Russian Federation represented by the Federal Agency for State Property Management.

RusAg is involved in a number of key government programmes for the development of the national economy (State Program on Agribusiness Development, the SME Soft Economic Development Program of the Ministry of Economic Development of of the Russian Federation, etc.).

Delivering its business model of the universal commercial bank, RusAg provides all types of banking services and holds the leading positions in agribusiness financing. The Bank's nation-wide branch network is the 2nd largest in Russia with over 9 thousand points of sale, which span all Russian agricultural regions.

RusAg is among the largest and most stable domestic banks in terms of capital and assets. The Bank has representative offices in Belarus, Kazakhstan, Azerbaijan, Armenia and China.

1.1 MISSION AND STRATEGY

RusAg's mission is to implement a function of a market-based state support instrument in economic sectors including agribusiness, fishery and forestry, to facilitate the establishment and operation of the national credit and finance system, and ensure effective and complete satisfaction of corporate and retail demand for qualitative banking and related financial products and services.

The Development Strategy through 2020

Delivering the Strategy and the business model of a universal commercial bank helps RusAg meeting state objectives in agribusiness and other priority sectors, to ensure the Bank's sustainable development and competitiveness, to comply with regulatory requirements and reach profitability targets.

The Strategy targets:

— ***Securing a leading position in lending to agribusiness and related sectors with a larger share in seasonal field works and project finance*** by further upscaling the volume of lending taking into account the indicators of the State Program on Agribusiness Development, gaining the share of standard products and conveyor technologies in sales, further framework development for personalized deal structuring.

— ***Diversifying income sources*** by strengthening positions in lending and servicing priority production sectors of the Russian economy, other commercially attractive segments and individuals, increasing the share of income from transaction and fee-based products, developing a universal and diversified product offering based on creditworthy customer demand, diversifying the funding mix, growing the client base, number of products per customer and the share of stable customer liabilities.

— ***Strengthening positions of the Bank as an effective, reliable financial institution with sophisticated technology*** by tailoring the operating model, increasing the efficiency of business processes, evolving IT infrastructure, expanding the POS network primarily through remote sales channels and cost-efficient direct channels, enhancing the regional network operating efficiency.

The Strategy implementation:

Within the reporting period, RusAg delivered on all the key performance indicators, strategic goals and obligations to the Government, having ensured the growth of lending to agribusiness and other priority segments at above-market rates. On top of that, the Bank fulfilled all the Shareholder orders and accomplished all the measures envisaged in the Long-term Development Program.

2018 highlights:

— RusAg ensured stable positive dynamics of the loan portfolio;

— RusAg significantly improved the quality of the loan portfolio;

— RusAg retained its leadership in agribusiness financing in terms of market share (**29%**);

— RusAg reached **72%** market share in seasonal works financing as of January 1, 2019 (in 2018, the Bank allocated RUB 326 billion for this purpose, up by **20%** from 2017);

— RusAg provided substitution of international capital market funds (in the amount of **USD 2.3 billion**) by funds raised on the domestic market;

- RusAg ensured a positive financial result;
- RusAg increased the number of retail clients by **13%** to **over 6 million**.

The Long-term Development Program
The Bank's long-term development priorities are based on the main targets and objectives of the Strategy, the Long-term Development Program and the State Program on Agribusiness Development which envisages integrated development of all agribusiness sectors and subsectors.

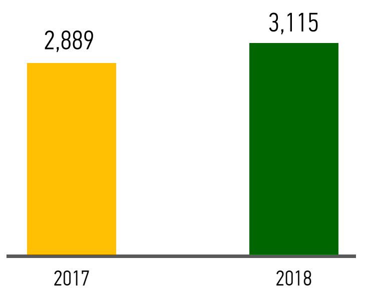
The Development Program priorities:
- achieving strategic goals;
- reducing operating costs;
- increasing labor productivity;
- developing risk management mechanisms;
- providing resources for the Bank's development.

The implementation of its Strategy and the Development Program allowed RusAg to maintain its leading positions in lending to agribusiness and related industries and ensure achievement of the strategic goals for attracting and allocating funds, which has been proved by the Bank's high market shares in the respective segments. In addition, the Bank has strengthened its position relative to its competitors: increased its share in the market of attracting and placing customer funds, increased the level of fee-based income, improved the quality of products and services, and ensured the attractiveness of service conditions for existing and potential customers. RusAg is the leader in the cost-effectiveness per one employee among the main banks competitors.

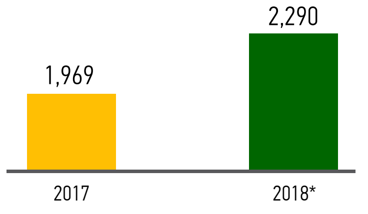
The Bank intends to grow in all business lines: large, mid-sized, small, micro, and retail. To each segment the Bank offers sustainable quality of service and takes into account specifics and needs of clients when designing its product range.

1.2 KEY FINANCIAL PERFORMANCE INDICATORS[1]

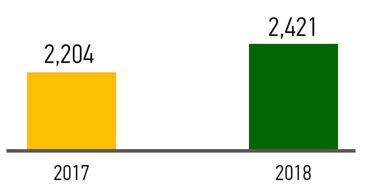
Assets, RUB bln



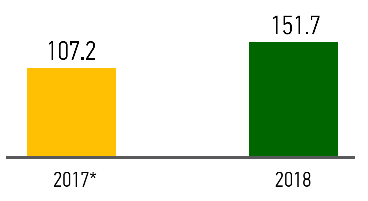
Gross Loan Portfolio, RUB bln



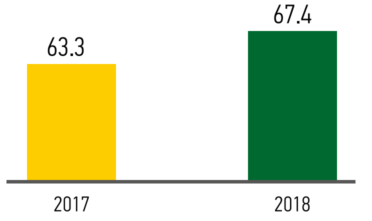
Customer Accounts, RUB bln



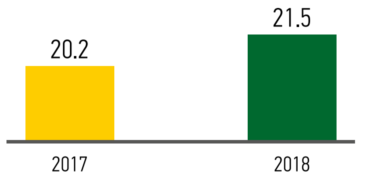
Equity, RUB bln



Net Interest Income, RUB bln

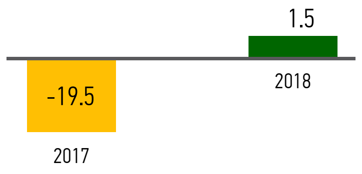


Net Fee and Commission Income, RUB bln

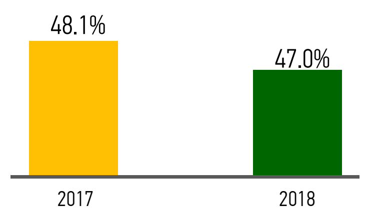


[1] Source: Audited Consolidated Financial Statements (IFRS) of Russian Agricultural Bank Group (Russian Agricultural Bank and its subsidiaries) as of December 31, 2017 and December 31, 2018.
* Note: data reflects the impact of transition to IFRS 9.

Net Profit / Loss, RUB bln



Cost-to-Income Ratio[2], %



1.3 MARKET POSITION[3]

Russian Agricultural Bank is one of the most reliable Russian banks. It ranks among top national banking sector players by capital and assets size. RusAg is a universal commercial bank offering a full range of banking services, and is the leader in domestic agribusiness financing.

RusAg is among the Top-5 largest financial institutions in Russia:

- Leading positions in seasonal works financing and long-term lending to agribusiness
- Second by regional presence (number of branches)
- Third in terms of SMEs lending
- Fourth largest bank by capital, corporate and retail deposits, corporate loans and mortgage lending
- Fifth in terms of assets and retail lending.

As the main lender to Russian agribusiness, RusAg possesses unparalleled knowledge about this specific market and one of the largest nation-wide branch networks with over 9 thousand points of sale, covering 64% of the country's territory.

In 2018, the Bank maintained the leading position as a major lender to the key agribusiness sub-sectors (by the size of its loan portfolio):

- **35.1%** market share in "Agriculture, Hunting and Related Services"
- **21.7%** – in "Food Production, including Beverages and Tobacco"
- **17.1%** – in "Manufacturing Machinery and Equipment for Agriculture and Forestry".

In lending to agricultural industry as a whole, the market share of the Bank stood at **29%**, dominating in seasonal works financing: by the end of 2018 the market share of the Bank (by loan issuance) amounted to **72%**.

[2] Operating expenses divided by net operating income (before credit loss expense for loans at amortized cost, debt securities at amortized cost and FVOCI, credit related commitments).

[3] Source: Audited Consolidated Financial Statements (IFRS) as of December 31, 2018, RusAg calculation as of January 1, 2019 in accordance with RAS and the Bank of Russia algorithm for calculating indicators of the aggregated balance sheet of the 30 largest Russian banks, Bank of Russia, Ministry of Agriculture of Russia, Expert RA rankings in accordance to RAS as of January 1, 2019 and the Banker.

The Bank offers a wide range of financial products and services oriented on the target market and its wide regional coverage. RusAg's local presence provides a significant market advantage, as well as ensures access to the regional client base. The Bank serves over 6 million customers nationwide.

RusAg's market share in key market segments as of January 1, 2019:

- 6.3% – SME loan portfolio
- 5.2% – corporate loan portfolio (non-financial institutions)
- 4.7% – corporate accounts
- 3.7% – mortgage loan portfolio
- 3.6% – retail deposits
- 2.8% – retail loan portfolio.

Russian Agricultural Bank is focused on maintaining a confident position on the international financial market by continuing to cooperate with its business partners, institutional investors, and credit rating agencies.

Russian Agricultural Bank is ranked No. 248 among Top-1000 banks globally in terms of Tier 1 capital according to the July 2019 issue of "The Banker" magazine.

Ratings

The Bank's major credit ratings and outlooks as of April 2019:

Fitch Ratings

- Long-term foreign and local currency IDRs[4] – 'BB+', Positive outlook
- Short-term IDR – 'B'
- Viability rating – 'b-'
- Support rating – '3'
- Senior unsecured debt – 'BB+'

Moody's Investors Service

- Long-term local currency deposit ratings – 'Ba1', Stable outlook
- Long-term foreign currency deposit ratings – 'Ba1', Stable outlook
- Baseline credit assessment – 'b3'
- Short-term foreign and local currency deposit ratings – 'Not Prime'
- Long-term counterparty risk rating (local and foreign currency) – 'Ba1'
- Short-term counterparty risk rating (local and foreign currency) – 'Not Prime'

ACRA (Analytical Credit Rating Agency, Russia)

- Credit rating (under the national scale for the Russian Federation) – 'AA(RU)', Stable outlook

Membership and Cooperation

Russian Agricultural Bank is an active member of the following organizations: the Association of Banks of Russia (Association "Russia"), the Russian-Chinese Business Council (RCBC), the International Confederation of Agricultural Credit (CICA), the U.S.-Russia Business Council (USRBC), the Canada Eurasia Russia Business Association (CERBA), National financial association, and the Russian National SWIFT Association (ROSSWIFT).

[4] IDR – Issuer Default Rating

Active participation in the activities of these non-profit organizations is an important component of the work carried out by the Bank to strengthen its positions in the Russian Federation and abroad, and to attract clients who carry out major projects in agribusiness and related industries.

Representatives of the Bank participate in international financial congresses, conferences, forums and meetings, which allow receiving information on various innovations and best practices in the banking sector and contribute to further strengthening and development of RusAg's bilateral relations with counterparties.

1.4 2018 HIGHLIGHTS[5]

2018 Jan	Moody's affirmed Russian Agricultural Bank's ratings at 'Ba2'. The outlook on senior unsecured debt ratings, and local-currency deposit ratings was changed to Positive from Stable.	2018 Feb	Cooperation Agreement signed with the Kamchatka Territory. The Bank repaid at maturity Eurobonds in the amount of **RUB 8,500 million**, issued in February 2013.	2018 Mar	The Bank successfully closed the order book for its BO-05P series exchange-traded local bond. The final placement totalled **RUB 25 billion**. This bond marks a historic record in the Bank's local debt issuance. Cooperation Agreement signed with the Magadan Region.
2018 Apr	The Bank received an STP Award in recognition of operational excellence in Euro payments processing. Cooperation Agreement signed with the Amur region. ACRA affirmed the Bank's credit rating at AA(RU) with a Stable outlook.	2018 May	Cooperation agreement signed with JSC "Savings bank "Belarusbank". The Bank acts as a partner of 22nd St. Petersburg International Economic Forum (SPIEF).	2018 Jun	On 14 June 2018 Boris Listov assumed office as Chairman of the Board and CEO of Russian Agricultural Bank. Moody's assigned Local and Foreign Counterparty Risk Ratings at 'Ba1'/ 'Not Prime' to Russian Agricultural Bank.
2018 Jul	The Bank and Panasonic Corporation launched Russia's first co-branded bank card powered by JCB's international payment system.	2018 Aug	The Bank signed a framework agreement with Russian Export Center JSC. The document is aimed at expanding financial support to Russian non-commodity exporters and will help the Bank provide financing at subsidized interest rates.	2018 Sep	The Bank acted as an official partner of the 4th Eastern Economic Forum (EEF) held in Vladivostok. The Bank acted as an official partner of the 2nd Global Fishery Forum & International exhibition for fishery, seafood and know-how.
2018 Oct	The Bank received a RUB 5 billion capital injection. The Bank issued on the domestic market **RUB 13,000 million** bonds maturing in October 2022 with semi-annual payments at 9% p.a.	2018 Nov	Fitch affirmed the Bank's Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) at 'BB+'. The outlooks are Positive.	2018 Dec	The Bank placed Series 11B1 foreign currency-denominated perpetual subordinated bonds in the amount of **USD 50 million** compliant with the criteria for inclusion in Tier 1 capital. The Bank received a **RUB 20 billion** capital injection.

[5] More detailed information can be found at https://www.rshb.ru/en/

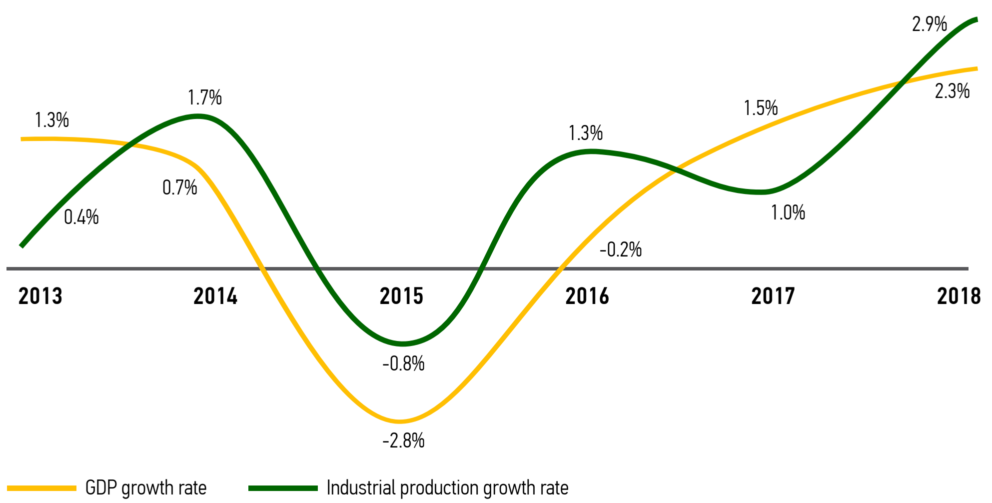
2

A MACROECONOMIC SURVEY

2.1. RUSSIAN ECONOMY IN 2018 WITH A FORECAST FOR 2019

In 2018, the Russian economy showed a generally positive trend, underpinned by growing prices for oil and other essential commodities as well as by the gradual recovery of investment activity and consumer demand. According to Rosstat's preliminary figures, GDP increased **2.3%** from previous year – the highest growth rate the economy has shown since 2012. Industrial production growth (**2.9%**) was boosted by the mining sector growing at **4.1%**. Manufacturing picked up **2.6%** year-over-year, driven primarily by consumer-demand-related sectors, such as woodworking (**10.6%**), pharmaceutical (**8.2%**) and food (**4.9%**). For the first time in the last five years a positive trend emerged in construction volumes (**5.3%**) on the back of industrial construction, whereas construction in the civil sector showed a decline (**-4.9%**).

GDP dynamics, in % to the previous year

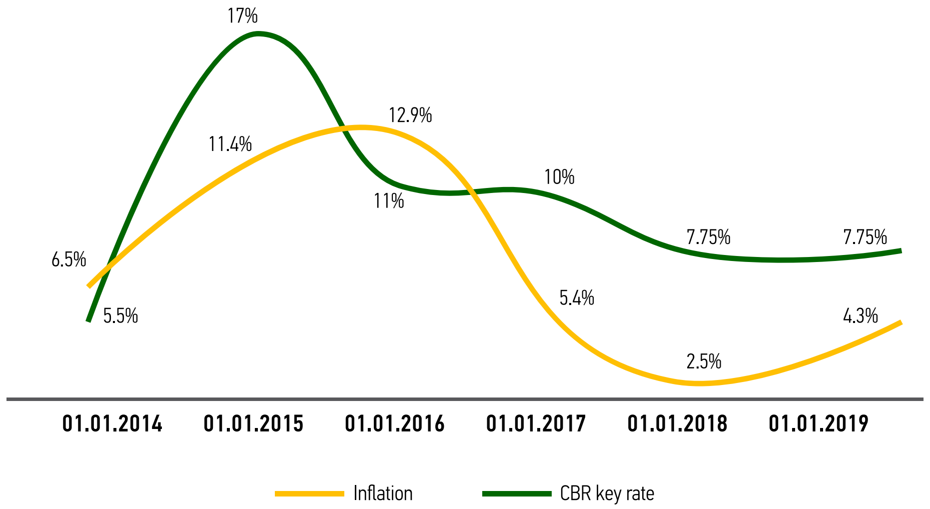


Real incomes (minus inflation and mandatory payments) saw a minor increase (**0.3%**) as real wages climbed **2.6%** from 2017, mildly stimulating consumer activity. As at year end, household spending on goods and services was up **4%** and retail trade picked up **2.6%**, almost doubling from 2017 and being driven mostly by growth in non-food item sales (**3.4%**).

2018 was marked by significant volatility on the global financial markets caused by the US Fed's decision to raise its rate – a move that triggered an outflow of capital from the emerging economies and undermined national currencies, including the Russian rouble. Tighter sanctions against Russia put additional pressure on the rouble. Exchange rate volatility, a VAT hike on 1 January 2019, tariff indexation, among other drivers, raised inflationary expectations with consumers and businesses alike. As at 2018 year end, inflation overshot the upper limit that the Russian Central Bank uses as a basis for inflation targeting (**4.3%** vs **4.0%**). To curb the inflationary movement and stabilise the financial system, the Central Bank raised its rate twice, to **7.75%**. The regulator also suspended domestic purchases of foreign exchange it normally makes within the budget rule so as to smooth rouble rate fluctuations and the impact of exchange rate volatility on inflation.

Inflation drivers (such as situation on the global financial markets, inflationary expectations of businesses and consumers, etc.) are likely to push the CPI further up in 2019. If inflation overshoots **5.5%**, it is very likely that the Central Bank will raise the rate again. Otherwise, it expects annual inflation to get back to **4%** in H1 2020 (when the impact of the weakened rouble and increased VAT fades away) and stay around that level in the future.

Inflation and CBR key rate dynamics, %



In 2019 the Russian economy will have to face additional external pressures such as global volatility, sanctions and the risks of their further tightening, a global economic slowdown (in the EU and China) and a commitment to cut oil production under the OPEC+. 2019 GDP growth rates are expected to slow down year-over-year (**1.3 – 1.7%**).

2.2. RUSSIAN BANKING SECTOR IN 2018 WITH A FORECAST FOR 2019

Despite a 0.5 pp rate hike in 2018, loans to the economy rose by **10.7%** (vs **6.2%** in 2017), including by **5.8%** to non-financials (vs **3.7%** in 2017) and **22.8%** to retail borrowers (vs **13.2%** in 2017). Corporate lending was driven primarily by such sectors as transportation and communications (+34% from 2017), trade (**+16%**) and agriculture (**+15%**). Albeit retail lending improved from 2017 across all segments, growth in the retail loan portfolio still relies predominantly on mortgage loans (**+22.5%**). Q4 2018 saw a sizable reduction in overdue debts in banks' corporate loan portfolios (by 0.3 pp to 6.3%), slightly enhancing the quality of the corporate loan portfolio compared to 2017. Overdue debts in the retail loan portfolio plunged even more dramatically, from **7.0%** to **5.1%**, in a context of stronger loan origination.

Retail deposits (adjusted for currency revaluation) grew **6.5%** against **10.7%** in 2017. Bank deposits as a saving tool somewhat lost their appeal as the share of savings in the retail spending structure shrank from **8.1%** to **6.5%**. Corporate deposits and accounts rose by **6.0%** (**4.8%** in 2017).

Key Indicators of the Russian Banking Sector

Change in % from the previous year	2014	2015	2016	2017	2018
Assets	18.3%	-1.6%	3.4%	9.0%	6.9%
Corporate Loans (excl. credit organizations)	13.0%	2.5%	-1.8%	3.7%	5.8%
Retail Loans	12.5%	-6.3%	2.5%	13.2%	22.8%
Corporate Deposits (excl. credit organizations)	15.8%	2.7%	-1.7%	4.8%	6.0%
Retail Deposits	-2.5%	16.8%	11.8%	10.7%	6.5%

Throughout 2018, Russia's banking system retained a structural surplus of liquidity (**RUB 3 trillion**). In Q4 2018, with the recovery of demand for rouble liquidity, short-term rates in interbank lending came close to the key rate. Central Bank's loans to commercial banks increased 1.3 times whereas credit institutions' deposits with the Central Bank as a percentage of banking assets stayed flat (**6%**).

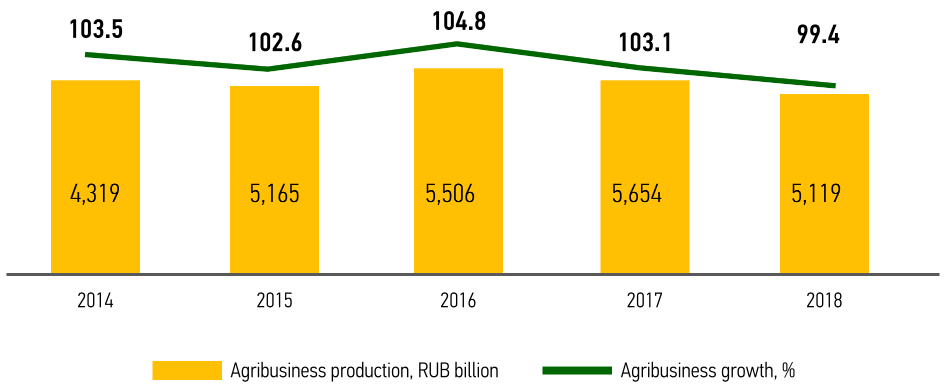
In 2018 the banking sector earned **RUB 1.35 trillion** in profit (1.7 times more than in 2017). Its financial result is still dented by the performance of banks undergoing financial recovery and supported from the Banking Sector Consolidation Fund. These banks excluded, the sector would have earned RUB **1.9 trillion in profit**.

Slower retail lending coupled with faster corporate lending was a trend that emerged in Q4 2018 and may crystallise in 2019. As inflationary expectations rose and the consumer partially slid back to the saving model, retail deposit rates started growing dramatically. Consequently, in 2019 the lending market is expected to grow as it did in 2018 (by **10–11%**), underpinned by exponential growth in corporate lending and by retail accounts that are expected to grow faster than last year.

2.3. RUSSIAN AGRIBUSINESS IN 2018 WITH A FORECAST FOR 2019

In 2018, for the first time since 2012, the agricultural production index got into the negative territory (**–0.6%**), driven mostly by lower yields of grain and sugar beet (**16.7%** and **20.6%** respectively down from the previous season). The 2018 index of livestock production was **+1.3%**, showing growth in such key production segments as meat (**+2.6%**), milk (**+1.5%**) and eggs (**+0.1%**).

Agribusiness Sector Output



In general terms, the economic model of agribusiness is changing from deficit-based to surplus-based. Following the exhaustion of the import substitution potential and growth of the domestic market, most of the product groups have gone through the phase of extensive development. The sector is now operating on narrower margins and is characterised by high competition levels. The key to further development, including in 2019, lies in realising the export potential of the Russian agribusiness, which has been identified as one of the priorities of the nation's long-term development under Presidential Decree No 204 On National Goals and Strategic Objectives of the Russian Federation to Year 2024, dated 7 May 2018.

Listed below are the drivers of agribusiness development for 2019:

— Exports growth in the traditional sectors (grains, oilseeds, oils, fats, fish materials)
Russian producers' entry to the relatively new segments of global agribusiness (dairy, meat products, sugar, confectionery)
— Unused potential for import substitution in some sectors (greenhouse vegetable production and industrial horticulture)
— Higher self-sufficiency levels in basic food products (milk and beef).

Investment activity and loan demand in agribusiness in 2019 will be premised on the parameters of government support stipulated in the new version of the Government Programme for Agriculture Development to Year 2020.

3

PERFORMANCE OVERVIEW

3.1 FINANCIAL AND OPERATING PERFORMANCE[1]

In the reporting period, Russian Agricultural Bank Group (Russian Agricultural Bank and its subsidiaries; hereafter – the Bank, RusAg) posted strong results across all business lines showing robust growth of its key performance indicators both in corporate and retail lending, while continuing to enhance asset quality and build a stable and diversified funding base. Moreover, the Bank has successfully fulfilled the tasks of capital replenishment and further improvement of operational efficiency and bottom-line result.

In 2018, RusAg showed a sustainable upward trend in corporate lending while retaining high market shares in lending to agribusiness with a specific focus on enhanced asset quality. In the reporting period, the Bank's gross loan portfolio went up **16%** reaching **RUB 2.29 trillion**.

As at 31 December 2018, the Bank's assets amounted to **RUB 3.12 trillion**, which is nearly **8%** growth as compared to the year-end 2017.

RusAg recorded a net profit of **RUB 1.5 billion** for 2018 as compared to a loss of **RUB 19.5 billion** for the year 2017.

In 2018, the Bank alongside financial support of agribusiness put priority on expanding its transaction business. Net interest income rose up to over **RUB 67 billion** from **RUB 63 billion**, year-on-year. In the reporting period, RusAg's CIR (cost-to-income ratio) stood at **47%**.

RusAg developed its funding base in 2018, in the first place, by raising customer accounts, diversifying sources and reducing the cost of funding, in particular through prioritizing the growth of current accounts. Large new customer acquisition was underpinned by upgrades introduced in the Bank's IT platform, expanding of transaction business, Internet and Mobile banking product offering.

[1] Note: Financial data in this section is prepared under Audited Consolidated Financial Statements (IFRS) of Russian Agricultural Bank Group (Russian Agricultural Bank and its subsidiaries) as of December 31, 2018. All data in percentage (%) terms is calculated based on Russian ruble-denominated financial results. Some detailed information on Russian Agricultural Bank's business performance is prepared under RAS as of January 1, 2019.

In 2018, customer accounts and deposits grew nearly **10%** totaling **RUB 2.42 trillion**. The Bank's current and settlement accounts rose about **17%** during the reporting period. The share of customer funding in the Group's total liabilities amounted to **82%**.

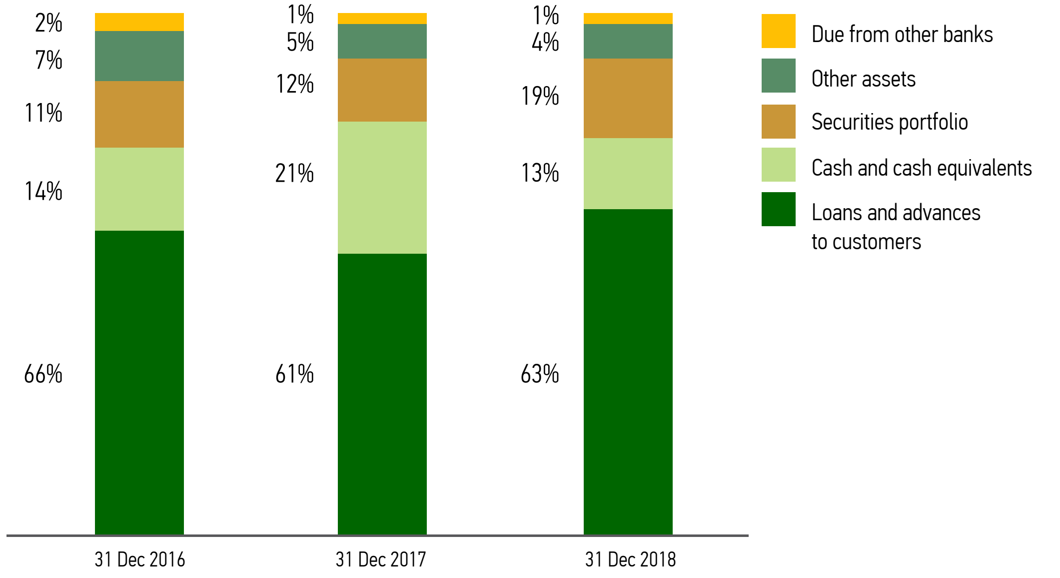
In 2018, RusAg took further steps for capital replenishment. The Bank successfully placed perpetual subordinated bonds in the local market in the equivalent of **RUB 23.3 billion**, as well as received **RUB 25 billion** in share capital injections.

During the reporting period, the Bank implemented the policy measures aimed at increasing efficiency in all key areas of activity, including: lending technology, product range, regional network, sales and service channels, personnel, information technology, and management system.

Assets and Liabilities

In 2018, the Bank's total assets increased **RUB 225.8 billion** (**+7.8%**) and reached **RUB 3.115 trillion**. Corporate and retail loans consistently dominate the Bank's asset structure (**63%**), indicating a historically high degree of customer loyalty. As at 31 December 2018 the Bank's net loans and advances to customers amounted to **RUB 1.958 trillion**, which is **RUB 192 billion** (**+10.9%**) over the level of the previous year.

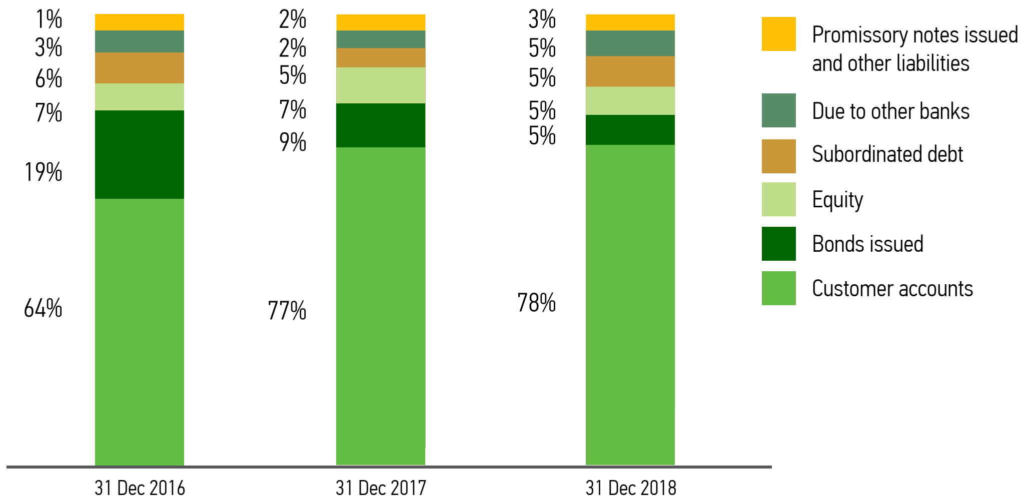
Asset Structure



As of 31 December 2018, RusAg's investments in securities and other financial assets account for **19%** of the total assets of the Bank (as of 31 December 2017, their share was **12%**). Cash and cash equivalents accounted for **13.2%** of the Bank's total assets, amounts due from other banks – **1.2%**.

Interbank loans are considered by the Bank in conjunction with operations in the stock market, as an instrument for the maintenance of current liquidity, as well as for the efficient management of free cash.

Funding Structure



RusAg's liabilities are reasonably well diversified. The share of customer accounts in total liabilities and equity amounted to **78%**. The volume of customer accounts in 2018 increased by **RUB 217.5 billion** (**+9.9%**) and amounted to **RUB 2.421 trillion**. The loan-to-deposit ratio as at 31 December 2018 stood at **94.6%**[2].

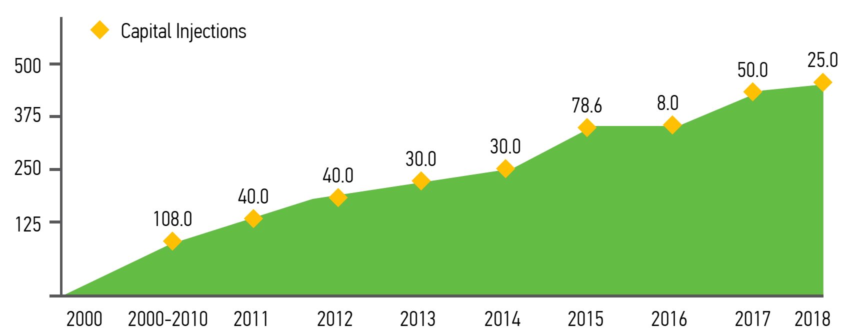
The share of funding raised on the international capital markets in total liabilities dropped to **0.9%** from **5.3%**.

As at 31 December 2018, RusAg's total equity amounted to **RUB 151.7 billion**, adding **RUB 44.5 billion** during the year (adjusted for IFRS 9 adoption effect).

Capital

The Government possesses all the resources and capacity to financially support the Bank as its sole shareholder in appropriate amounts, taking into account Russia's strong fiscal position, low level of public debt, substantial amount of foreign exchange reserves, and flexible State monetary policy.

Share Capital Growth, RUB bln



[2] Net loans and advances to customers divided by total customer accounts (current accounts and term deposits)

In 2018, the Bank took further steps for capital replenishment needed for ensuring financial support of agribusiness and expanding lending to other sectors prioritized in the Bank's strategy. The Bank successfully placed perpetual subordinated bonds in the local market in the equivalent of **RUB 23.3 billion**. Also, RusAg received **RUB 25 billion** in share capital injections. Consequently, the Bank's share capital amounted up to **RUB 409.8 billion** (nominal value) and total capital reached **RUB 483.9 billion** (in accordance with Basel III).

Capital Adequacy Ratios

During 2018, the Bank's capital adequacy ratio exceeded the minimum level as required by the Bank of Russia Regulation № 646-P Methodology for Capital Adequacy Calculation by Credit Organizations (Basel III) and the Bank of Russia Instruction № 180-I Methodology for Mandatory Prudential Ratios Calculation by Banks.

Bank of Russia Basel III Capital Ratios	YE 2018[3]	Min. Ratio	Extra buffers[4]	Min. incl. buffers
CET1 Ratio (N1.1)	9.5%	4.5%	2.5%	7.0%
Tier1 Ratio (N1.2)	10.7%	6.0%	2.5%	8.5%
Capital Adequacy Ratio (N1.0)	15.2%	8.0%	2.5%	10.5%

Income and Expenses

In 2018, RusAg alongside financial support of agribusiness put priority on expanding its transaction business. Net interest income rose **6.5%** up to **RUB 67.4 billion** from **RUB 63.3 billion**, year-on-year. Net fee and commission income grew **6.6%** up to **RUB 21.5 billion** from **RUB 20.2 billion**, year-on-year. In the reporting period, the Bank's Cost/income ratio (operating expenses divided by net operating income (before allowance for credit losses)) stood at **47.0%** as compared to **48.2%** a year earlier.

RusAg recorded a net profit of **RUB 1.5 billion** for 2018 as compared to a loss of **RUB 19.5 billion** for 2017. The positive bottom-line result was driven by consistent improvements in loan book quality and operating income growth.

Customer Base

The branch network of Russian Agricultural Bank is the second largest in Russia (66 branches and over 9.4 thousand access points) covering **64%** of the country's territory. The Bank promotes sustainable development of rural areas, providing the rural population and agribusiness with the necessary credit and financial resources.

RusAg offers a wide range of products and provides professional advice, and dedicated and personalized service to both retail and corporate business. As of 1 January 2019, the number of retail customers amounted to 6.1 million, corporate clients – over 500 thousand.

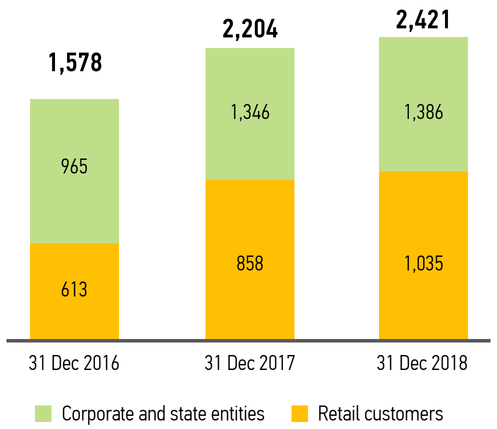
Pursuing the tasks of raising customer funding, growing the share of long term deposits and retail customer accounts balances, the Bank continued to upgrade its product offering and transaction services. New customer acquisition was underpinned by active development of Internet and Mobile banking services, larger number of transactions executed via remote service channels.

[3] Ratios calculated including Events after the Reporting Period.
[4] Capital Conservation Buffer and Systematically Important Institution Buffer.

Customer accounts growth alongside the scheduled repayment of large international borrowings in 2018 supported the building of the Bank's balanced liabilities structure and liquidity. The share of customer funding in the Bank's total liabilities amounted to **81.7%**.

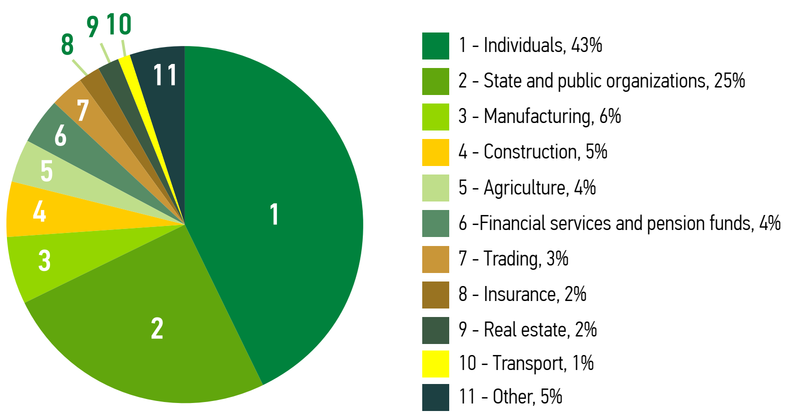
In 2018, deposits and customer accounts expanded by **9.9%** and totaled **RUB 2.42 trillion** as compared to the year-end 2017. Corporate customer accounts went up by **3%** to **RUB 1.39 trillion**. Retail customer accounts and deposits rose by **20.7%** reaching **RUB 1.04 trillion**. The Bank's current and settlement accounts rose **16.8%** during 2018.

Deposit Growth, RUB bln



During the reporting period, amidst market volatility, the Bank maintained strong liquidity ratios. Further growth of customer funding contributed to a further decrease in the Bank's reliance on international capital markets and diversification of its domestic funding sources (in terms of cost and maturity).

Customer Accounts by Sector



Loan Portfolio

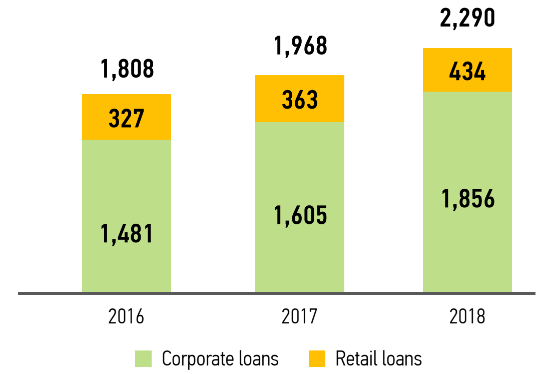
In 2018, RusAg showed a sustainable upward trend in corporate lending while retaining high market shares in lending to agribusiness with a specific focus on enhanced asset quality.

In the reporting period, the Bank's gross loan book went up **16.3%** reaching **RUB 2.290 trillion**. Corporate loans (including loans to customers measured at fair value through profit or loss) rose by **15.6%** as compared to the year-end 2017 and totaled **RUB 1.856 trillion**. In 2018, retail loans saw growth across all product segments and expanded by **19.5%** up to **RUB 434.2 billion**. The growth was mainly driven by mortgage, consumer loans and credit cards.

The principal portion of the Bank's gross loan book is traditionally made up of corporate loans, which accounted for **81%** of the total portfolio as of year-end 2018.

As at 31 December 2018, the share of loans to ten largest borrowers (groups of borrowers) amounted to **25%** of total loans and advances to customers before impairment.

Loan Portfolio Structure, RUB bln



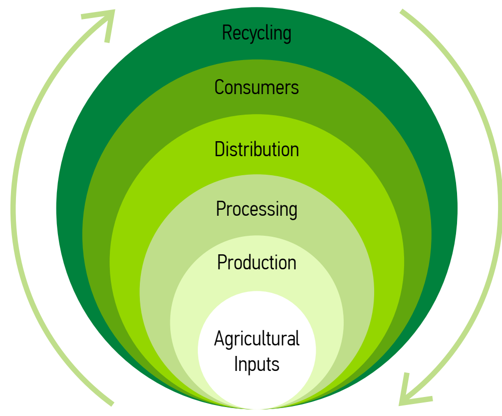
As of January 1, 2019, the loan portfolio of small and medium-sized enterprises (SMEs) amounted to **RUB 326.4 billion**. The Bank has provided financing in the amount of **RUB 328 billion** to SMEs, including **RUB 189.5 billion** in the framework of the State Program on Agribusiness Development.

The major share of the Bank's lending falls on borrowers of the agricultural sector. In 2018, financing for domestic agribusinesses from RusAg exceeded **RUB 1.21 trillion**, the volumes of seasonal field works financing grew up to **RUB 326 billion** (**20.3%** over the level of 2017).

Agribusiness is a highly diversified sector with over 20 sub-sectors and related industries, which provides for multiple lending segments within the framework of the whole agribusiness production cycle.

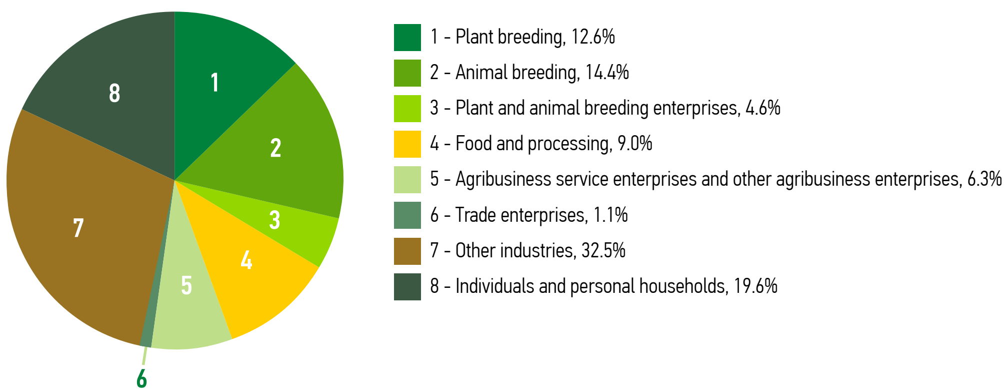
During the reporting period, the Bank provided financial support to agribusiness enterprises across all stages of production cycle: from primary agricultural production to storage and processing, and on to final output and marketing.

Stages of Agribusiness Production Cycle

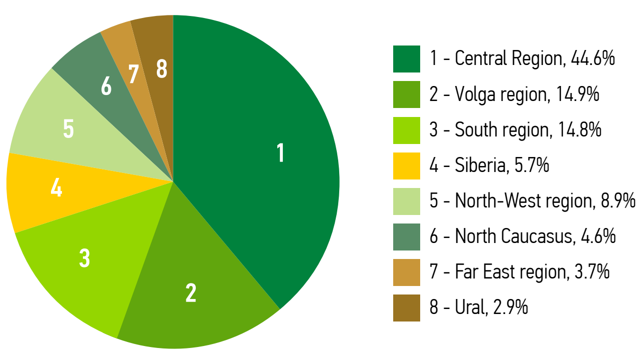


The Bank's loan portfolio is well-diversified within the agribusiness sector and related industries, as well as in the sectors prioritized by the Government.

Loan Portfolio Diversification by Sector



Loan Portfolio Diversification by Region



Loan Book Quality

RusAg made further progress towards enhancing its loan book quality. In 2018, the Bank decreased charges for loan impairment provisions to **RUB 58.6 billion** from **RUB 64.7 billion** a year earlier.

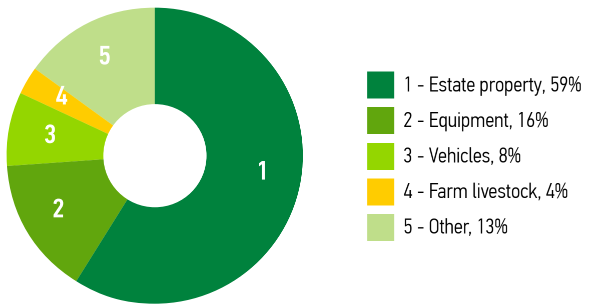
The Bank's loan impairment provision (LIP) is maintained at an appropriate level in line with IFRS 9 and the Bank of Russia requirements, and is reviewed by an auditor. LIP is based on estimated future cash flows arising from borrower performance and, if applicable, realization of collateral; **97%** of corporate loans are collateralized and **82%** of the pledged collateral are highly liquid (estate property, equipment, vehicles).

RusAg takes measures to decrease the level of impaired loans through financial restructuring, assignment of rights of claim, sale of pledged assets, write-offs.

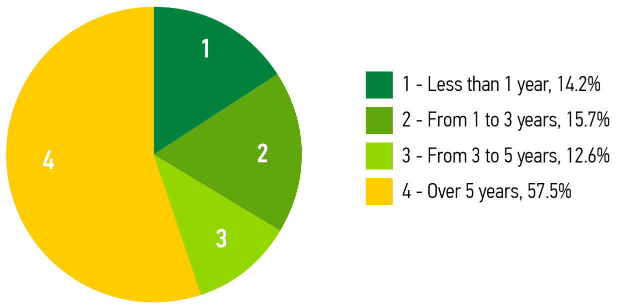
The Bank accepts different types of collateral, such as: inventories (finished products, raw materials, goods in turnover), equipment, including agricultural machinery, motor vehicles, real estate, land plots, construction in progress, sea and other vessels, farm animals, future crop, property acquired in the future, property rights, warranties, banking guarantees, government guarantees of the Russian Federation and municipal guarantees. Among other measures aimed at credit enhancement is the Bank's requirement to insure the subject of collateral. Property is insured by insurance companies that have accreditation with the Bank.

RusAg monitors the condition and reviews the structure of the collateral.

Loan Portfolio Collateral Structure



Corporate Portfolio Split by Maturity



Subsidized Lending

Since 2017, Russian Agricultural Bank is a key participant in the mechanism of lending to agricultural producers at a reduced rate (concessional lending), implemented under the State Program on Agribusiness Development (the Order of the Government of the Russian Federation № 1528 dated 29.12.2016).

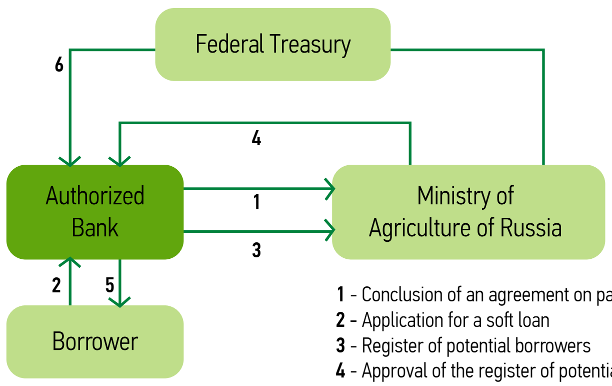
Within the framework of the mechanism of concessional lending, subsidies are provided directly to authorized banks for the purpose of reimbursement of the lost revenue (in the amount of **100%** of the key rate of the Bank of Russia on loans issued in 2017-2018, and **90%** – on loans issued in 2019 and subsequent years).

For investment loans issued before 2017, agricultural producers receive subsidies from the Federal budget and regional budgets for reimbursement of part of the interest rate in the amount of up to **100%** of the refinancing rate (key rate) of the Bank of Russia.

In 2018, **RUB 79.5 billion** were allocated from the Federal budget to subsidize the interest rate on loans to agribusiness, including **RUB 32.6 billion** in subsidies to banks on preferential loans issued to agricultural producers.

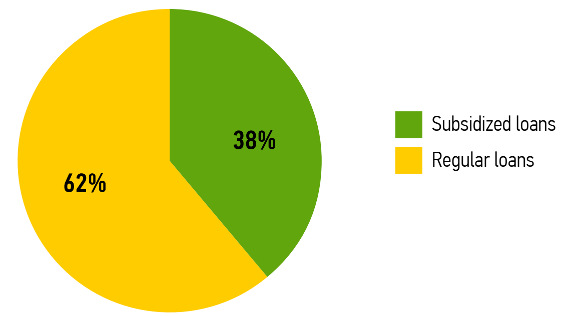
In 2018, the improvement of the mechanism of concessional lending to agricultural producers continued. Starting 25 September 2017, the list of areas for concessional lending was expanded. In 2019, additionally formed target directions for agribusiness exporters.

The Scheme of Subsidized Lending

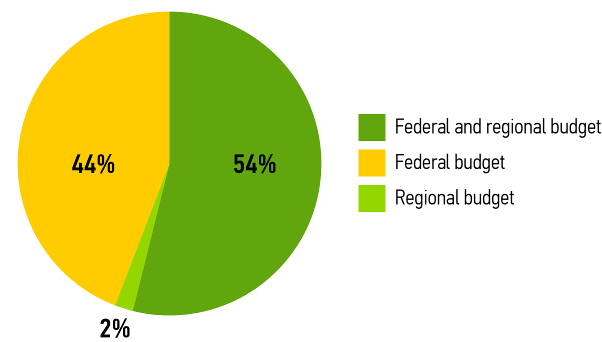


1 - Conclusion of an agreement on participation in the mechanism
2 - Application for a soft loan
3 - Register of potential borrowers
4 - Approval of the register of potential borrowers
5 - Issuing a soft loan
6 - Transfer of subsidies

Share of Subsidized Loans in RusAg's Corporate Loan Portfolio



Sources of Subsidies



3.2. CONTRIBUTION TO THE DEVELOPMENT OF AGRIBUSINESS AND OTHER PRIORITY INDUSTRIES[1]

Russian Agricultural Bank's mission is to act as a Government's market tool to support specific sectors (including agribusiness, fishery and forestry), to facilitate the establishment and operation of a national credit and finance system, to ensure the satisfaction of corporate and retail creditworthy demand for bank products as well as related financial products/services.

The Bank's strategy is aligned with the State Program[2], which provides measures for the integrated development of agribusiness and related sectors.

The core goals of the State Program for 2018-2025 (II implementation stage) are as follows:

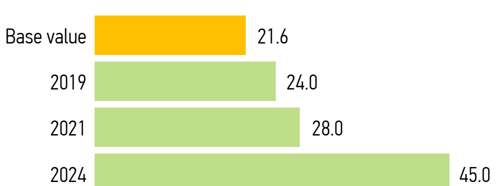
1. Ensuring the food independence of Russia with account of economic and territorial accessibility of agribusiness foodstuffs
2. Growth of value added of agribusiness output
3. Growth of agribusiness exports
4. Increase in investments in fixed assets employed in agriculture
5. Growth of disposable resources of households in rural areas.

In 2018, the consolidated budget expenditures for agribusiness support totaled RUB 254.1 billion. In 2018, the consolidated budget expenditures for agribusiness support within the framework of the State Program have grown **11.3%** as compared to 2017.

Growth of agribusiness exports

According to key parameters outlined in the National Projects[3], Russia should boost exports of agricultural produce twofold to **USD 45 billion** by 2024. It is planned that Russia may export agricultural products worth **USD 24 billion** in 2019 and **USD 28 billion** in 2021. Russian agricultural exports totaled USD 25.9 billion as of YE2018.

Agribusiness exports from Russia, USD bln[4]



[1] Note: Financial data in this section is prepared under RAS as of 1 January 2019.
[2] The State Program on Agribusiness Development and Market Regulation for Agricultural Products, Raw Materials and Foodstuffs.
[3] National Priority Projects developed according to the Presidential Order No 204 dated 7 May 2018 "On the National Goals and Strategic Tasks of Development of the Russian Federation for the period up to 2024".
[4] Based on the passports of the national projects approved by the Presidium of the Presidential Council for Strategic Development and National Projects on December 24, 2018.

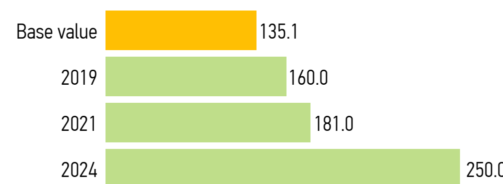
In 2018, as part of the Presidential Decree "On the National goals and Strategic tasks of the Russian Federation through 2024" the Bank supported the promotion of non-commodity exports, including agribusiness exports. The Bank currently services every eighth exporter in agribusiness.

By 2024 the Bank expects to grow its share to **35%**, reaching out to every third exporter. To this end, the Bank has built a streamlined business process to support export operations. The Bank's product offering for exporters includes programs for foreign trade support, FX conversion, cash and settlement services, documentary operations, letters of credit, FX risks hedging and bank guarantees.

Exports of non-resource and non-energy goods

Russian exports of non-resource and non-energy goods should grow by **85%** to **USD 250 billion** by YE2024. Exports amount to **USD 135.1 billion** as the base value. Exports of competitive industrial products should grow by **80%** against the base value to **USD 205 billion** by YE 2024 year-end. Non-resource and non-energy goods export should grow by **8%** year-on-year and reach **USD 160 billion** in 2019.

Exports of non-resource and non-energy goods from Russia, USD bln[4]



Ensuring the food independence of Russia

According to a report by the Ministry of Agriculture, the minimum self-sufficiency targets (percentage of foodstuffs, raw materials and agribusiness commodities of domestic origin in total output (incl. the structure of carry-over stocks)) set forth by the Food security doctrine have been reached and exceeded in fish, grain, seed oil, beetroot sugar, meat and processed meat. In 2018, the share of agribusiness, forestry and fishery accounted for **4%** of Russian GDP.

Amid challenging operating environment and undermined by the exhaustion of import substitution potential the gross production of Russian agricultural sector stayed almost flat year-on-year (**-0.6%**) after demonstrating growth during the previous 6 years. Agricultural production rates stood at **99.4%**, which included **102.1%** in plant breeding and **102.8%** in animal breeding.

The 2018 index of livestock production was up by **1.3%**, showing growth in such key production segments as meat (**+2.5%**), milk (**+1.5%**) and eggs (**+0.1%**). Foodstuffs and processing sub-sectors production grew **4.9%** year-on-year. Agribusiness exports grew **25%** over 2017 and totaled **USD 25.8 billion**.

Increase in investments in fixed assets employed in agriculture

The work done by the Bank in the sphere of financing long term investment and seasonal field works financing, increasing the availability of lending in remote regions and within challenging climatic conditions, have secured

[4] Based on the passports of the national projects approved by the Presidium of the Presidential Council for Strategic Development and National Projects on December 24, 2018.

sustainable growth rates in domestic agricultural production. In the framework of the 2020 State Program, from 2013 through 2018, the Bank has provided almost 2.9 million loans totaling **RUB 4.97 trillion** with **RUB 1.2 trillion** disbursed in 2018.

Small-scale business support

To facilitate access to subsidized loans for as many agribusinesses as possible, the Government has expanded the list of borrowers classified under small scale businesses. Now this list includes farms, agricultural consumer cooperatives, enterprises, partnerships and individual entrepreneurs, operating in production and processing, production cooperatives, operating in purchases of raw materials, with annual revenues of up to **RUB 120 million**.

In 2018, to support small scale agribusinesses the Government earmarked **RUB 11.7 billion** in the form of budget allocations as part of the "single subsidy", which were allocated among 2,352 startup farmers, 718 family livestock farms and 214 agricultural consumer cooperatives and reimbursement of interest payments under loans to small agribusinesses before 31 December 2016 – **RUB 0.7 billion**.

In 2018, the average size of a grant to a startup farmer reached **RUB 2.07 million** up by **16.4%** from 2017. The grant for family-operated livestock farms totaled **RUB 7.72 million** (up by **26.5%** over 2017).

Financing the Agribusiness Industry under the State Program on Agribusiness Development

One of the Bank's strategic targets is to secure a leading position in lending and servicing agribusiness/related sectors, including a larger market share in seasonal field works and project finance.

Russian Agricultural Bank's business model of the universal commercial bank is aimed at ensuring sustainable balanced development, including through combination of customized loans for large business and standardized product offerings for micro, small, mid-sized business and retail customers.

The Bank puts priority on agribusiness and related sectors that are part of value chain (from raw materials providers to the end consumer) as well as population and businesses operating in rural and semi-urban areas. Loans to corporate borrowers have traditionally accounted for the major part of the Bank's loan book. As at 1 January 2019, these loans accounted for **80.0%** of total loans.

Agribusiness borrowers account for the major part of the Bank's corporate loan book. In 2018, the Bank has increased its financing of this sector by **2.7%** from **RUB 1,182.1 billion** up to **1,213.8 billion**. At YE2018, the share of agribusiness and related sectors in the Bank's loan portfolio stood at **56.3%**.

Major guidelines for the Bank's lending support to agribusiness are determined by its active engagement in reaching the targets outlined in the State Program.

To achieve the targets set forth by the Program, the Bank has developed a wide product offering covering the needs of agribusiness producers for financing their working capital and investments at all stages of production, processing, and sales, as well as financing of facility upgrades, introduction of innovations and modern technologies.

The product offering is aligned with the State Program and comprises more than 50 types of loans for corporate borrowers. Moreover, the Bank offers a few universal banking products and ad hoc programs for developing forestry and fishery sectors. The Bank offers standard loans that meet the needs of all sectors. Some projects can be individually structured, including on the basis of project financing.

Loans can be made available against collateral of the purchased agricultural machinery, transport, processing equipment, farm animals, and farm land. Lending for seasonal filed works comprising a wide range of loan types is customized to cover the needs and specific features of each sub-segment in the industry.

In 2018, the Bank extended more than 451,500 loans to the agribusiness sector in the total amount of **RUB 1,174.1 billion** which is 6.1% higher than in 2017. Farms received 2,400 loans totaling **RUB 11.2 billion**, an increase of **1.3%** year-on-year. The Bank extended **RUB 9.2 billion** in loans for purchase of agricultural machinery, a rise of **51.7%** as compared to 2017.

Total loans outstanding to agribusiness added up to **RUB 1,213.8**, outperforming the lower threshold of the target range set by the State Program. Short-term loans account for **77.5%** of loan disbursements.

Investment lending to agribusinesses that work towards import substitution and production of affordable foodstuffs of high quality for Russian population and export-oriented operations is one of the key priorities for Russian Agricultural Bank.

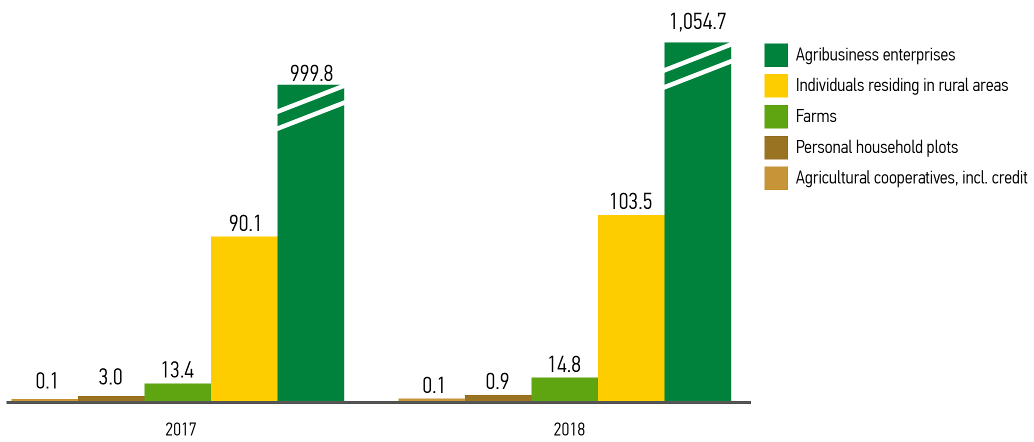
As part of agribusiness investment lending the Ministry of Agriculture reimburses part of interest loan payments in plant breeding, livestock breeding, dairy and meat cattle breeding. Overall, in 2018 as part of this measure the Ministry provided subsidies for 14,489 projects with total outstanding debts of **RUB 548 billion** as at 1 January 2019.

Overall in 2006-2018, during the implementation the 'Agribusiness Development' National Priority project, which was later succeeded by the state programs for agribusiness development, the Bank was providing financial support to enterprises, organizations and farms for implementing 5,098 investment projects on construction, overhaul and upgrade of livestock (poultry) facilities and other agribusiness projects with total investments of **RUB 773.0 billion**. Out of all projects financed by the Bank, 4,095 production facilities have been put into operation as of 1 January 2019, with 11 projects put into operation in 2018.

The Bank's portfolio within the objectives of the State Program comprises loans to the following entities:
- Agribusiness enterprises – **89.8%** or **RUB 1,054.7 billion**
- Individuals, residing in rural areas and mid-sized towns[5] – **8.8%** or **RUB 103.5 billion**
- Owners of individual household plots – **0.1%** or **RUB 0.9 billion**
- Family-operated farms – **1.3%** or **RUB 14.8 billion**
- Agricultural consumer cooperatives – **0.01%** or **RUB 0.1 billion**.

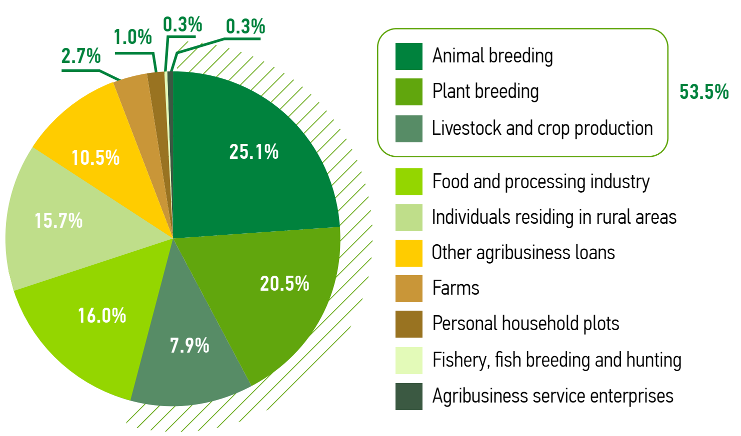
[5] Settlements with a population of up to 100,000.

Agribusiness loans by types of borrowers, RUB billion



As shown in the chart below, at YE2018, agricultural producers (incl. animal breeding, plant breeding and livestock and crop production) accounted for **53.5%** of the financial resources allocated to agribusiness. The share of loans to the food and processing industry accounted for **16.0%**, and individuals residing in rural areas – **15.7%**.

Loans to Agribusiness by sub-sector, %



Russian Agricultural Bank focuses on lending to several major sub-sectors within the framework of the State Program.

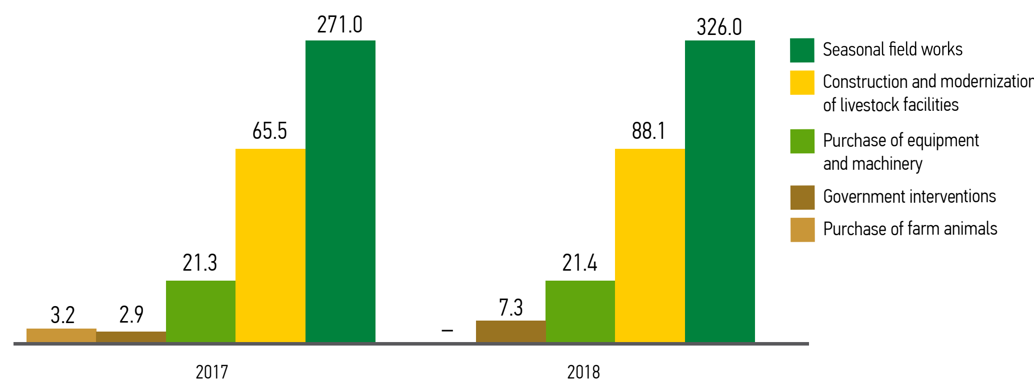
— Financing seasonal field works. In 2018, the Bank issued RUB 326.0 billion in loans for this purpose (**+20.3%** as compared to 2017);

— Financing investment projects for constructing and upgrading livestock (including poultry) facilities. In 2018, the Bank extended **RUB 88.1 billion** (**+34.5%** as compared to 2017) within this segment;

— Promoting special corporate lending programs for agricultural equipment and machinery purchases. In 2018, the Bank extended **RUB 21.4 billion** (**+0.7%** as compared to 2017) for these purposes;

— Financing the purchase of farm animals. For this purpose, during the reporting period, the Bank issued **RUB 7.3 billion** in loans (**+2.5x** times as compared to 2017).

Agribusiness Loan Issuance by Purpose, RUB billion



As part of implementing the measures of state support to small businesses, the Bank has worked out a wide range of products including working capital and investment financing, adapted for specific features of these businesses. For example, the Bank offers loans against warranties provided by guarantee funds as well as special uncollateralized loans.

The Bank's product offering includes ad hoc loans for micro businesses. One of the type of loans is uncollateralized, loans for working capital financing can be disbursed with maturity of up to 36 months, investment loans – for a term of up to 120 months.

In 2018, the Bank provided **RUB 54.5 billion** to small agribusinesses up from **RUB 48.6 billion** in 2017.

In 2018, Russian Agricultural Bank has provided more than 7,800 loans to agribusiness SMEs totaling more than **RUB 189 billion**, which is a **12%** growth from YE2017. Of this amount **RUB 50 billion** have been extended to small businesses. At YE2018, the Bank's loan book outstanding to agribusiness SMEs totaled **RUB 256 billion**.

The Bank designed a new product for ACCOR members to finance seasonal field works. It combines a simplified underwriting procedure and cuts time for loan application approval. The borrowers can apply for a loan of up to **RUB 5 million** at **4.5%** p.a.

Ensuring the Repayment of Outstanding Loans

Since 2002, Russian Agricultural Bank has acted as a state agent for recovering loans from legal entities, constituent entities and municipalities in favor of the Russian Federation.

In 2018, the Bank maintained analytical records on 59 liabilities in the total amount of **RUB 0.9 billion** and also took the required measures to settle the outstanding debts of 165 borrowers who did not have official liability towards the Russian Ministry of Finance.

As part of enforcement proceedings, the Bank received the Arbitration Court resolutions to recover monies in the amount of RUB 311 thousand for the use of a third party's financial resources; submitted claims to institute enforcement proceedings. The Bank interacted with bailiff services to control enforcement proceedings against borrowers, submitted claims to substitute defendants in view of reorganization of a debtor, received court resolutions on instituting enforcement proceedings against federal budget debtors.

In total, the Bank enforced the recovery of **RUB 7.3 billion** to the federal budget during 2002-2018.

In view of a Letter issued by the Russian Ministry of Finance, Russian Agricultural Bank starting from 2019 ceased to act as a state agent for repayment of loans in favor of the Russian Federation with respective functions being transferred to VEB.RF.

Financial Rehabilitation of Agribusiness Enterprises

Since 2002, Russian Agricultural Bank has been implementing governmental policy on the financial rehabilitation of agricultural producers.

Such measures are taken by the Bank with consideration of the need for business conservation while mitigating the negative impact on the Bank's financial performance. Loan book to agricultural producers, participating in the financial rehabilitation program, totaled **RUB 72.3 billion** at YE2018.

Contribution to the Development of Priority Production Industries

In early 2015, the Russian Government adopted the Plan of priority measures to ensure sustainable economic development and social stability[6]. The measures stipulated for 2015-2016 were designed to accelerate economic restructuring, stabilise strategic companies in the key industries, balance the employment market, reduce inflation, moderate the consequences of the increase of prices of socially significant goods and services for low-income families, and ensure growth and macroeconomic stability in the medium term.

The Plan stipulates support of economic industries by banks' capital replenishment in the form of federal loan bonds (OFZ) through the Deposit Insurance Agency and development of project finance. The chapter "Supporting Economic Sectors" provides for reviewing the priorities of government programmes, federal targeted programmes, and the federal targeted investment programme in order to finance priority areas and additional anti-recession measures. It includes support measures for the agriculture industry, housing construction, and the housing and utilities sector, industry, and the energy sector, as well as transport.

In 2018, the Bank provided more than **RUB 1 trillion** in the form of loans and bond purchases falling under the criteria of the DIA Program.

As part of participation in the Deposit Insurance Agency Program[7], Russian Agricultural Bank supports other priority industries and sectors of economy, in addition to agriculture and food processing industries (food, textile and clothing, leather, leather goods and shoes, metals, construction materials, wood-processing); chemical 6production (petrochemistry, agrochemistry, pharmacy, plastic goods); machinery (aircraft, shipbuilding, automobile); real estate development, transportation (airports, air carriers, transport infrastructure); communication enterprises; generation and distribution of electric energy, gas and water; small and mid-sized business across all sub-sectors. FMCG industry is also prioritized pursuant to the State Program "Development and increasing competitiveness of manufacturing sectors" given the respective capital replenishment is made available for the Bank.

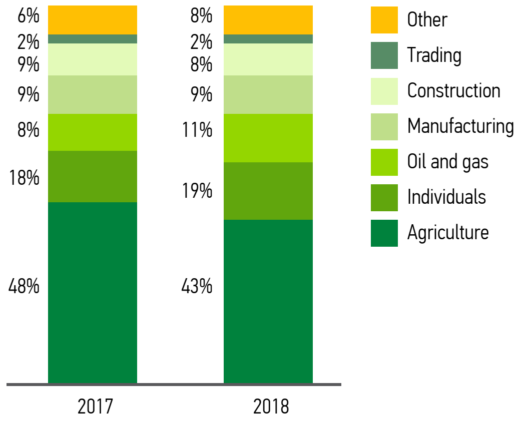
[6] The Plan for the priority measures for ensuring sustainable economic development and social stability in 2015, approved by the Government resolution No. 98-p dated 27.01.2015.

[7] The Program for production sectors support, implemented through Russian banks' capital replenishment by the 'Deposit Insurance Agency' State Corporation (the DIA).

The Bank commits to increase monthly lending to the priority industries by **1%** (enumerated above). The Bank can also grow lending to the following additional segments by at least **1%** monthly (as an alternative or in addition to the above industries):

- Residential mortgage lending and (or)
- Small and mid-sized enterprises and (or)
- Constituents of the Russian Federation.

Loan portfolio split by economic sectors, %



2019 Focus Areas

In order to ensure the Strategic goals accomplishment, Russian Agricultural Bank intends to expand lending to agribusiness, other priority sectors and retail clients. The Bank plans to increase the share of income generated by transaction and other fee-based products, as well as sales of products and services of its subsidiaries. The Bank will proceed with the streamlining of its operating model and increasing business processes efficiency, ensure further enhancement of its IT systems and higher efficiency of sales/service channels by a well-balanced development of direct and remote points of access to the Bank's product offering, mobile and Internet banking.

Overall, Russian Agricultural Bank plans to maintain leadership positions in lending to agribusiness, fishery and forestry, and strengthen its position as the key instrument of implementing the state programs stipulating the support of these sectors.

3.3. RETAIL BANKING[1]

Russian Agricultural Bank offers a wide range of high quality retail services and products, accompanied by professional advice and effective management. These services are made available via multiple distribution channels.

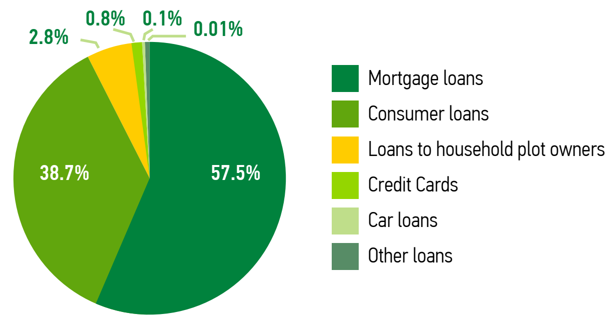
In 2018, on the back of increased consumer activity supported by household income recovery Russian banks posted a **22.8%** lending growth in the retail segment. The share of overdue debts in retail loan book has shown a decline from **7.0%** down to **5.1%** on the back of strong loan issuance.

Russian Agricultural Bank continued to develop its retail business relying on its existing clients keeping focus on mortgage, consumer loans, and credit cards. On the liabilities side, the Bank targets a higher share of long term deposits and growth of current accounts balances. In 2018, retail loans saw growth across all product segments and expanded by **19.5%** up to **RUB 434.2 billion**. The Bank's market share in retail lending amounts to **2.83%**. As at YE2018, the Bank serviced **6.06 million** retail customers, **110,000** clients more than at YE2017.

Loans

Based on 2018 results, Russian Agricultural Bank ranks **5th** by retail loan portfolio in Russia. The Bank was one of top mortgage segment players with **RUB 128 billion** originated in mortgage loans during the year.

Retail Loan Portfolio Composition



In 2018, in accordance with priorities of the adopted credit policy, the Bank offers loan products designed for personal household owners and individuals residing in rural areas. Loans to this segment comprised 2.8% of the retail loan portfolio. For the most part, this type of loans is used to purchase livestock. A smaller share of loans is intended for social rural development, setting up businesses not directly related to agriculture, such as rural tourism and trade, folk arts, and crafts. Consumer loans adapted for members of Non-profit organization "Gardeners' Union".

Consumer lending continues to be the most in-demand product in rural areas. Debts outstanding on credit cards totalled **RUB 3.6 billion**, a **31.7%** increase over YE2017. In 2018, Russian Agricultural Bank issued approximately **390,172** consumer loans, totaling **RUB 93.0 billion**, which represented **40.1%** of total retail loan issuance for the year.

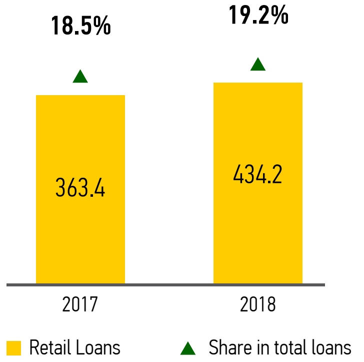
[1] Note: Some detailed information is prepared under Russian accounting standards as at January 1, 2019.

During 2018, the Bank has significantly enhanced business in terms of card sales. By YE2018, the Bank's credit card portfolio grew **31.7%** with outstanding debts reaching **3.6 billion**. The Bank issued 120,000 credit cards, which is **13.0%** higher than last year.

The following retail lending programs accounted for the largest share of new loan issuance in 2018:
- "Pension" – the Bank extended circa 203,000 loans totaling **RUB 345 billion**
- Uncollateralized consumer loans – the Bank extended about 129,000 loans totaling **RUB 41.2 billion**
- "Pre-approved" loan – more than 33,400 totaling **RUB 6.7 billion** extended in 2018.

In 2018, Russian Agricultural Bank extended about 68,100 residential mortgage loans adding up to more than **RUB 128 billion**. The Bank's market share rose by 1.5 pp up to **4.6%**. In the reporting period, the Bank's mortgage loan book rose by **33.1%** and amounted to more than **RUB 242 billion** as at 1 January 2019.

Retail Loan Portfolio Dynamics, RUB billion



Special Purpose and State Subsidized Mortgage Lending Programs

To facilitate the government housing programs to provide affordable housing for specific groups of population, the Bank, besides standard loan products, develops special mortgage lending offers with interest rates below the market average.

For example, Russian Agricultural Bank provides mortgages to young families, families with kids (under Federal Special Purpose Programs), mortgages that allow to spend maternity capital for down payment and military servicemen (pursuant to Russian Federal Law No. 117-FZ "On the Mortgage Savings System for Housing Provisions for Military Servicemen").

In 2018, as part of the abovementioned mortgage lending programs, the Bank provided 14,500 loans totaling **RUB 29 billion**.

Mortgage and consumer loans accounted for **95%** of total retail loans extended in 2018.

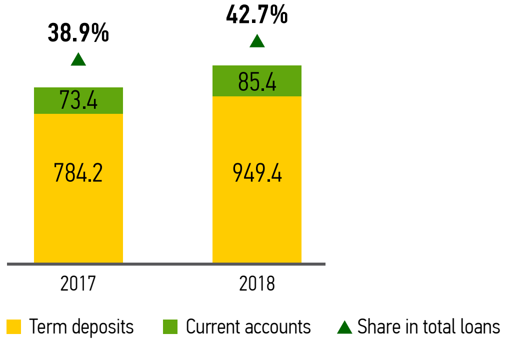
Deposits

Russian Agricultural Bank's wide territorial coverage makes it possible for the Bank's branches and POS to effectively raise deposits from retail customers residing in rural areas. Based on 2018 results, Russian Agricultural Bank ranked 4th by retail deposits in Russia.

In the past year, the Bank grew its retail customer accounts by **RUB 244.6 billion** (**+40%**) thanks to the inflow of new accounts. The system-wide growth stood at **9.5%**. The Bank grew its market share by 0.3 pp to **3.6%** at YE2018.

During the reporting period, retail customer accounts and deposits rose **RUB 177.2 billion** (**+20.7%**) reaching **RUB 1,034.8 billion** as compared with **RUB 857.6 billion** in 2017. The share of retail customer accounts in total customer accounts stood at **42.7%** at YE2018.

Retail Customer Accounts Dynamics, RUB billion



Bank Cards

Targeting the diversification of income sources by strengthening its position in financing and servicing priority sectors and retail customers in line with the 2020 Strategy, Russian Agricultural Bank took consistent steps towards growing the percentage of income from transaction products and fee-based products. Rolling out transaction and fee-generating products for all segments, including salary projects, acquiring, credit cards, payment services, etc. will be instrumental in delivering on this target.

Russian Agricultural Bank issues debit and credit cards of international payment systems (Visa International, MasterCard Worldwide, China UnionPay) and the National Payment Cards System MIR for multiple customer segments. The Bank's cards are customized for personal use, for payroll projects, covering the needs of SMEs and large businesses; for taking out a loan, including special loans for household plot owners; for payroll clients and clients with a positive credit track record; for pensioners; for charitable donations.

The Bank's products are adapted for a wide range of customers residing both in rural and urban areas.

Offices of Russian Agricultural Bank operate in 81 constituents of Russia, including remote, rural communities, where it is especially important to promote cashless settlements. To attain this goal the Bank offers such privileges to cardholders as loyalty programs and customized lending products.

In 2018, Russian Agricultural Bank further developed its credit and debit card offering, including the introduction of a co-branded card and client loyalty program. In 2018, the number of cards issued grew **4.6%** reaching 4.4 million as at January 1, 2019. The number of credit card issuance went up **13%**.

A payment card issued by Russian Agricultural Bank received "The Best Pensioners' card" award. The award is given by Frank Research Group, providing research of competitive environment analysis in the Russian financial services market. The Pensioners' card is a flagship product in the Bank's debit cards lineup. Since the launch in 2015 more than 1.6 million cards were issued.

Transfers and payments

In 2018, Russian Agricultural Bank continued cooperating with international money transfer systems. Amount of transfers through these systems in 2018 totaled **RUB 10.67 billion**, growing by **24.4%** year-on-year. The number of transactions totaled 235,000, growing by **13%** year-on-year. The Bank upgraded its functionality by adding the feature of money transfers to its Retail online bank.

In 2018, the Bank launched on its Web-site "Transfer by card details" service, supporting transfers from/to VISA, MasterCard and 'MIR' cards of any issuer. Besides, the service offers an option to replenish the Bank's card without a commission.

Merchant services

The Bank provides merchant acquiring services to a wide range of customers, including small farms and large national retail chains. Russian Agricultural Bank's acquiring volumes in 2018 were **RUB 90.4 billion**, up by **22%** from 2017. Sales on the Bank's cards at merchants were up by **22%**, totaling **RUB 90,425.5 million**. In 2018, total fees and commissions generated by the Bank's acquiring network grew 18% and stood at **RUB 1,384.9 million**.

In 2018 the Bank launched a retail anti-fraud protection software to avoid fraudulent or unauthorized money transfers.

In 2018 the Bank proceeded with developing its Internet acquiring enabling its clients to use their cards in online shops. Visa, MasterCard and 'MIR' payment system cards can be accepted by merchants as part of this service with **99.97%** availability level, an efficient anti-fraud solution, ensuring maximum purchases conversion, and access to online private office.

To cater to the needs of clients engaged in delivery services, sales on the road and other businesses where a client needs to have mobile, small-sized and reliable mPOS-terminals the Bank expanded its equipment lineup to include mobile acquiring.
The Bank's card product offering has grown significantly and now incorporates contactless payment solutions through Apple Pay, Samsung Pay, Android Pay и Garmin Pay.

In 2018 the Bank enabled Visa and Mastercard cardholders to use their cards directly through Apple Pay mobile payments service, Google Pay is available for Mastercard cardholders.

The Bank rolled out a NFC-based payment ring. The Bank clients can buy such payment ring on-line at the partnering merchant's web-site or at the Bank's offices. The ring can be linked to the existing account or a new one.

The past year was marked by fruitful cooperation with International Payment system Union Pay International (UPI). The Bank issued over 100,000 cards of UPI (including co-branded) and proceeds with growing the network for UPI cards acquisition.

Russian Agricultural Bank and Panasonic Corporation have launched Russia's first co-branded bank card powered by JCB's international payment system. The Bank's clients - holders of co-branded cards become members of the Club Panasonic loyalty program and receive bonuses.

The Bank upgraded its flagship product 'Karta Khozyaina'. The Bank also launched a co-branded card with 'Troika' community transport pass system (supporting Paypass technology). The card can be used for purchases with MIR payment system and as a transport card within Moscow and commuter trains.

Remote Service Channels

With a view to reinforce the Bank's position as an efficient reliable and hi-tech financial institution, significant effort has been invested in growing the share of operations through remote service channels.

The Bank puts priority on upgrading its remote service channels as part of card business development.

In 2018 the Bank completed the installation of its Internet and Mobile bank platforms that were launched in mid-2016. The Bank serviced **761,000** customers using remote banking services (Internet Bank) as at YE2018.

Key results, Card business and online banking

	2016	2017	2018
Outstanding credit card loans, RUB mln	1,973	2,717	3,589
Payment card balances, RUB mln	31,035	52,002	63,108
Retail Internet bank users, thousand	102	404	761

Digital transformation

To accomplish the goals set forth by "Digital transformation of Russian economy" program adopted in pursuance of the Presidential Decree "On the National goals and Strategic tasks of the Russian Federation through 2024" dated 7 May 2018 the Bank joined FinTech Association and launched a software to collect biometric data. Membership in FinTech Association will help the Bank to ensure digital transformation of its operational model, optimize its costs, mitigate risks while increasing accessibility, quality, product offering and attractiveness targeting higher competitiveness, broader customer base. This measure is key to business development and fulfilling targets set by the Bank's Supervisory Board.

Russian Agricultural Bank signed a Cooperation Memorandum with Joint-Stock Company Moscow Exchange MICEX-RTS for the Marketplace project. The Memorandum aims to develop an infrastructure for the financial market and to enhance client access to retail services. The Marketplace project envisages a system for retail distribution of financial services 24/7 in a remote mode and the establishment of a platform with a mechanism for remote transaction making as well as connectivity opportunities for partners' financial product marts. It is expected that by YE 2019 any individual will be able to open a bank deposit, get a loan or an insurance product, buy or sell securities, including bonds and investment fund units. The product offering will grow over time.

2019 Focus Areas

Targeting a higher share of fee income, Russian Agricultural Bank will continue to develop transaction and fee-based services across all client segments, including payroll projects, card business, cash services for corporate and retail customers.

In 2019 the Bank will further advance its retail remote banking platforms. The Bank looks to grow revenue which will be underscored by cutting operational expenses, strengthening security of the platforms and via further upgrade of client servicing standards. The Bank plans to connect its cards Samsung Pay, Google Pay. These solutions will help enhance convenience and competitive advantages in the Russian market.

In line with broader strategic objectives Russian Agricultural Bank intends to acquire more customers using Internet and mobile banking and to grow the percentage of remote transactions.

3.4 FINANCIAL INSTITUTIONS AND INTERNATIONAL OPERATIONS

Russian Agricultural Bank is widely recognized as a highly reliable banking partner to major financial institutions both locally and internationally. Its transparency has been acknowledged by leading global rating agencies and national rating agencies accredited by the Bank of Russia.

In 2018, RusAg continued to develop and expand its correspondent relations with local and international counterparts. The Bank's correspondent network creates a solid base for carrying out comprehensive financial operations in the best interests of both the Bank and its clients.

Correspondent Relations

In 2018, RusAg has further strengthened and developed its correspondent network of Loro and Nostro accounts.

At the end of 2018, the Bank's correspondent network consisted of 67 Nostro correspondent accounts opened in Russian and foreign banks, in leading world currencies, local currencies, and Russian rubles, as well as 133 Loro correspondent accounts opened for Russian and foreign banks, in leading world currencies and Russian rubles, which allowed to meet the growing demand for international and domestic settlements by both the Bank's clients and respondents, and the Bank itself.

Despite the current sanction restrictions, in 2018 RusAg was actively expanding its cooperation in the financial market with Russian and foreign counterparties in order to use various financial instruments, including transactions in the interbank and foreign exchange markets, forward / futures transactions, securities market operations, including REPO operations, banknote transactions, transactions with precious metals, as well as transactions of sale / purchase of coins made of precious metals. The total number of existing cooperation agreements at the end of 2018 amounted to over 350, which confirms the high business reputation of the Bank.

In accordance with U.S. legislative requirements of the Foreign Account Tax Compliance Act (FATCA), Russian Agricultural Bank is registered as a participating financial institution (PFFI) with the identification number (GIIN) FE0DCW.00000.LE.643.

Trade Finance

The Bank takes an active part in the implementation of the decree of the President of the Russian Federation 'On the national goals and strategic objectives of the development of the Russian Federation for the period upto 2024' in terms of ensuring the growth of Russian exports. In order to provide various types of financial and non-financial support to Russian exporters, in 2018, the Bank entered into a program of subsidizing export credits, and also signed a cooperation agreement with Russian Export Center JSC (REC) aimed at consolidating various areas of interaction.

In light of tasks set by the Russian Government on the import substitution of agricultural commodities and derivative products, as well as an increase in the share of exports of such commodities in light of the sanctions, Russian Agricultural Bank, as the key financial institution for the development of Russian agribusiness, has ensured the availability of financial resources for industry enterprises, including those exporting products abroad.

In order to promote the expansion of exports of Russian goods, the Bank organized servicing export deliveries of products of Russian companies operating in agribusiness and various industries. During the reporting period, trade finance instruments were issued in Russian rubles, US dollars and Euros for a total amount equivalent to USD 260 million for a period of up to 2 years, with the use of which the supplies of mineral fertilizers, oil products, metallurgical products, and agricultural machinery were financed for a total of about USD 244 million.

In particular, the Bank has continued the implementation of the project with the Russian Agency for Export Credit and Investment Insurance (EXIAR) on financing supplies of Russian harvesters to the Republic of Kazakhstan for the period up to April 2019.

To achieve the goal set by the management of the Bank: 'Providing quality comprehensive services for foreign economic activity (hereinafter – FEA) in the Bank, including agricultural exporters', RusAg established a Center of competence for FEA service. The Center is intended to provide support to the Bank's activities in the framework of the task of services development for FEA. Already now the Center advises specialists of the Bank on foreign trade products on "one contact" principle.

During the reporting period, the Bank set up import letters of credit in the amount of USD 46.5 million, advised and confirmed export letters of credit totaling USD 403.7 million, advised guarantees of foreign banks in the amount of USD 86 million, and issued guarantees on behalf of third-party banks in the amount of USD 23 million.

In addition, in 2018, RusAg conducted operations on reimbursement of letters of credit issued by counterparty banks in the amount of USD 20.5 million, operations on reimbursement obligations without issuing an IRU in the amount of USD 11 million, as well as on documentary collection in the amount of about USD 24 million.

In order to support the export of Russian products, the Bank has actively provided loans to resident banks of the countries of the Eurasian Economic Union:

- in the framework of documentary credit operations, financing was provided in Russian rubles, US dollars and Euros for a total amount equivalent to **RUB 1.4 billion**, for a period of up to 2 years;
- in the framework of bilateral interbank credit agreements, credit resources were provided in Russian rubles, US dollars and Euros for a total amount equivalent to **RUB 40.5 billion**, for a period of up to 1.5 years;
- in the framework of syndicated loan agreements (including the agreement on assignment of claims for syndicated loan), credit resources in 2018 were provided in the amount of **Euro 35 million** for a period from 162 to 547 days.

As a specialized financial institution with an in-depth focus on agribusiness, Russian Agricultural Bank strives to further expand its competence and successfully share experiences with international and domestic partners and peers.

Capital and Money Markets

Russian Agricultural Bank offers a comprehensive range of debt instruments to reduce risks by placing funds in the market and by raising additional funds, via: REPO operations, ruble-denominated bonds, loan participation notes, government and municipal debt securities, corporate debt securities, and promissory notes and equities.

In 2018, the Bank continued active replacement of 'long' resources attracted on foreign markets by customer funds. The total amount of attracted customer accounts as of January 1, 2019 amounted to **RUB 2.4 trillion**.

As part of the formation of the resource base for long-term lending, the Bank placed the following bond issues in 2018:
- in March – issue of exchange-traded ruble bonds in the amount of **RUB 25 billion**, circulation period of 1,456 days, and a coupon rate of **7.4%** per annum;
- in April – two issues of perpetual subordinated bonds for the total amount of **RUB 15 billion**, with a coupon rate of **9.0%** per annum;
- in October – issue of exchange-traded ruble bonds in the amount of **RUB 13 billion**, circulation period of 1,456 days, and a coupon rate of **9.0%** per annum;
- in November – issue of perpetual subordinated bonds for the total amount of **RUB 5 billion**, with a coupon rate of **10.1%** per annum;
- in November – issue of exchange-traded ruble bonds in the amount of **RUB 19.9 billion**, circulation period of 7,298 days, and a coupon rate of **10.5%** per annum;
- in December – issue of perpetual subordinated bonds for the total amount of **USD 50 million**, with a coupon rate of **9.0%** per annum.

Investor Relations

Despite ongoing restrictions and limited access to the international capital market, Russian Agricultural Bank keeps contact with its investors. Maintaining communication with the international business community is an important element for the Bank's performance on global capital markets both now and in the future.

RusAg has proved itself to be a transparent, reliable, and flexible partner for its existing and potential investors by constantly delivering required information in the right way and at the right time. The Bank's IR team continually updates its investor relations web page, so that investors can easily access Bank information and documents which are subject to disclosure, including: statutory documents, internal regulations and policies, annual reports, financial statements (both consolidated and interim), ratings information, material facts, and other relevant data. In addition to the website, the Bank eagerly provides investors with other communication channels, such as: conference calls, email newsletters, and direct meetings.

In 2018, Russian Agricultural proactively enhanced investor relations activities by participating in related conferences, holding due diligence calls, and gathering investor feedback. Through these activities, the Bank expressed its interest in building relationships with potential investors and maintaining strong ties with current international investors.

The Bank's thorough and consistent approach has logically resulted in strong and sustainable relationships with foreign and local institutional investors in recent years.

4 CONTROLS AND PROCEDURES

4.1 RISK MANAGEMENT

Russian Agricultural Bank always saw any market or financial challenge as an opportunity to raise its standards in risk management. The year 2018 became a financial success and one of the major factors to contribute to this was a continuous work on the Bank's risk management system.

Banks have to take risks all the time. Any bank has to take on risk to make money. The risk arises from the occurrence of some expected or unexpected events in the economy or the financial markets. Risk can also arise from staff oversight or inappropriate intention, which causes erosion in asset values and, consequently, reduces the bank's intrinsic value.

The money lent to a customer may not be repaid due to the failure of a business. Also, money may not be repaid because the market value of bonds or equities may decline due to an adverse change in interest rates. Another reason for no repayment is that a derivative contract to purchase foreign currency may be defaulted by a counter party on the due date. These types of risks are inherent in the banking business.

The major risks that are inherent in routine banking operations comprise (1) credit risk, (2) market risk, and (3) operational risk. The other important risks are liquidity risk, business risk, and reputational risk.

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

Russian Agricultural Bank has set up an efficient risk management system to monitor, measure, and prevent these risks from realizing. The following documents serve as pillars for the Bank's risk management framework:
- The Risk Management Policy
- The Risk and Capital Management Strategy

The framework is built on a principle of subordination to distribute controlling functions and secure an effective supervision model. The Bank has put in place a multi-tier risk management system which incorporates:

(1) The Supervisory Board responsible for
✓endorsement of the risk management Policy;
✓endorsement of the risk and capital management Strategy;
✓consideration of reports on risks taken by the Bank.

(2) The Management Board responsible for
✓approval of key documents ensuring functioning of the risk management system;
✓approval of key documents shaping internal procedures of capital adequacy assessment.

(3) The Risk Management Committee responsible for
✓ management of the whole system, consideration of possible upgrades and improvements;
✓ control of risk appetite and aggregated risk profile of the Bank;
✓ analysis of the Bank's risk management system compliance with the requirements of the state regulating bodies, including requirements on implementation of standards of the Basel Committee on Banking Supervision (BCBS) in the Russian Federation.

The independent analysis and risk assessment are performed by the Bank's dedicated structural units: Risk Management Department and Risk Management Services in regional branches.

Risk Management Department's competence embraces such areas like methodological support of risk management system, implementation of principles and methods of identification, assessment, monitoring and control of financial risks (credit, market, interest, liquidity), and operational risk, including one at the regional level. The Risk Management Department helps the bank's management by continuously measuring the risk of its current portfolio of assets, or loans, liabilities, or deposits, and other exposures. The department also communicates the bank's risk profile to other bank functions and takes steps, either directly or in collaboration with other bank functions, to reduce the possibility of loss or to mitigate the size of the potential loss.

In 2018, Russian Agricultural Bank continued to refine its risk management processes and procedures. And since an effective risk management model needs to be flexible and quickly adapt to changing environment, Russian Agricultural Bank made its priority to react to all market challenges as possible. It is reflected in regular revising of risk appetite of the Bank and the Banking Group. To additionally ensure resilience against possible shocks, Russian Agricultural Bank elaborated its internal stress-testing procedures and complement them with different macro scenarios.

To raise effectiveness of corporate credit risks management, Russian Agricultural Bank took the following steps:

— in the framework of limits system development, the Bank updated credit risk limits which improved quality of risk evaluation and credit projects structuring;
— the methodology of quantitate risk assessment (including probability of default (PD) models; loss given default (LGD) assessment, and exposure at default (EAD) assessment) was adapted and harmonized with requirements of IFRS-9 standards.

Russian Agricultural Bank uses an automated and standardized process for retain loans disbursement which is centralized at the HQ level and is run under a conveyor technology. In the framework of this technology loans are extended at a required quality. The Bank constantly improves algorithm of the process. In 2018, the following upgrades were introduced:
— new stop-factors and toughened rules of customer`s information check were adopted to optimize credit policy depending on a scoring model;
— algorithm of customer's credit record assessment was updated;
— approaches to customer's paying capacity assessment were fine-tuned.

Further developing liquidity risk management, Russian Agricultural Bank took several steps in accordance with recommendations of the Bank of Russia and the Basel Committee on Banking Supervision. In 2018, the Bank worked on new and improved approaches to stress-testing of liquidity constraints. In view of an increase in short-term liquidity requirement and introduction of a structural liquidity requirement (net stable funding ratio), Russian Agricultural Bank took measures to increase its volume of highly liquid assets. It resulted in more investments in highly liquid federal loan bonds (OFZ) and short-term bonds of the Bank of Russia.

To enhance market and interest risks management Russian Agricultural Bank elaborated its methodology of resilience against basis point value (BPV) risk as applied to the Bank's securities portfolio. Another step forward became the improved methodology of market risk assessment with regard to liquid securities volume and commodity market instruments. Also, the Bank actualized its limits system.

In 2018, Russian Agricultural Bank did a major job to raise effectiveness of operational risk management:

— procedures to reveal, collect and process data on operational risks and operational risk events were updated; new approaches to analysis of realized operational risks in other financial institutions were introduced;
— the range of sources to reveal operational risks was broadened;
— multiple distant and on-line trainings were conducted for the Bank's staff to promote the culture of operational risk management throughout the organization;
— the Bank's critical processes and key IT systems were categorized to define their priority for ensuring continuity and (or) fast recovery in case of emergency.

Having introduced those important upgrades to the risk management system in 2018, Russian Agricultural Bank will continue its program aimed at further development of the system both methodological and practical. For the year 2019, Russian Agricultural Bank maps out introduction of new approaches and procedures embracing several risks categories.

Corporate credit risk management will be enhanced with broader engagement of internal ratings and other quantitative risk-metrics. To continue development of qualitative approaches methodology (including, PD, LGD, EAD), the Bank plans to introduce a transactional model for corporate borrowers which deduces links between customers credit quality and transaction volumes on their settlement accounts and nature of those transactions. Corporate borrowers' credit quality assessment will also utilize big data analysis which includes information from multiple sources like financial reporting, participation in tenders and supplies, arbitration cases and court proceedings, statistics of the Ministry of Agriculture, data from credit bureaus, etc.

Russian Agricultural Bank's commitment to permanent improvement of retail loan portfolio quality is reflected in a consistent enhancement of scoring models with new data sources engaged. Also, the Bank is set to maximize the share of automated credit decisions in retail division. In 2019, revised scoring models supported by new IT solutions with AI elements will boost efficiency of the Bank's proprietary credit conveyor process. To secure an attractive quality-price ratio for its retail products, Russian Agricultural Bank has turned to more risk-oriented pricing and credit ceiling setting (RBP, RBL). To optimize verification of customer`s information, the Bank is going to set bucket options of the process depending on the customer`s risk profile.

Liquidity risk and interest rate risk in the banking book management will be enhanced with a refined methodology based on new standards of the BCBS.

In 2019, Russian Agricultural Bank will introduce a new limits system and methods to control market risk. These initiatives are panned in the framework of a new limits module which will strengthen market risk management on all levels. Specially for agri-business customers, the Bank works out a broad range of innovative products allowing to hedge prices for main agricultural commodities (futures, swaps and option contracts for wheat, sugar, corn, etc.). They will be released when the Bank finalizes a dedicated risk management system covering such products.

Operational risk management expects the following upgrades for the next reporting period:
- refinement of internal procedures to reveal, collect and analyze information on operational risk in different Bank's divisions;
- broadening of range of data sources to reveal operational risk/events;
- fine-tuning of operational risk management methodology in accordance with the requirements of the Bank of Russia, including those for IT security risks;
- installment of an automated algorithm-driven solution to reveal operational risks in the Bank's IT systems;
- further development of the integrated system ensuring continuity of the Bank's operations and (or) fast recovery in case of emergency both at the HQ and branch level.

Risk Profile[1]

Credit Risk

Credit risk is the risk of losses arising as a result of the failure to perform or the inappropriate performance by the borrower of his/her financial obligations to the Bank. Efficient credit risk management is achieved through the balanced distribution of decision-making authorities among the Bank's management bodies.

To manage credit risks the Bank assesses the structure of transaction and all available information on a counter-party's (groups of counter-parties) credit profile; uses risk mitigation tools (incl. liquid collateral, guarantees and sureties); includes credit risk premium in credit pricing; sets limits for individual counter-parties (groups of counter-parties) affiliated based on legal or economic factors; continuously monitors credit risk exposures.

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.

[1] For further information please refer to Note 29 Risk management to RusAg's Consolidated Financial Statements under IFRS for the year 2018.

When implementing its lending and investment programs, the Bank prioritizes the agricultural industry and related sectors that service the needs of agricultural producers. In doing so, industry concentration risks are mitigated by:
- Lending to the whole value creation chain (production, storage, processing and sales);
- Lending to borrowers with different specialization in different regions;
- The combination of several production types by agricultural producers within one enterprise;
- Diversification by investing in highly efficient and sustainable projects in other economic spheres;
- Capping exposure to a single-name borrower.

Liquidity Risk

Liquidity risk is defined as the risk that the Bank will be unable to meet its obligations in a timely and complete manner. The Bank is exposed to daily calls on its available cash resources from customer accounts, demand deposits, maturing inter-bank loans (deposits), term deposits and issued securities, loan drawdowns, and guarantees, as well as from margin and other calls on cash settled derivative instruments.

The Bank manages liquidity risk using the following basic methods:
- Evaluating the daily payment position on the basis of cash flow analysis;
- Conducting an asset and liability maturities mismatch analysis (GAP-analysis);
- Analyzing actual values and the dynamics of liquidity indicators – internal, as calculated by the Bank itself;
- Reviewing the actual values and forecasting the mandatory liquidity ratios;
- Performing stress tests.

The Bank manages liquidity risk by:
- Managing the asset-liability structure;
- Setting and controlling limits and liquidity indicators, both those set by the CBR and internal ones, calculated by the Bank itself;
- Maintaining a liquidity cushion;
- Engaging in prior planning and preparing measures aimed at maintaining and restoring liquidity in unfavorable conditions.

As of January 1, 2019, the Bank complies with Bank of Russia liquidity ratios.

Market Risk

Market risk is the risk of losses arising from unfavorable changes in the market value of financial instruments in the Bank's trading portfolio and derivative financial instruments, as well as in foreign currency and precious metals exchange rates.

The Bank makes a daily assessment of equity, currency and interest rate risks arising from market uncertainty via VAR (Value-at-Risk) analysis, which represents a statistical assessment of the maximum losses for a given time period with a specified confidence level. In addition to VAR, the Bank also calculates the ES indicator (the Expected Shortfall), which represents the monetary value of expected losses in case of excess VAR.

The Bank manages market risk by:
- Setting and controlling structural and position limits, as well as stop-loss limits;
- Diversifying and hedging risk exposures;
- Conducting prior planning and preparing measures aimed at minimizing losses in case of unfavorable changes.

To control currency risks the Bank monitors currency position for each currency and the amount of all foreign currency positions to comply with the Bank of Russia Instruction No. 178-I, dated 28 December 2016, 'On Establishing Values (Limits) of Open Currency Positions, Methods for their Calculation and Specifics of Supervision over their Compliance by Credit Institutions'. The CBR caps maximum exposure to currency risks at **10%** of total equity for a single currency and at **20%** of total equity for aggregate exposure to all currencies.

Interest Rate Risk

Interest rate risk is the risk of incurring losses due to an unfavorable change in the interest rates for assets, liabilities and off-balance sheet instruments.

The interest rate risk for the assets and liabilities structure is assessed based on analyzing maturity gaps between interest sensitive assets and liabilities, the effects of market rate fluctuations and forecast market rate dynamics.

The Bank manages liquidity risk using the following basic methods:
- Evaluating gaps between the Bank's assets and liabilities which are sensitive to interest rate level changes – the GAP method.
- Analyzing and assessing of actual values and dynamics for interest rate risk measurements – the coefficient method.

Moreover, the Bank evaluates the interest rate risk at the level of certain operations by analyzing expected cash flow changes in the case of changes in market conditions, financial positions and/or actions undertaken by the Bank's clients and/or counter-parties.

In 2018, to upgrade interest risk management the Bank took steps to automate the systems in part of controlling risk exposure.

To mitigate effects of interest risks on the Bank's operations the Bank worked towards building a balanced asset liabilities structure that are sensitive to market risk fluctuations and also updates limits on interest risk exposure.

Operational Risk

Operational risk is the risk of loss(es) resulting from inadequate or failed internal processes, and people and systems, or external events.

Operational risk monitoring is carried out by the Bank's divisions, including at the branch level, on a regular basis by applying the warning signals system.

The Bank manages operational risk by:
- Creating internal culture of operational risk management on all levels of its organizational structure, including levels of regional branches;
- Developing and enhancing 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 Bank, as well as developing and providing measures necessary for maintaining operational risk at the acceptable level;
- Selection and analysis 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 Bank's activity in case of extraordinary and unexpected circumstances, and for limiting losses in case of adverse circumstances arisen;
- Maintaining effective internal control environment within the framework of operational risk management.
- Insuring premises, buildings, vehicles and equipment, cash in cash desks, ATMs, payment terminals, etc., life and health of employees whose work involves higher risks.

In 2018 targeting further enhancement and higher efficiency of operational risk management the Bank continued to introduce more advanced procedures for detecting and collecting data on operational risk events as set forth in the Bank's internal regulations.

The established risk management framework ensures an optimal risk-reward balance, which is aligned with long-term strategic objectives, in particular, the preservation of the Bank's assets and capital.

4.2. INTERNAL AUDIT

Internal audit function plays an important role in every financial institution. In the broadest sense it includes the arrangement of organization, methods and procedures adopted by management to meet its missions, goals and objectives. Internal audit, often referred to as internal controls, serve as the first line of defense against fraud and violations of laws, regulations and provisions of contracts and agreements. It aims to help the organization to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Russian Agricultural Bank engages a multilayer system of internal control which helps to protect assets and reduce the possibility of fraud, improves efficiency in operations, increases financial reliability and integrity, and ensures compliance with laws and statutory regulations.

The internal control matrix in Russian Agricultural Bank is built to effectively and comprehensively cover operations and processes from the senior management to common staff. On different levels of hierarchy it can be focused on strategical issues or present day challenges.

Governing Bodies

- General Shareholders' Meeting
- Supervisory Board
- Management Board
- Chairman of the Board

Internal Control

- Internal audit service
- Internal (compliance) control service
- Responsible officer for anti-money laundering and combating the financing of terrorism
- Controller for professional securities market participant
- Other units and officers involved

The Revision Commission

Chief Accountant

Directors and chief accountants of branches

The Bank's Articles of Association regulate division of authorities on every level of the company's structure. An effective distribution of powers between governing bodies is an essential factor for performance of the whole system.

The Supervisory Board is responsible for:
- establishment and general functioning of internal control system;
- assessment of the Bank`s internal control system efficiency, and analysis of its further development;
- consideration of improvement of organizational structure and regulative documents;
- establishment of the Audit Committee of the Supervisory Board.

The Management Board is mainly responsible for:
- overseeing implementation of the Bank's strategy in the field of internal control;
- delegating responsibilities to work out rules and procedures of internal control to other units involved in the process;
- analyzing obedience to internal rules of internal control;
- assessment of adequacy of internal documents regulating internal control;
- analyzing of internal control efficiency based of checks results;
- establishing of effective data systems to allow fast information availability for all Bank's units involved in internal control process;
- establishing of a resilient system to expose and eliminate violations of internal control protocols.

The Chairman of the Board is involved in internal control while exercising the following functions:
- releasing of orders, decrees, and instructions on Bank's daily operations;
- approving of internal units' provisions, Bank's working schedule, staff hiring procedures in the headquarters and regional branches;
- endorsing of awards and penalties for staff;
- allocating of authorities between members of the Management Board.

The Internal Audit Service

The mission of the Internal Audit Service (IAS) is to enhance and protect organizational value by providing risk-based and objective assurance, advice and insight. The IAS activities help the Bank to accomplish its objectives by bringing a systematic, disciplined approach in order to evaluate and improve the effectiveness of risk management, control and governance processes. Its tasks include assessing and making appropriate recommendations for improving the risk management, control and governance process in the accomplishment of the following objectives: promoting appropriate ethics and values within the organization, ensuring effective organizational performance management and accountability and effectively reporting risk and control information to appropriate bodies of the Bank and affiliate entities. Thereby it promotes a culture of efficient and effective management within the whole Banking Group.

The IAS operates under direct control of the Supervisory Board. Its primary objective is to provide the Bank with assurance as to the effectiveness and efficiency of the risk management, control and governance processes, with the main focus on the following areas:
- Supervision of the internal control and risk management systems in the Bank and the Banking Group entities;
- Monitoring of internal control system in the Bank.

The IAS is involved in various processes in the field of internal control. Its key functions are the following:

- to evaluate the effectiveness of the Bank's internal control system in general, to oversee the fulfillment of decisions adopted by supreme bodies (the Bank's Annual shareholders meeting, the Supervisory Board, the Management Board, the Chairman of the Board);
- to analyze the effectiveness of methodology of banking risks assessment;
- to check reliability of internal control overseeing of automated information system usage, including protection against unauthorized access and other violations;
- to ensure the viability of measures and protocols aimed to secure continuity of the Bank's operation in case of emergency;
- to check and test authenticity and completeness of accounting and financial reporting;
- to evaluate methods and instruments of Bank's property protection;
- to evaluate economic feasibility and effectiveness of Bank's deals and operations;
- to check processes and procedures of internal control;
- to check activity of the Internal control service and Bank's other units involved in risk management;
- to participate in checkup committees in legal entities, which are parts of the Banking Group;
- to establish and coordinate internal audit function in the Banking Group entities.

One of the most important instruments for the IAS is regular internal inspections. While the major part of such activities goes under a schedule, some inspections are carried out randomly, which secures an objective judgment on the Bank's ability to resist certain types of risks.

In 2018, the Internal Audit Service officers carried out 93 internal inspections including:

43 comprehensive inspections of financial and operational activities of regional branches;
14 inspection of the Bank's HQ units;
33 inspections of affiliate entities of the Bank (in the framework of the Checkup committee/exercising auditor functions);
3 inspections of the Bank's representative offices abroad.

In addition, the IAS officers located in regional branches of the Bank delivered another **1,576 inspections** of branches and internal branch units.

4.3 INTERNAL (COMPLIANCE) CONTROL

Since effective internal control (including anti-money laundering policy) is the foundation of safe and sound banking, it is examined by the Supervisory Board of the Bank on a regular basis. Russian Agricultural Bank enjoys a properly designed and consistently enforced system of operational and financial internal control which helps the bank's management to safeguard the bank's resources, produce reliable financial reports, and comply with laws and regulations. Effective internal control also reduces the possibility of significant errors and irregularities and assists in their timely detection when they do occur.

Sound and effective internal control plays such an important role because it provides reasonable assurance that:

- Bank operations are efficient and effective
- Recorded transactions are accurate
- Financial reporting is reliable
- Risk management system is effective
- The Bank complies with banking laws and regulations, internal policies, and internal procedures.

Although internal control and internal audit are closely related, in Russian Agricultural Bank they are distinct from each other. Internal control is the systems, policies, procedures, and processes effected by the Bank's Supervisory Board, management, and other personnel to safeguard bank assets, limit or control risks, and achieve bank's objectives. Internal audit provides an objective, independent review of bank activities, internal controls, and management information systems to help the management to monitor and evaluate internal control adequacy and effectiveness.

The Supervisory Board examines violations and considers recommendations in regard to internal control system and anti-money laundering and counter-terrorism financing legislation in the Bank reported or provided by the Internal Audit Service, dedicated settlement officer, external auditors, and federal oversight bodies.

The Supervisory Board also tracks the activities of the Bank's executive bodies responsible for prompt actions against any violations of internal control procedures, including those in the sphere of anti-money laundering and counter-terrorism financing legislation. Another function of the Supervisory Board is to authorize check-up schedules of the Internal Audit Service of the Bank. Their results are reported directly to the Supervisory Board.

In 2018, Russian Agricultural Bank took several steps on further development of internal control system in the Bank and the Banking Group:

- Establishment of the Compliance Control Department (CCD). This is a result of evolution of the Internal Control Service. With wider authorities and more functions, formation of the CCD reflects growing attention paid by the Bank to internal control. Amid regular function of internal control set by the Bank of Russia, the CCD is also responsible for anti-corruption actions, compliance with international requirements in this field, countering insider information leakage and usage.

— Establishment of the Compliance Committee. Its authorities cover such issues like anti-money laundering and combating the financing of terrorism, international exchange of financial information for tax reporting with foreign countries and territories, prevention and countering corruption, prevention of conflicts of interests.
— Adoption of essential internal documents in the anti-corruption field.

The Bank manages regulatory (compliance) risk with many internal units involved. Most internal units have an inbuilt function of compliance risk management integrated in their operations in a specific field of competence. The CCD provides general coordination and reports state of the compliance risk management throughout the Bank to the Management Board and the Chairman of the Board.

The Compliance Committee was introduced to raise general effectiveness of the internal control system in the Bank and the Banking Group, including compliance risk management. The new body considers and approves drafts of internal documents in the sphere of internal control and anti-money laundering and counter-terrorism financing. The Committee supervises compliance with international regulation, including taxation of foreign accounts (namely, under FATCA) and observation of international sanctions. It also monitors anti-corruption activities and issues recommendations for the Banks`s departments and members of the Banking Group aimed to strengthen internal integrity, prevent conflict of interests, usage of insider information and market manipulation.

Although the internal control system in Russian Agricultural Bank proved itself as a reliable and fine-tuned instrument against multiple risks, its development never stops. The Bank is committed to further elaborate and compliment internal processes and procedures to meet best international practices.

Anti-money Laundering and Combating the financing of terrorism

In 2018, Russian Agricultural Bank continued coherent work in the sphere of anti-money laundering and combating the financing of terrorism. To comply with changing regulatory environment, the Bank updated specialized documents, namely, "The Rules of internal control in Russian Agricultural Bank of anti-money laundering and combating the financing of terrorism" (the Rules).

The observation of the Rules is supervised by a dedicated officer in the Bank's HQ and authorized officers in regional branches.

The cornerstone of the Rules is the Know-Your-Customer (KYC) policy, which stipulates profound knowledge of customer's profile. According to KYC policy the Bank collects and checks customer's information, authenticates its representatives and beneficiary owners, examines and monitors customer's operations and corresponding counterparties.

Russian Agricultural Bank pays special attention to staff qualification and regularly conducts trainings for personnel dedicated to anti-money laundering and combating the financing of terrorism.

The Bank does not open and service accounts for private individuals or legal entities without receiving a full package of documents which are necessary to identify a customer. Saving accounts and deposits are a subject to KYC policy as well and can not be opened without client's personal presence.

Russian Agricultural Bank is an active player in the inter-bank market. To guarantee a maximum protection against shady transactions, the Bank does not do business with non-resident banks without permanent bodies on soil where are they are legally incorporated. The Bank also does not maintain accounts with those banks that may be transit banks for third-party banks with no physical presence in their country of registration.

In accordance with requirements of the Foreign Account Tax Compliance Act (FATCA), Russian Agricultural Bank is registered as a Participating Foreign Financial Institution (PFFI) by the Internal Revenue Service (IRS) of the USA.

The Global Intermediary Identification Number (GIIN) assigned to Russian Agricultural Bank is FE0DCW.00000.LE.643.

The effective date of the inclusion of Russian Agricultural Bank in the U.S. Internal Revenue Service list of financial institutions that joined FATCA is June 30, 2014.

5

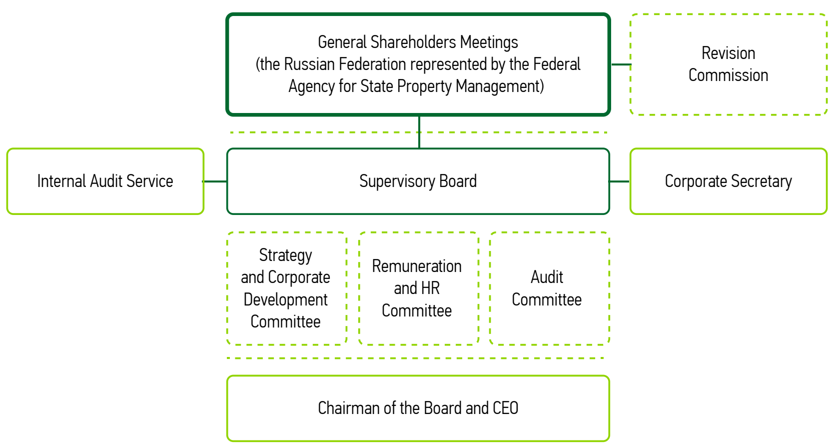
CORPORATE GOVERNANCE

Efficient corporate governance practices underpin the successful operations of a company, its sustainable development, risk management, ensuring a balance of the rights and interests of the shareholders, management and other stakeholders. Pursuing the best corporate governance standards also positively impacts the company's operating results, internal efficiency, investors' valuation of the company's securities and ability to raise capital needed for further development.

Russian Agricultural Bank regards good corporate governance practices as a key to its long-term success, creating trust and engagement between the Bank and its shareholder, stakeholders, employees, and clients.

The corporate governance structure ensures a proper balance of governance bodies, leverages authority, and distinguishes between general management process carried out by the General Shareholders Meeting and operations management that is carried out by executive bodies - the Chairman of the Management Board and the Management Board (MB).

The chart below shows the Bank's top level organizational chart comprising four tiers, namely the General Shareholders Meeting, the Supervisory Board (SB), the Chairman of the Management Board and the Management Board (MB).



An effective system of mechanisms and approaches (directing and controlling the Bank) ensures that decision making is fast, transparent, and result-oriented. It enables the Bank to control risks effectively, and to react promptly to any changes in the business or economic environment.

Russian Agricultural Bank's only shareholder is the Russian Federation, represented by the Federal Agency on Federal Property Management, which holds the Bank's issued and outstanding ordinary shares (**77.11%** from total share capital), the Ministry of Finance of the Russian Federation, which holds the Bank's issued and outstanding preference shares (**6.1%** from total share capital) and the State Corporation "Deposit Insurance Agency", which holds the Bank's issued and outstanding Type A preference shares (**16.79%** from total share capital).

Rosimuschestvo holds **100%** of the Bank's voting stock. Pursuant to the Russian Federation Government Decree No. 738 dated December 03, 2004 "On Management of Federally Owned Shares in Joint Stock Companies and Exercise of the Special Right of the Russian Federation to Participate in Joint Stock Companies' Management" ("Golden Share"), Rosimuschestvo exercises the powers of the General Shareholders Meeting. The decisions of the General Shareholders Meeting are executed in the form of an order by Rosimuschestvo.

Thus, SB composition is determined by the direction of Rosimuschestvo upon the instructions of the Russian Government. The Chairman of the Supervisory Board is chosen by a vote among Supervisory Board members by a majority vote.

The Bank's shareholders have equal and fair opportunity to take part in profit distribution through dividend payment.

The Bank has drawn up and follows all the requirements of the internal documents compulsory for joint-stock companies (Charter documents, Provision on the General Shareholders Meeting, Provisions on the Supervisory Board and Management Board, and the Revision Commission, etc.). The Bank timely discloses complete, updated, and correct information on its operations to ensure the Bank's shareholder and investors can take substantiated decisions.

The SB remuneration system provides for closer alignment of interests of the SB members with the shareholder's long term financial interests. The only form of remuneration applied by the Bank to the SB members is fixed remuneration. The remuneration of the executive bodies and other key personnel is linked to the Bank's results and their personal contribution to achieving these results. Russian Agricultural Bank has introduced long term motivation for executive management and other key personnel.

Russian Agricultural Bank has established an effective risk management and internal controls framework ensuring reasonable confidence that the Bank accomplishes the set targets. The Bank has set up internal units working on risk management and internal controls.

The Bank's Internal Audit Service reports functionally to the SB. Its functions comply with the recommendations of the Corporate Governance Code and among others include: (1) assessment of the efficiency of the internal control system; (2) assessment of the efficiency of the risk management framework.

The Bank has drawn up and introduced anticorruption policies that set forth measures aimed at creating corporate culture blocks, organizational structure, rules and procedures preventing the cases of corruption.

The Supervisory Board

The Supervisory Board exercises the overall management excluding the solution of issues assigned pursuant to Federal Law No. 98 "On joint-stock companies" dated December 26, 1995, and the Bank's Charter to the competence of the General Meeting of Shareholders.

The role and responsibilities of the SB include: considering and approving the long-term strategic guidelines, KPIs, approaches to the risk management and internal control frameworks, controlling the performance of the Bank's executive bodies. The Supervisory Board also provides advisory assistance to the Management Board on comprehensive issues, in accordance with the Bank's core values of transparency, trust, and integrity.

The SB as the key element of corporate governance framework sets forth strategic directions of a financial institution and acts as a kind of a guarantor balancing the interests of its management, shareholders and other stakeholders.

The Bank's SB determines key strategic long-term guidelines, controls executives bodies, sets approaches to risk management and internal controls, sets the remuneration policy of the SB members, the executive bodies and other key management personnel. The Bank's SB constantly monitors the Bank's operations and the executive bodies, assesses their activity as to whether it corresponds to the nature, scale, and conditions of the Bank's development, sets the key performance indicators (KPIs) and controls their achievement.

As at January 1, 2019, the Bank's Supervisory Board comprised 9 members.

Chairman of the Supervisory Board	
Dmitry N. Patrushev	Minister of Agriculture of the Russian Federation Elected SB Chair on July 23, 2018 Re-elected SB Member on June 30, 2018
Members of the Supervisory Board	
Arkady V. Dvorkovich	Co-chairman of the Skolkovo Foundation Council, Chair of the Skolkovo Foundation Re-elected SB Member on June 30, 2018
Oleg A. Bogomolov	Advisor to Chairman of the Management Board of JSC Rosselkhozbank Re-elected SB Member on June 30, 2018
Andrei Y. Ivanov	Deputy Finance Minister of the Russian Federation Re-elected SB Member on June 30, 2018
Boris P. Listov	Chairman of the Board and CEO of JSC Rosselkhozbank Elected SB Member on June 30, 2018
Vladimir I. Strzhalkovsky	Special representative of the State Atomic Energy Corporation ROSATOM for nuclear technologies promotion in Africa Re-elected SB Member on June 30, 2018
Mukhadin A. Eskindarov	Rector of the Financial University under the Government of the Russian Federation Re-elected SB Member on June 30, 2018
Mikhail Y. Genis	Advisor to the Director of non-profit Foundation "Analytical center "Forum" Independent director Re-elected SB Member on June 30, 2018
Dmitry V. Pristanskov	Deputy Minister of Economic Development of the Russian Federation - Head of the Federal Agency for State Property Management (till 19.12.2018) Re-elected SB Member on June 30, 2018

Performance of the Governing Bodies

In 2018, seven General Shareholder Meetings were held: four extraordinary meetings and an annual General Shareholder Meeting in June. In particular, the annual General Shareholder Meeting elected the Revision Commission, the composition of the Supervisory Board, approved the Bank's external auditor, the Bank's annual report, and the accounting (financial) report for 2017. Besides, the annual General Shareholders Meeting approved the internal regulation on the Bank's GSM and looked into other issues on the agenda.

During 2018, the Supervisory Board convened 28 times and in total addressed 89 issues. The committees functioning under the SB convened 48 times.

These bodies addressed the following key issues on the Bank's Strategy and Long-term development program implementation, key indicators accomplishment; cost-cutting measures; performance under business plan; credit policy; risk management policy; risk and capital management strategy; large risks reports; mandatory ratios compliance; capital size and results of the capital adequacy assessment; purchasing activities; non-core assets disposal; corporate governance framework, etc.

The authorities are distributed among the SB members through the establishment of specialized committees. The Provisions on the Bank's SB and on SB Committees envisage that SB members may provide written opinions regarding issues on the agenda in case of their personal absence.

The Supervisory Board of Russian Agricultural Bank established three SB committees:

- the Audit Committee reviews the Bank's accounting and risk policies, as well as the internal control environment;
- the Strategic Planning and Development Committee sets forth and supervises general and priority strategic objectives, makes recommendations on the Bank's dividend policy, and evaluates the Bank's operational efficiency;
- the Human Resources and Remuneration Committee approves the Human Resources Policy and the remuneration policy for senior executives.

The specialized committees under the SB perform a preliminary review and prepare recommendations on issues within the competence of the Board. All issues concerning operational and strategic management, financial planning, asset and liability management, and business segments are submitted for approval to the SB pass preliminary review by the Management Board.

The SB elects chairs and members of these committees among the Supervisory Board members for a period until the General Shareholders Meeting elects a new Supervisory Board.

The composition of the Supervisory Board Committees:

The Strategic Planning and Development Committee:

	Composition as at January 1, 2018	Composition as at January 1, 2019
Chair:	D. Morozov	A. Dvorkovich
Members:	A. Ivanov M. Genis D. Patrushev M. Eskindarov	A. Ivanov M. Genis

The Audit Committee:

	Composition as at January 1, 2018	Composition as at January 1, 2018
Chair:	M. Eskindarov	M. Eskindarov
Members:	O. Bogomolov M. Genis A. Ivanov V. Strzhalkovsky	O. Bogomolov M. Genis A. Ivanov V. Strzhalkovsky

The Human Resources and Remuneration Committee:

	Composition as at January 1, 2018	Composition as at January 1, 2019
Chair:	V. Strzhalkovsky	V. Strzhalkovsky
Members:	D. Morozov M. Eskindarov	D. Morozov M. Eskindarov

The Revision Commission

The Revision Commission is the body responsible for controlling the Bank's financial and business activity. It carries out the revision of compliance of current operations with the financial plan, analyzes the Bank's financial position, evaluates the functioning of internal control and risk management systems, and checks the legitimacy of selected transactions.

The Revision Commission is elected according to an order of Rosimuschestvo.

The Commission comprises 5 members and currently includes representatives of Rosimuschestvo, and the Ministry of Economic Development of the Russian Federation, the Ministry of Agriculture and the Ministry of Finance of the Russian Federation.

The Corporate Secretary

The Corporate Secretary is responsible for ensuring procedures aimed at championing the rights and interests of the Bank's shareholders and support the SB efficient work. The Secretary participates in arranging the General Shareholders Meeting and Supervisory Board meetings and works out resolutions that need the approval of the Bank's shareholder. The Corporate Secretary secures effective cooperation between the shareholder and the Bank's management team.

The Corporate Secretary reports to the Supervisory Board and is appointed by its decision.

The Management Board

The Chairman of the Board and the Management Board are Russian Agricultural Bank's sole and collective executive bodies. They perform general duties related to achieving the Bank's key business goals, accomplishing long-term targets set forth by the shareholder, supervising the compliance of Bank operations with all relevant laws and regulations, overseeing the introduction and functioning of appropriate risk management systems including defining the Bank's risk appetite, monitoring the environment in which the Bank operates, and strengthening the Bank's corporate culture.

The composition of the Management Board as at January 1, 2019 was as follows:

Boris P. Listov	Chairman of the Board and CEO of JSC Rosselkhozbank
Irina V. Zhachkina	Board Member, First Deputy Chairman of the Board
Kirill Y. Levin	Board Member, First Deputy Chairman of the Board
Aleksei Y. Zhdanov	Board Member, Deputy Chairman of the Board
Olga S. Suvorova	Deputy Chairman of the Board
Ekaterina A. Romankova	Board Member, Deputy Chairman of the Board, Chief Accountant
Pavel D. Markov	Board Member, Deputy Chairman of the Board
Andrei N. Barabanov	Board Member, Deputy Chairman of the Board, Chief Accountant

The Management Board is supported by a number of specialized committees and commissions, including, but not limited to:

1. The Strategy and Corporate Development Committee (9 members).

The Committee develops proposals and recommendations for the Management Board and its Chairman, and makes decisions to enhance governance at the Bank and across the Group in the following areas: strategic development, corporate governance, development of the functional model and organization structure, project activities, business process optimization, general approach to segmentation and customer work, communications and brand management; document flow management.

2. The Credit Committee (12 members).
The Credit Committee considers issues related to lending, setting credit risk for corporate clients limits. The Credit Committee is not authorized to take decisions regarding the settlement of corporate problem loans.

The Credit Committee engages in the implementation of the Bank's credit policy and its enhancement, as well as the minimization of credit risks. It ensures that lending transactions yield a return and are effective, by introducing improved quality and faster decision making, and standardized credit processes.

3. The Junior Credit Committee (11 members).
The Junior Credit Committee engages in the implementation of the Bank's credit policy and its enhancement, as well as the minimization of credit risks. It ensures that lending transactions yield a return and are effective, by introducing improved quality and faster decision making, and standardized credit processes.

4. The Micro Credit Committee (9 members).
The Finance Committee coordinates multiple aspects of business planning, cost management, pricing, and profitability analysis of banking operations. It is also involved in improving the management of the Bank's financial and business activities.

5. The Asset and Liabilities Management Committee (ALCO) (14 members)
ALCO develops and makes decisions on asset and liability management related issues including: operations to raise funding or allocate funds on the financial markets (securities and derivatives market, FX and money market, stock market and OTC market, where the Bank raises funding and allocates its funds or currency assets, engages in securities transactions, issues or redeems its debt obligations). ALCO is also tasked with decision-making on distributing funds amongst Bank units, managing market risk (including interest and currency risks) and liquidity risk; and developing the Bank's tariff and interest policy; approving internal accounting and tax regulations.

6. The Technology Committee (16 members)
The Technology Committee reviews, coordinates and settles disagreements related to the development and implementation of IT employed in the roll-out and support of the Bank products, services and transactions, including the building of software and IT platforms of the Bank, the development of the Bank's information security system; developing internal regulations setting forth the procedure for IT support, including information security, banking products, services and operations; improving of existing and developing new banking IT, including information security system; taking part in planning purchases, development and installation of new software and IT infrastructure and information security tools.

7. The Branch Network Committee (13 members)
The key functions of the Branch Network Committee include elaboration and decision-making related to enhancing the efficiency of regional branch network's operation, development, and manageability (including internal units). Moreover, the Committee assesses the performance and takes action to enhance the efficiency of the regional branch network. The Committee is tasked with improving branch network management, early identification of negative trends in branch workflow, and selecting measures to increase their efficiency; coordination of branch liaisons with local authorities and the Bank of Russia territorial divisions; coordination of the course of action in case of emergencies within the branch/points-of-sale locations.

8. The Problem Loan Management Committee (12 members)
The Problem Loan Management Committee considers and resolves issues of settling corporate problem loans/debts and assets/non-core assets recorded on the Bank's or its subsidiaries' balance sheet as part of settlement procedures.

The Problem Loan Management Committee implements the Bank's policy in problem loan management and develops proposals for the Bank's Management Board to improve that policy, the quality of the Bank's loan portfolio, and the efficiency in settling distressed loans. The Committee ensures that uniform approaches are applied in the implementation of the problem loan management policy as well as to any non-core assets that the Bank may receive in the course of problem loan settlement. The Committee takes part in decision-making on settlement of problem/overdue loans; approval of general principles how to interact with the Bank's subsidiaries and third parties outsourced for problem loans work-out.

9. The Corporate Ethics and Discipline Committee (8 members)
The Corporate Ethics and Discipline Committee exercises overall control of the implementation of shared corporate values and ethical norms, and facilitates the development of a unified corporate culture, including in the sphere of preventing corruption.

10. The Risk Management Committee (10 members)
The Risk Management Committee controls the target risk appetite and the aggregated risk profile of the Bank and the Group, making sure that the risk taken falls within the existing limits and thresholds. It monitors the key risk factors that affect the aggregated risk profile of the Bank and the Group, and takes action so that the risk management system (including risk identification, assessment, monitoring, and control processes) functions efficiently and is improved on an ongoing basis; control of the risk management framework compliance with the regulatory requirements, including in view of the introduction of standards of the Basel Committee on Banking Supervision.

11. The Compliance Committee (9 members)
The Committee engages in enhancing internal control efficiency including regulatory risk management; working out decisions related to internal control framework.

12. The Retail Business Development Committee (11 members)
The major tasks of the Retail Business Development Committee include working out proposals and decisions on enhancing efficiency and demand for retail product range, monitoring yield and profitability of retail products; terms of retail loan and fee-based products, lending and sales procedures and pricing; control of elaboration and launch of retail products; settling problem/overdue retail loans.

The Retail Business Development Committee implements the Bank's credit policy/policy in problem loan management, minimizing credit risks and ensuring yields on retail loans, ensuring efficiency through higher quality and speed of decision making, introduction of unified retail service standards.

6 INFORMATION TECHNOLOGY

Russian Agricultural Bank considers cutting-edge IT solutions an important competitive advantage allowing businesses to keep pace with Russia's fast-changing banking landscape. The Bank services more than 6 million clients through a vast points-of-sale network and remote banking channels.

Following the adoption of its Strategy through 2020, the Bank embarked on a number of strategic projects targeting an increase in business efficiency and stipulating, in the first place, operating model transformation and lending process improvement.

To deliver on the 2020 Strategy targets the Bank pursues project-based solutions in the following areas:
- improving credit process and risk management;
- upgrading client services efficiency through enhanced client focus;
- upgrading business support efficiency;
- growing fee-based income.

These initiatives will enhance the Bank's competitive advantages, client service quality and reinforce its market positions.

These projects are designed to upgrade lending technologies (including problem loans management), product line up, IT, sales and service channels, including remote, enhance efficiency of the Bank's management systems. In 2018, Russian Agricultural Bank continued its IT evolution in line with the Strategy. The key focus areas are installation of modern platforms, operational streamlining, and centralizing all services and business applications.

In late 2015, the Bank adopted IT Strategy through 2020, which is aimed at increasing the technological level and maximizing the Bank's profit generated by each client segment. The primary focus area is installation of a new core IT system incorporating the most recent and prospective technologies for faster banking products roll-out, straight through client services and a larger share of automated operations. The priority tasks set forth by the IT Strategy comprise sales process support; remote service channels development; fee-based products roll-out; corporate lending process support; reporting and analytical functionality improvement.

The project for the new Core banking system installation is at an advanced stage. The Bank contemplates the creating of an easily customizable multi-branch modular platform. The new core system will feature centralized settlements, back-office processes unification, multi-channel and end-to-end customer service that enables customers to use any POS across the Bank's network, irrespective of the location where the account was originally opened.

The installation of the new banking system will sufficiently bring down the internal execution costs for client transactions and the number of manual operations, speed up the bringing of new products to the market.

Pursuing an upgrade of credit process and risk management, the Bank implemented an automated process of overdue (less than 30 days) debts recovery under loan agreements with corporate borrowers and individual entrepreneurs in small and microbusiness segments.

The Bank works towards automating retail problem loans management and building a target process for handling corporate problem loans. Notably, in 2018, the Bank finalized the development of "Anti-fraud solution for Retail remote bank" as part of building fraudulent transactions prevention system in retail remote service channels.

In the framework of developing "TSC Siebel Collection CRM" system, the Bank automated the procedure of retail loan agreements migration from stage to stage, thereby improving collection control.

The Bank carries out projects designed **to upgrade client services efficiency and business support efficiency**, ensuring high reliability and uninterrupted operations, information security and personal data protection. Notably, in 2018, the Bank upgraded an integration platform to meet quality and speed requirements for exchanging data between applications. The Bank put into operation a System of software lifecycle management.

The Bank finalized a few important projects and measures aimed at streamlining, unification, automation and centralization of back-office and middle-office functions, and business support functions. The Bank's head office put into operation an Automated Procurement management system.

As part of **upgrading business support efficiency**, the Bank implements projects designed to ensure compliance with the Bank of Russia requirements and the IFRS Committee related to preparation of consolidated financial statements under IFRS 9 "Financial Instruments", and also FATCA and "International Standard for automatic exchange on financial information" (Common reporting standard) requirements.

The Bank is in process of installing of a Unified front-office solution for Retail units enabling automated end-to-end client procedures. The Bank completed the introduction of a functional organizational and functional (role-based) frontline model throughout the Bank's branch network.

Notably, the Bank centralized back-office functions within the Unified Service Hubs. The Bank put into operation a Unified payments acceptance system based on "eKassir 2.0" software, for cash desks and front office at POS. With a view to **increase client focus**, Russian Agricultural Bank continuously upgrades its CRM systems. The Bank worked towards installation of an operational CRM for corporate business, which is designed to boost sales via marketing campaigns based on client preferences analysis.

In 2018, the Bank completed the installation of the operational CRM system for retail division. These solutions supports the deployment of new sales and service strategies. The retail CRM solution enabled customized and standardized customer servicing, record keeping of client inquiries, and creating customer information files (CIF).

Going forward the Bank plans to complete the installation of corporate analytical CRM, Problem Debt infomart, a unified Front-office for Retail business, Financial markets support platform, Biometric data system, Collection module for retail analytical CRM.

Targeting the growth of fee income the Bank invests significant effort in developing and upgrading remote sales channels to attract clients, diversify its funding base and core income sources. In 2018, Russian Agricultural Bank continued the development of a new modern Internet and Mobile bank for retail customers that were launched in mid-2016. The Bank finalized and put into operation the Retail remote platform as part of the initiative "Developing retail remote service channels".

The Bank put into operation an Automated Corporate Mobile Bank as part of the initiative "Installing a Corporate Mobile bank". A mobile application Business-Online was launched specially for entrepreneurs and allows the client to manage the account worldwide. The app is synched with remote banking 'Internet-Client' providing such features as statement of account, signing and sending payment orders.

Regarding IT infrastructure, Russian Agricultural Bank works on a comprehensive and ongoing basis to make its internal interaction processes and IT structures more mature. The Bank carries out upgrades of the local area network, data back-up systems.

Russian Agricultural Bank has installed a unified system to manage user accounts and access rights to corporate IT resources (IDM). IT access management for a vast branch network requires high quality. The new solution helped optimize and speed up user access to IT resources.

Steps to ensure stable functioning of banking systems continued in the reporting period. By improving its IT systems, the Bank expects to make most business processes less costly and time-consuming. This approach will significantly enhance the Bank's competitiveness, its products' attractiveness, and its customer service quality.

In the near term, Russian Agricultural Bank will adhere to its policy stipulating the deployment of innovations to keep pace with the latest trends in the banking and financial markets thereby advancing towards higher client focus and labor productivity.

2019 Focus Areas

The Bank's consistent and thorough approach to IT systems secured the level of technological development that enabled access of millions of people and companies to financial services and increased the banking sector penetration in Russia.

In line with the strategic objective to cement its position as an efficient, reliable and hi tech financial institution the Bank contemplates to further transform the operational model and enhance the efficiency of business processes and POS, grow the share of operations carried out using remote service channels.

Therefore, the Bank will continue to focus on cutting-edge technologies that support its business transformation and provide a competitive advantage over its peers.

7 BRANCH NETWORK DEVELOPMENT

Russian Agricultural Bank leverages its vast geographical presence, and sales and service channels to support its long-term sustainable business growth, diversify income sources, and make financial products available to various client segments. With 66 branches and more than 1,255 points-of-sale the Bank securely holds the second position among largest bank POS networks in Russia. The Bank operates in 81 constituents of the Russian Federation. This solid foundation underlies the Bank's strong regional franchise in rural territories, towns, mid-sized and large cities, including areas in which no other banks are present. More than **75%** of the Bank's branches are located in communities with less than 100,000 residents.

The following chart shows the Bank's branch network structure as of January 1, 2019.

Universal product offering	**66 flagship points of sale**	
270 operational offices 985 additional offices	***Standard:*** *wide product offering;* ***Mini:*** *basic services mainly for retail customers;* ***Light:*** *basic retail and small business product offering;* ***Segment-wise specialization*** *on* *(1) retail;* *(2) micro, small and mid-sized business*	**1,255 points of sale**
	2 mobile (vehicle-based) offices 6 self-service offices (kiosks) 11 remote work stations 3,800 ATMs 1,704 self-service terminals	*Flexible opening hours and easier accessibility*

Moreover, 671 authorized representatives provide access to the Bank's services in mid-sized cities not covered by the Bank's branch network. The average territorial coverage across Russia with the account of the Bank's representatives stands at **62%**.

The number of points of access to the Bank's products and services in 2018 totalled more than 7,500.

Through its representative offices Russian Agricultural Bank works in CIS countries, namely Belarus, Kazakhstan, Armenia, and China. The Bank leverages its presence in the CIS countries to reach new clients in the market of the Eurasian Economic Union.

The short- and mid-term tasks are envisioned in Strategy through 2020 and outlined in detail in the Branch network development program. One of the Bank's strategic tasks is to strengthen positions in target (agribusiness, fishery and forestry) and other prioritized economic segments, deliver efficient regional presence, and diversify income sources by cementing positions in lending and servicing priority sectors and retail customers. In line with updated Strategy through 2020, the Bank will continue its efforts to make retail and corporate banking service more readily available across Russia.

It is expected that by YE2021, these actions will deliver a 1.3x times increase in the number of points of access up to 8,600–8,800, comprising branches, POS, mobile and self-service offices, authorized representatives, remote customer desks, ATMs, payment terminals, partner channels and a Call center.

As part of strategic planning the Bank has identified the following key strengths it can capitalize upon:
- a reliable bank with 100% state ownership
- the Bank operates a wide-spread POS network, present in most municipalities in Russia
- large client pool in mass market segment
- close liaison between heads of branches and local administrations in Russian constituents.

The Bank identified the following factors as its key opportunities:
- unoccupied niche where the Bank can secure key positions in small, mid-sized settlements, and in rural areas
- development of alternative sales channels, especially for remote regions
- low competition in the target segment.

Certain challenges remain, such as the increasing competition within the sector in target markets and regions where the Bank is present; slowing economic and financial markets growth rates; lack of premises suitable for opening a point of sale in localities with untapped demand; fast growth of competing banks' business in remote service channels;

The broader strategic goals are decomposed into the following objectives:
- matching the throughput capacity with business targets
- attaining higher efficiency and cost efficiency
- making services available to clients in any locations (flexible in terms of client location).

The key milestones on the way to strategic objectives accomplishment: (1) an increase in the front office staff workload (loans and deposits per employee), (2) product diversification tailored to match regional customer preferences, (3) faster decision-making process and enhanced service quality, (4) sales personnel motivation, (5) priority on deployment of remote service channels and less capital intensive POS formats (please refer to section ATM and Self-Service Network).

Pursuant to the 2020 Strategy the Bank enhances efficiency of its branch network by a balanced roll-out of layouts and types of points-of-access (incl. renovation and redesign), including direct and remote channels, by optimizing the office locations while maintaining the territorial coverage. Diversification with a clearer focus on less capital intensive formats and remote access channels will help to boost cost efficiency of the network without compromising on territorial coverage and availability of the product offering.

In 2018, the Bank proceeded with branch network transformation by developing alternative channels, replacing inefficient POS with new offices located in promising regions and growing POS efficiency. The Bank took a number of measures to increase branch network cost efficiency and accessibility. As part of this initiative, the Bank introduced new online and mobile banking options thereby putting additional restrain on costs related to premises and ensuring the needed returns at each POS. The Bank opened 23 operational offices. As part of optimizing the Bank's presence in Russia 4 branches were transformed into operational offices. After carrying out POS efficiency analysis, the Bank closed 1 operational office.

Via transformation of its POS network the Bank expects to achieve: a uniform recognizable image; higher POS competitiveness and efficiency; additional business growth; higher staff effectiveness and satisfaction; higher customer loyalty and satisfaction.

ATM and Self-service terminals network

In the reporting period, the Bank continued to develop its ATM and self-service terminals (SST) network. At 1 January 2019, it comprised 5,504 self-service machines, including 3,800 ATMs and 1,704 SST terminals.

The Bank has established a shared ATM network through reciprocal partnership with Rosbank and Raiffeisen Bank. The total number of ATMs in a network arranged through partnership with Alfa-Bank, Promsvyazbank, Rosbank, and RaiffeisenBank stood at 11,134 as of 1 January 2019.

To enhance client service standards the Bank in 2018 launched an ATM renovation program, replacement of with 570 ATMs replaced as part of this initiative. All the newly bought ATMs support cash acceptance. Besides, the Bank actively installs cash recirculation feature. Such devices can disburse cash earlier accepted from clients. The Bank installs its ATMs in most convenient locations, including places with highest throughput capacity to reach maximum economic returns.

In 2018, cash withdrawal through Russian Agricultural Bank's ATM network totaled **RUB 381.4 billion**, which is an **5.0%** growth versus 2017. Cash withdrawal from the Bank's proprietary cards at the Bank's ATMs was up **1.8%** and totaled **RUB 270.2 billion**. Cash withdrawal from third-party banks' cards at the Bank's ATMs rose **7.0%**, up to **RUB 99.8 billion**.

The amount of cash accepted through the Bank's self-service network (ATMs and self-service terminals) reached **RUB 74.8 billion**, a rise of **17.4%** versus 2017.

Fees generated from operations in the self-service network reached **RUB 379.3 billion**, which is **10%** higher than the 2017 level.

In 2018, Russian Agricultural Bank continued cooperating with international money transfer systems. Amount of transfers through these systems totaled RUB 10.8 billion, up by **24.4%** year-on-year. The number of transactions totaled 235,000, an increase of **13%** year-on-year. The Internet Bank functionality has been expanded to include transfers through international money transfer systems.

The Bank works towards non-interest income growth. In 2018, the Bank proceeded with developing its Internet acquiring enabling its clients to use their cards in online shops. Visa, MasterCard and 'MIR' payment system cards can be accepted by merchants as part of this service with **99.97%** availability level, an efficient anti-fraud solution, ensuring maximum purchases conversion, and access to online private office.

In 2018, the Bank launched on its Web-site "Transfer by card details" service, supporting transfers from/to VISA, MasterCard and 'MIR' cards of any issuer. Besides, the service offers an option to replenish the Bank's card without a commission.

Pursuing higher service standards Russian Agricultural Bank has expanded its Mobile and Internet Bank functionality for retail customers. The current functionality and features are in line with best market standards. The Bank has significantly improved its remote banking functionality for corporate clients, and has launched a project for Corporate mobile bank installation. Russian Agricultural Bank proceeds with developing a fraud prevention system in remote banking channels. In particular, "Product-wise FRAUD-analysis" has been installed in Corporate remote banking system.

In 2018, the Bank completed the installation of a new Internet and Mobile bank platforms. Russian Agricultural Bank added new useful features including loan application, credit card application, opening a savings account, full and partial pre-scheduled loan repayment, bar codes and QR-codes payments in the Mobile Bank, etc.

Such serious functionality improvement drove a **53%** increase in the number of users over 2017. The average number of transactions processed through the Retail Mobile and Internet Banks totals 34,000. The Bank's clients have deposited RUB 43 billion through remote service channels.

The Bank's Internet and Mobile Bank solutions comply with modern security standards and work in conjunction with a new anti-fraud system in remote retail service channels, put into operation in 2017.

In 2019 the Bank will further work on developing its remote service channels and deployment of modern solutions for cards and payment tools. These measures will help to enhance attractiveness, technological and competitive advantages of the Bank's products in the market of remote retail services and settlements.

The Bank's projects in the pipeline comprise opening POS in (1) large communities located in priority regions in terms of business growth, whose economic potential is not fully covered by the existing POS (1 POS per 150,000 people). This target also includes mortgage lending growth; (2) priority geographic locations where markets are characterized by high economic potential and investment attractiveness (Moscow and the Moscow region); (3) locations with adequate economic potential with more than 50,000 residents, where the Bank is not present.

In 2019 Russian Agricultural Bank plans to open, renovate, and change the format of 47 points of sale with focus on localities with more than 300,000 residents and with 50,000 – 100,000 residents.

Within the strategic timeframe, the Bank proposes to enhance efficiency of its POS network by increasing target business volumes through the deployment of a comprehensive sales platform for retail, and micro and SME business front office; operational and analytical CRM for retail business; remote banking services upgrades for retail clients; core banking system centralization; a regional call center; unified IT-support hubs; an automated application processing system (credit conveyor solution) for retail and micro; an end-to-end 'Soft Collection' retail business process.

2019 Focus Areas
In 2019 Russian Agricultural Bank will work towards the targets set by its Branch network development program. The program stipulates opening POS in rural and urban areas focusing on 30 most promising Russian regions. The Bank targets opening 199 POS in 29 large cities in 22 Russian regions.

Targeting the development of digital sales of proprietary and partner products and services Russian Agricultural Bank has approved a framework for building marketplaces and ecosystems for retail clients.

Russian Agricultural Bank's strong regional footprint, profound expertise in agribusiness financing and close liaisons with regional governments as well as large mass market customer base are the key competitive advantages in growing client base and increasing customers' loyalty throughout Russia.

8 HUMAN RESOURCES MANAGEMENT

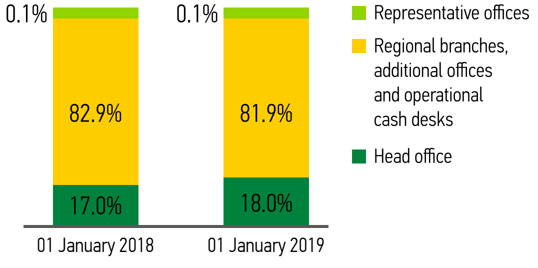
Seeking to accomplish the key targets outlined in the Strategy through 2020, Russian Agricultural Bank consistently works towards enhancing its human capital management. As part of this effort, the Bank places priority on strengthening the Bank's employer brand and building a professional, loyal and motivated team who is able to deliver on the tasks set forth by the shareholder.

The Bank in 2018 pursued the following tasks: upgrading staff professional expertise and professional standards implementation; building internal succession pool; developing managers and staff in key business lines; corporate culture development targeting team work, joint performance, encouraging personal accomplishments; supporting the Bank's employer brand attractiveness; enhancing employees' engagement and loyalty.

To achieve sustainable business results, Russian Agricultural Bank seeks to enhance staff performance by upgrading their qualification level, increasing engagement, and strengthening morale. The outcome has been an unfailingly responsible attitude of the Bank's employees to their duties, their aspiration towards highest achievements for the benefit of the Bank and its clients.

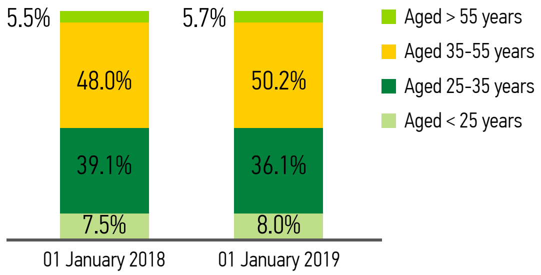
Effective human capital management at Russian Agricultural Bank is solidly underpinned by sound financial and non-financial motivation, consistent recruitment, appraisal and training, and strong internal social policies.

Personnel Overview[1]
Russian Agricultural Bank is one of the largest employers in the Russian banking sector. In 2018, the actual number of the Bank's employees reached **26,715**[2].

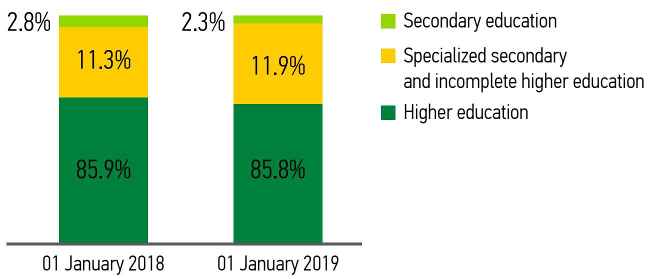


[1] Source: Bank information as of December 31, 2018.
[2] Note: the total number of personnel for Russian Agricultural Bank on a standalone basis. The number does not include contract employees.

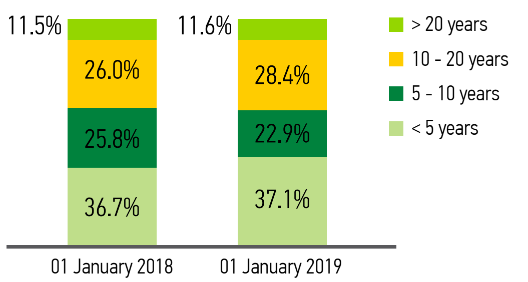
Staff Breakdown by Age



Staff Breakdown by Education



Staff Breakdown by Work Experience in the Banking Sector



For the most part, the Bank's staff has higher education and considerable prior banking industry experience. The average age of the Bank's workforce is **37.5**.

Human Capital Investments

Personnel Recruiting, Assessing and Retaining

When recruiting new staff, the Bank is guided by non-discrimination and fairness principles as well as professional expertise criteria. The Bank's focus on agribusiness makes it desirable that future staff possess both professional banking knowledge and knowledge of the core borrowers' industry. Newly recruited employees pass adaptation trainings.

The recruitment process solidly rests upon the following principles:

- All candidates for vacant positions are treated equally without any discrimination on any ground.
- The Bank applies identical requirements to nominees that apply at the same time for the same position.
- The Bank seeks to employ high-potential candidates to ensure their future successful work and advancement within the Bank.

To ensure the required qualification and potential, in 2018 the Bank carried out standardized assessment and recruitment procedures, including personality and skills tests, 360-degree feedback tests. The Bank continues to apply a new tool – verifying the key motivation factors and the level of satisfaction. The results of the conducted assessments are used to upgrade managers' efficiency, in recruitment, planning and training, building succession pools, rotation and recognizing performance.

897 candidates for managerial and linear staff positions took assessment incorporating skills tests, personal and motivational questionnaires, comprehensive assessment - 2099 employees, 360-degree feedback tests – 30 employees, evaluation of labour motivation factors – 9 employees, professional tests – 990, attestation – 1069.

In a number of departments the Bank conducted assessment of core motivation factors and whether the employees are satisfied with these factors. The results of this assessment were instrumental in increasing managers' efficiency, candidate selection, planning training process, internal reserve pool replenishment, rotation, and rewarding highly effective and qualified employees.

The comprehensive personnel assessment system is designed to ensure the necessary qualifications and performance by executive personnel across the branch network. To ensure talent acquisition from the market and in-house, the Bank puts special focus on the personnel qualifications, potential and competencies.

Operating in an environment of the knowledge-intensive economy and accelerating technological change, the Bank contemplates the introduction of professional standards as another priority area for ensuring the personnel qualification.

The Bank maintains its internal succession pool, ensuring timely and effective filling of vacant executive positions, as well as reducing management turnover.

The Bank has in place a thoroughly elaborated internal succession planning process which comprises 'talent reviews' and ongoing development at all levels. The internal talent pool ensures timely recruiting for vacant management positions. This mechanism also mitigates HR risks and shortens the employee adaptation period when appointed to management positions, provides career growth opportunities and motivates the staff to upgrade their qualification. This approach ensures development, progress and mitigates employee turnover risks.

In 2018, the internal pool comprised more than 1,600 employees. The existing assessment procedures allowed to fill in **30%** of key vacant positions in branches with the pool candidates.

To comply with regulatory requirements the Bank introduced the following professional standards in its HR processes: accountant, internal auditor, risk manager, financing monitoring specialist, payment services specialist, HR specialist, occupational safety specialist.

Cooperation with higher education establishments

The student scholarship program aims at supporting agrarian students and retaining young professionals in rural areas, thus contributing to revival of such communities, as well as strengthening the Bank's attractiveness as an employer brand.

In 2018, the Bank continued cooperation with more than 270 higher educational establishments. The Bank takes part in initiatives designed to getting a competitive advantage and building an external employee pool.

The Bank's representatives took part in "Career days" hosted bythe Finance University under the auspices of the Russian Government, M.V. Lomonosov Moscow State University, Russian State Agrarian University-Moscow K.A. Timiryazev Agricultural Academy, the Russian Presidential Academy of National Economy and Public Administration (RANEPA), the State University of Management.

The Bank also supports workforce retention by building closer co-worker connections through arranging various social, cultural and sports activities.

Training and Development

Russian Agricultural Bank's human capital management aims at increasing engagement of every employee, and fully equipping all business units with highly qualified staff. This approach contributes to preserving and accumulating the Bank expertise, and also limits the risk of a shortage of talent. The Bank has a well-developed training system, which comprises both external and internal trainings customized for all employee grades. Self-education is encouraged through user-friendly online resources. On-the-job learning and mentoring are also available. The core vehicle for carrying out staff education is the Bank's Corporate University, which operates through seven training centers at the Head Office and in the regions, offers an integrated educational environment contributing to creating teamwork skills and like-minded thinking. The Corporate University is a multi-functional structure that sets forth strategic tasks, works out methods and arranges education and development across the Bank's offices and branches. New knowledge is promptly disseminated across the Bank by cascading (a top down approach) through on-site seminars and distance learning tools.

The existing corporate training framework covers all employee groups and comprises the following types of learning targets: training under regulatory requirements; development of professional knowledge and skills; development of personal and managerial efficiency.

To ensure continuous education for new hires and to involve remote branch employees in on-site trainings without compromising on their core activity, the Human Resources have set up a pool of internal coaches for retail, small and mid-sized businesses, which currently comprises 136 employees.

In 2018, the Bank held 5,041 courses and tests for employees of various levels.

Overall, the Corporate University has compiled a portfolio of more than 50 programs of on-site and more than 300 distance learning courses across various specializations for all functional roles. All the programs fall into the three broad categories: skills training designed to develop product sales, enhance client service quality, management skills, and personal efficiency; professional training in financial analysis, accounting, back-office and cash operations, credit risks, collateral handling; product-specific trainings.

Employee training and development tasks are aligned with broader strategic goals outlined in the 2020 Strategy. In this context, the Bank will place special focus on increasing customer service speed and efficiency of the personnel as part of retail business development.

The Corporate University adds to the positive social impact of the Bank's core operations and its CSR activities by arranging financial literacy seminars for schoolchildren, students and general public. More than 900 schoolchildren and students took part in such initiatives in 2018.

Motivating and recognizing performance

One of the Bank's priorities is continuous improvement of professional competences and enhancing individual and teamwork efficiency in all spheres. The Bank strives to ensure employee performance recognition, encourage further achievement through ongoing training and development, as well as to promote employees' personal well-being (and that of their dependents). To this end, the Bank has put into place a motivation and incentive policy.

The Bank holds professional excellence contests and competitions to reward business activity results for department staff teams, individual employees and branches, delivering on business plans and based on the results of strategic business sessions the best performing employees and branches were awarded certificates of merit, letters of acknowledgment. The "Best in Profession" contest has been held for 8 years in succession with the goal of incentivizing employees' strong performance. The photos of the best employees are displayed in the Bank's offices.

The children of employees had an opportunity to display their talents in an arts competition. In total, 198 artworks were submitted; the winners received prizes based on the results of voting on the internal website.

Contests are designed to improve employee efficiency, service quality, and deliver on key performance targets.

The provision of a competitive package of benefits is an important factor in attracting and retaining the talented staff the Bank needs to deliver on its strategy objectives. Compensation for the work done is supplemented by a bonus system which is tied to achieving key performance indicators (KPIs). The Bank's non-financial incentives comprise commendations and letters of appreciation awarded to the most effective employees.

Internal social policies and working environment

The Bank's corporate culture capitalizes on both traditions and innovations to bring the best practices to the every-day professional life of its employees and to create an environment supportive of growth and collaborative spirit.

Thus, corporate culture helps to align long term goals with corporate behavior and enables business goals accomplishment. HR policies facilitate seamless adoption of the right corporate values, which contributes to high staff morale and cohesion. Russian Agricultural Bank considers employee care and merit recognition to be priority directions for its internal social policy. Rules of professional conduct and outfit, basics of ethical conduct are effectively presented to the employees by means of leaflets and handouts.

HR policy is aimed at ensuring social protection, continuous improvement, and expansion of additional support of employees. The core social benefits comprise voluntary medical insurance, including medical services in the office, workplace accident insurance, one-off financial allowances for certain family circumstances, and discounts from partner companies. The Bank makes all mandatory contributions to the Russian Social and Pension Funds, in accordance with applicable Russian legislation.

In 2018 the Bank launched its corporate retirement plan operated by a leading Russian non-state pension fund. Under the terms of the pension plan the Bank provides employees who spent three or more years with the Bank with additional financial and social protection benefits upon their retirement. The Bank makes regular contributions to individual accounts with the non-state pension fund depending on the size of an employee salary.

Russian Agricultural Bank takes precautions to ensure the occupational safety of its employees. The Bank's policies help to avoid workplace accidents, health accidents, and professional diseases. The Bank provides workplace safety and safe behavior education and certifies workplaces in terms of ecological safety. All employees have to take part in fire evacuation drills. Moreover, the Bank provides comprehensive medical checkups and vaccination against viral infections. Quarterly antismoking campaigns are held at the Bank headquarters.

A healthy lifestyle is one of the core elements of the Bank's corporate culture. Internal policies encourage fitness and sports activities, abandoning bad habits, smoking in particular. In 2018, the Bank held 'A health week' to draw employees' attention to the healthy lifestyle principles, pass knowledge tests, attend sports classes and get medical advice.

Strengthening employees' health, promoting healthy lifestyle are among the key priorities for the Bank that are incorporated in its Corporate Ethics Code. The Bank has created numerous opportunities for its employees to follow a healthy lifestyle. The employees can enroll in the futsal, volleyball, skiing, and hockey teams. Members of these sports teams make successful appearances at various interbank competitions. In 2018, corporate teams won bronze medals in a "Prize of the Minister of Agriculture" futsal tournament, silver medals in the Big Race competition arranged by the Bank of Russia, the Bank's combined team took part in the 12th Russian National Summer Rural Games.

The Bank has arranged voluntary insurance in order to maintain and improve the health of its employees. Overall, 29,596 employees have enrolled in voluntary medical insurance programs. The number of those insured against workplace accidents amounts to 4,482.

Dialogue between management and employees

To increase staff involvement, HR policies provide for open and regular communication. Russian Agricultural Bank maintains an ongoing dialogue between staff and management via the internal website where personnel can discuss important questions or make a proposal on increasing overall effectiveness or upgrading business processes.

The Bank's corporate culture encourages staff participation in the Bank's activities. The employees have a chance to submit their opinions through regular polls and the "Open dialogue with the Bank's management" project. These opinions are taken into consideration.

The intranet website and Agrocredit magazine are important components of the internal communications framework. The internal website gives employees a clear picture of the Bank's latest developments and serves as a platform for receiving feedback from employees on corporate social and charity activities. The magazine provides employees with an opportunity to better understand the Bank's mission and strategy, macroeconomic environment, industry specifics and recent events and to feel themselves an integral part of the entire Bank network.

The Agriculture Workers' Day, the Defender of the Fatherland Day, the Victory Day, International Women's Day, the New Year and the Bank's anniversary are major holidays that are popular among employees. The employees are specially greeted and receive small souvenirs to mark these memorable dates. Professional and creativity contests for employees and their family members have also become a good tradition with Russian Agricultural Bank.

Anti-corruption policies

In order to ensure compliance with regulatory requirements and effectively prevent such issues as inducement to corruption, conflict of interest, disclosure of income and accepting presents by staff holding certain positions, the Bank has charged HR department with respective functions. In 2018, the Bank took further steps to create a "zero tolerance" environment related to any forms of corruption and to streamline anti-corruption procedures and campaigns. To maintain a negative attitude of employees towards corruption, the Bank carries out knowledge tests on the internal website; informational e-mails dedicated to the International Anti-Corruption Day.

2019 Focus Areas

In 2018, the Bank worked in line with its long-term strategic goals in the sphere of human capital development. In particular, the Bank made progress in strengthening its corporate culture, enhancing employee engagement and creating a rewarding and motivating environment.

In 2019, the Bank looks to further implement measures aimed at ensuring social benefits for its employees, building a strong corporate culture and enhancing loyalty. It is expected that accident insurance program will be extended to cover all employees.

The Bank also contemplates holding circa 2,000 in-person training events and more than 2,000 distance training and testing events. In particular, the Corporate University will work towards:

- developing the coaching system to improve adaptation of newly hired employees during the trial period and those assuming new roles
- rolling out new forms and methods of training
- introducing new types of cooperation with top universities
- re-designing the e-Learning platform
- reaching out to more employees through the Corporate University.

9 CORPORATE SOCIAL RESPONSIBILITY

Long term values creation for any organization, especially one of systemic importance and whose work in many ways impacts the stakeholders and broader communities, solidly rests upon sustainable business practices. Russian Agricultural Bank since its inception has year over year adopted CSR principles that helped to pursue sustainable business practices. Given they are consistently pursued and upheld, such principles will inevitably be translated into a sustainable future for customers, shareholders and the wider community.

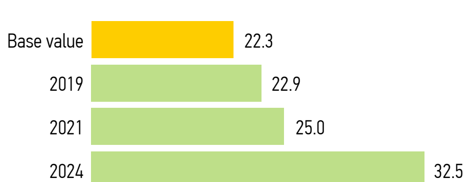
Sustainability approach is organically integrated in Russian Agricultural Bank's core business and operations. The Bank's sustainable business practices link back to its mission, vision, and values and are targeted at ensuring national agribusiness development, the country's food security, achieving the status of Russia as the world's leading food producer and exporter, increasing financial literacy and upgrading the overall welfare of the rural population. This is achieved through supporting SMEs, developing rural territories and mid-sized cities, promoting innovations and resource-efficient technologies in agribusiness, facilitating investments and improving investment climate, diversifying the product range, increasing access and affordability of high quality financial services.

Financial support of SMEs

The Russian Government attaches special importance to the support of small- and medium-sized enterprises (SMEs). SMEs heat up competition and prevents monopolization in a large number of spheres.

As part of the National project "Small and Mid-sized Entrepreneurship and the Support for Business Initiatives"[1] the Government has approved a federal project "Small and medium-sized business and support for individual entrepreneurial initiatives" with total allocations of **RUB 37.4 billion**.

Share of SMEs in Russian GDP, %[2]



[1] National Priority Projects developed according to the Presidential Order No 204 dated 7 May 2018 "On the National Goals and Strategic Tasks of Development of the Russian Federation for the period up to 2024".

[2] Based on the passports of the national projects approved by the Presidium of the Presidential Council for Strategic Development and National Projects on December 24, 2018.

One of the main problems faced by entrepreneurs is access to financial resources. In the framework of the National Project "Small and Mid-sized Businesses and Support of National Entrepreneurship" the authorized banks offer loans to small production businesses at the interest rate calculated as the CBR key rate plus **2%** with the overall rate capped at 8.5 percent p.a.

Russian Agricultural Bank views activity of SMEs as an area of unlocking prospects and growth drivers for the national economy. Therefore, the Bank puts special focus on financial support of SMEs. Currently, Russian Agricultural Bank offers more than 30 lending programs tailored for this business segment and is ranked 3rd by lending to SMEs across all segments. Since the start of operations (data on SMEs is tracked since 2008) the Bank has provided more than **RUB 3 trillion** for SMEs development, with more than **RUB 2 billion** provided to agribusiness SMEs.

The Bank partners with non-governmental organizations that work to promote business development and entrepreneurial culture:

— All Russia Public Organization "Delovaya Rossiya"

Cooperation is aimed at creating favourable conditions that foster dialogue and partnership with business community. As part of the agreement the parties arrange events at federal and regional level – roundtable discussions where participants have a chance to work out proposals on important business issues. Hands-on cooperation between the partners is available in regions where the Bank is present.

— OPORA ROSSII, All-Russia Non-governmental Organisation

The Bank partners with OPORA ROSSII to hold the 'Business Success' National Award. The Bank established the "Best Agricultural Project" category and its representatives sit on the Fiduciary Council of the award.

In 2017, Russian Agricultural Bank and OPORA ROSSII signed a Cooperation agreement. The document is aimed at promoting cooperation between the parties in the sphere of support of small and mid-sized agribusinesses. This Agreement will help to join our efforts targeted at enhancing the financial support of entrepreneurs and creating a favourable business environment in Russian regions.

During 2018 the Bank arranged 10 regional forums. Achievements of more than 30 farmers have been recognized and marked by awards. Via OPORA ROSSII and as part of drawing attention to key business areas and state support programs, the Bank takes part in forums and conferences both at federal and regional levels. Since 2016, the Bank takes part in the SME soft lending programs (6.5 Program under the direction of the SME Corporation, Subsidized Lending Program under the direction of the Ministry of Economic Development of Russia).

In 2018, the Bank embarked on the new procedure to support SMEs with lending interest rates capped at **6.5%** p.a. The new lending program serves as an additional mechanism to implement the "6.5 Program" of the SME Corporation. The Corporation for SME Development issues guarantees within the '6.5 Program' on behalf of authorized banks when they receive the Bank of Russia loans for the purposes of on-lending to SMEs at subsidized interest rates. The priority industries that are eligible for lending stimulation within the '6.5 Program' encompass agriculture and related services, processing, including foodstuffs, primary and deep processing of agricultural produce, production and distribution of power, gas and water, construction, transportation and communication, internal tourism and hi-tech. Pursuant to the Government Decree No 1706 the authorized banks receive subsidies to partially compensate for income under loans issued to SMEs at subsidized interest rates[3].

[3] The SME Corporation has decided that Program 6.5 will cease to apply with effect from 1 January 2019 to any new transactions that involve banks ranking as credit institutions of systemic importance.

As at YE2018, the Bank concluded 328 loan agreements for a total amount of **RUB 5.5 billion**.

— The Ministry of Economic Development (MED) Programme

Russian Agricultural Bank and the Ministry of Economic Development of Russia signed an agreement on a new mechanism of state support of small and medium business. In 2017, Russian Agricultural Bank joined a new soft lending programme launched on 1 August 2017 (maximum **10.6%** for small and micro and **9.6%** p.a. for medium). The relevant Government Decree (No 674) was issued on 3 June 2017, and the Bank signed a subsidy agreement with the MED on 9 August 2017. Since the launch of the programme the Bank has approved 316 loan applications for a total of **RUB 3.8 billion**.

— The National Guarantee System

Under the National Guarantee System Russian Agricultural Bank offers unsecured/partially unsecured loans, guarantees/sureties and accepts only purchased assets as collateral. Working with the SME Corporation, he SME Bank and regional guarantee issuers in 74 Russian regions, the Bank is closely involved in the establishment and development of the National Guarantee System. Russian Agricultural Bank accepts guarantee products from the SME Corporation and the SME Bank as the key security for its loans.

Partnership programmes for SMEs

Russian Agricultural Bank develops partnership programmes with domestic manufacturers to create a favourable business environment in Russia and has been particularly successful in engaging with the major domestic producers that are establishing a new technology base for SMEs and other sectors. These programmes help cut costs on equipment purchases for entrepreneurs who can buy cheaper, take out smaller loans and pay less interest.

Among others, Russian Agricultural Bank is partnering with Kamaz, Voronezhselmash and Melinvest.

— Melinvest

In 2018 the Bank signed a cooperation agreement to stimulate demand for target-specific loans of the Bank and products of Melinvest, a manufacturer of milling and elevator equipment. The programme covers micro, small and medium segments. Melinvest offers Bank customers: (1) a 5 per cent discount off the price of machines manufactured by Melinvest; (2) free maintenance during the first year of machines operation; (3) one free-of-charge in-depth training session at Melinvest's training centre for partner staff on how to operate the machines.

— Bryanskselmash

A partnership programme with Bryanskselmash, a major domestic manufacturer of grain and forage harvesters, was launched in January 2018. Under the new programme SMEs can buy Bryanskselmash products at a special price on credit from Russian Agricultural Bank. Bryanskselmash offers a 4.5 per cent discount off the basic price, and there is an opportunity to apply a subsidised rate under government programmes for SMEs. These programmes help cut costs on equipment purchases for entrepreneurs who can buy cheaper, take out smaller loans and pay less interest.

— Petersburg Tractor Plant

In March 2018 the Bank launched a joint program with the Petersburg Tractor Plant (PTT), a key manufacturer of agricultural machines established before 1917. Under the new programme SMEs can buy PTT products at a special price on credit from Russian Agricultural Bank. PTT offers a 2 per cent discount off the basic price (subject to the set of options available), and there is an opportunity to apply a subsidised rate under government programmes for SMEs. In addition, PTT offers programme participants special delivery times, up to 45 business days, which is twice as fast as regular delivery.

— Rostselmash Combine Harvester Plant

In June 2018 the Bank signed a cooperation agreement with Rostselmash, a large Russian manufacturer of agricultural machines. Under this joint partnership programme SMEs can buy Rostselmash products at a special price on credit from Russian Agricultural Bank, with a 5 per cent discount off the basic price.

— Gazprom Gas-Engine Fuel

Gazprom Gas-Engine Fuel and the Bank signed a cooperation agreement in December 2018 to stimulate lending to SMEs that purchase or refurbish their gas-powered equipment and to facilitate the development of a market for natural gas as a motor fuel both in Russia and abroad.

Enhancing access to financing

Higher banking sector penetration increases competitiveness in the sector, thus promoting social equality and inclusion. Making financial resources more readily available to small businesses and rural residents is a task of paramount importance at the federal level and is predictably one of the Bank's priorities.

In almost every region Russian Agricultural Bank provides financial support to entrepreneurs employed in trade, tourism, household services, and other services not directly related to agribusiness. Thanks to this, the commercial sector, in fact, is also engaged in developing rural territories. More than 75% of the Bank's branches are located in communities with less than 100,000 residents. The Bank increases the operational efficiency of its POS setup, location, and overall business processes, thus satisfying the real needs of local communities.

In line with the national development priorities, the Bank places special focus on financing: promising investment projects in the Far East that facilitate better social and economic conditions in the regions and enhanced environmental protection.

Engagement with local communities and authorities

Russian Agricultural Bank leverages its countrywide footprint and strengthens liaisons with regional authorities, SME financing funds and guarantee agencies in the territories in which it is present to prepare and implement regional development strategies and federal policies in economic, social, educational and other spheres.

As part of this effort, the Bank signed 85 bilateral cooperation agreements with Russian regional authorities to implement the State Program[4].

In 2018, the Bank signed 7 cooperation agreements in the sphere of priority social and economic development in the regions. The agreements are aimed at expanding cooperation between the Bank and the regional administrations related to industrial and agribusiness production, construction, housing and utilities, transport, and other spheres.

In 2018, Russian Agricultural Bank and JSC "Corporation for the Development of the Far East" (the Corporation), signed a Cooperation agreement. The partnership of Russian Agricultural Bank and the Corporation for the

[4] The State Program on Agribusiness Development and Market Regulation for Agricultural Products, Raw Materials and Foodstuffs.

Development of the Far East contributes to solution of priority tasks of social and economic development of the Far East, in particular an increase in investment activity in the region, implementation of agribusiness investment projects, introduction of modern banking technologies in Advanced Development Territories (TOR) and the free port of Vladivostok (SPV).

Involvement in Government programs

Playing a pivotal role in agribusiness financial support, Russian Agricultural Bank, for more than 14 years now, has participated in the government sustainability programs focused on social aspects.

The State Program encompasses a number of key focus areas: providing consumers with safe agricultural products and foodstuffs; enhancing competitiveness of the domestic produce in internal and external markets; ensuring sustainable development of rural areas, employment of rural residents, upgrading living standards and qualification; preservation and reproduction of natural resources used in agriculture.

— *Lending for various purposes*, such as: machinery, livestock, grain, fuel, and fertilizers purchases, land, warehouses and facilities lease with priority given to agribusiness producers, farmers, agricultural consumer cooperatives, food processing companies, fisheries and aquaculture producers, markets and shopping facilities;

— *Financing seasonal field works*. The Bank accounts for **71.6%** of total seasonal field works financing, with RUB 326 billion in loans issued for this purpose in 2018;

— *Lending to agricultural credit and consumer cooperatives*. This type of support contributes to closer cooperation and integration in rural areas. Credit and consumer cooperatives are an important vehicle for rural financial stability;

— *Financing investment projects for constructing and upgrading greenhouses, livestock and fish breeding facilities*. Since 2013 the Bank has financed 982 agribusiness investment projects with total financing amounting to **RUB 467 billion**. Lending disbursed by the Bank under such projects amounted to **RUB 337 billion**.

— *Developing all forms of small business, including family-operated farms and startups*. Fostering agribusiness startups creates new jobs for young professionals and qualified personnel retention in rural areas;

— *Agribusiness subsidized lending programme (Government decree No. 1528)* As part of this procedure in 2018 the Bank provided **RUB 223 billion** to agribusiness producers. Under the agribusiness soft lending programme Russian Agricultural Bank lends at maximum **5%** p.a. Subsidies are paid directly to banks, which gives farmers easier access to state support. To launch the programme, Russian Agricultural Bank was the first to sign an agreement with the Russian Ministry of Agriculture under Russian Government's Decree No 1528 dated 18 January 2017;

— *Support of export-oriented businesses*. Providing customers with the opportunity to work within the framework of the Eurasia Economic Union via its sales and service channels. The Bank's efforts in this area contributed to national foodstuffs and raw materials exports reaching **USD 25.8 billion** in 2018 (**+25%** year-on-year), including 288 thousand tonnes of meat (**+21%** y-o-y). For the season 2018/2019 (from July 2018 to June 2019) exports of grain reached 33.5 million. Russian Agricultural Bank has signed a framework agreement with Russian Export Center JSC aimed at expanding financial support to Russian non-commodity exporters. The agreement will enable the Bank to provide financing at subsidized interest rates. The Bank's expenses will be partially reimbursed from the federal budget.

The Bank is actively involved in implementing five special purpose federal subprograms:

— *Sustainable development of rural areas*. This program is aimed at upgrading living standards, stimulating investments in agribusiness, strengthening positive attitudes towards rural life and developing non-agricultural production and employment; promoting the creation of hi-tech employment opportunities.

— *State program for construction development*. The program is aimed at support of residential construction for certain categories of citizens, support of solvent demand for housing, enhancing quality of utility services. As part of this program, the Bank is involved in the sub-program 'State subsidized mortgage lending'. Moreover, the Bank is a participant of other sub-programs by financing development projects aimed at providing affordable and comfortable housing to Russian citizens and industrial projects designed to provide high-quality utility services.

— In 2015-2018, the Bank was a participant of *the Programme for Production Sectors Support*, implemented through Russian banks' capital replenishment by the 'Deposit Insurance Agency' State Corporation. Under the Program the Bank provides lending to corporate and retail customers and invests in bonds issued by enterprises of the prioritized sectors. In 2018, the Bank made available more than **RUB 1 trillion** to borrowers of prioritized industries in loans and bond investments.

— *Lending stimulation for small and mid-sized businesses (6.5 Program)*[5] in cooperation with the SME Development Corporation. In 2018, the Bank approved 328 loan applications for a total amount of **RUB 5.5 billion**. Please refer to section "Financial support of SMEs".

For further details please refer to Section 3.2 Contribution to agribusiness development, page 36.

Increasing product diversification and affordability

Operating through its widespread branch network present both in large and smaller urban and rural communities, the Bank takes efforts towards enhancing the quality of services and designing a highly demanded and well-balanced product offering, satisfying the needs of various customer segments.

Russian Agricultural Bank developed special product offerings incorporating attractive terms for pensioners, household plot owners, military servicemen and public sector employees.

Russian Agricultural Bank strives to develop products and services – both financial and non-financial – that add value to traditional banking solutions via fostering a favorable business environment, supporting employment and contributing to social and economic progress.

The Bank offers a wide range of loan facilities to agribusiness producers. Special focus is placed on projects involving export-oriented operations, renovation of agribusiness facilities, technological upgrades.

Russian Agricultural Bank provides mortgages to young families, families with children (under Federal Special Purpose Programs) and military servicemen (pursuant to Russian Federal Law No. 117-FZ "On the Mortgage Savings System for Housing Provisions for Military Servicemen").

[5] The SME Corporation has decided that Program 6.5 will cease to apply with effect from 1 January 2019 to any new transactions that involve banks ranking as credit institutions of systemic importance. In 2019 the Bank will engage in a new 2019-24 programme for subsidized SME lending under Russian Government Decree 1764. Decree 1764 extends this programme for the duration of the federal project Improving Access to Finance for SMEs, Including Soft Financing (which is part of the nation-wide project Small and Medium Businesses and Support for Business Initiatives). The programme caps the final subsidized rate at 8.5 per cent per annum for the borrower and covers SMEs in prioritized sectors, including agribusiness.

In 2018, Russian Agricultural Bank worked towards further modernization and enhancement of its product offering:

- the Bank rolled out a new product for ACCOR members to finance seasonal field works. It combines a simplified underwriting procedure and cuts time for loan application approval. The borrowers can apply for a loan of up to RUB 5 million at 4.5% p.a.;
- the Bank rolled out deposit products, incorporating legislative amendments made to support state/ municipal customers who placed an order for the supply of goods, performance of works, provision of services in accordance with Federal Law No. 44-FZ dated April 5, 2013 "On the Contract System in the Procurement of Goods, Works, Services for State and Municipal Needs";
- the Bank rolled out escrow accounts used to carry out settlements under agreements of co-funded construction;
- the Bank offered a Corporate Mobile App "Rosselkhozbank Business Online" enabling remote management of client accounts and featuring other functionality.

Quality management

There is a direct link between the Bank's reputation and its image and customer perception. To decide whether the Bank is trustworthy and its services are good value for money, the customer assesses such parameters as service quality, staff skills, office design/content and expediency in addressing customer issues.

The Bank uses multiple data sources to keep a permanent focus on customer opinions and needs.Using that data, the Bank works to eliminate the causes of the existing/potential risks, issues, breaches and errors on its side; including those that have been identified as root causes of customer complaints. The Bank has built communications and processes that help resolve customer issues without delay. The Bank reviews about **92.8%** of total customer requests within seven days.

The Bank continues to develop the existing and introduce new channels for customer feedback. With multiple communication facilities in place, the Bank is able to drive customer loyalty and stay aware of its customers' opinions and needs, which is essential for making new/enhanced technologies, products and services available in a timely manner.

Given that the Bank has a strong regional presence and has built up – and intends to grow – its strong share of the retail market, it must keep focus on customer experience to ensure further growth.

Consequently, the Bank has set for itself an ambitious strategic target to become by 2020 an industry leader in customer experience, securing a long-term competitive advantage through customer service excellence and wide-ranging efforts to meet customer needs and boost loyalty.

In 2018, the Bank adopted a new Concept of Quality Management System for its regional network. It is based on the following key principles:

- Put the customer first. Stay driven by customer needs and preferences. Resolve customer issues here and now. Always try to exceed expectations.
- Be proactive. Use customer experience research to identify problem areas. Drive efforts to introduce new/ improved technologies, products and services to meet customer needs.
- Use the best practices. Apply the best domestic and international practices to deliver engagement between the customer and the Bank.

To ensure that its 2018 objectives and targets are met and working to reformat the existing quality management system, the Bank has decided to establish a single competence centre to set up, control and regulate service quality at all levels (sales office – regional branch – head office) and to centralise customer request processing. Further development will be led by Quality Assessment and Control. This function, created in 2018, will incorporate Customer Service for Regional Branches (whose staff will be working directly within the regional network) and Customer Management.

The service quality system that the Bank is putting in place aims at creating a competitive advantage and, eventually, consolidating the Bank's market position. It relies on the satisfaction and loyalty of a customer who is willing to stand by the Bank and recommend it to their business partners.

The Bank continues to analyse multiple sources of information to understand customer opinions and needs. On that basis the Bank takes comprehensive action to eliminate the causes of both existing and potential risks, issues/breaches and errors on its side, including those that are the root causes of customer complaints.

The Bank has built up communications and put in place processes that help quickly resolve customer problems. The Bank reviews about **85%** of total customer complaints within seven days.

The Bank will continue to develop and deploy up-to-date customer feedback channels.

Recognising the importance of convenient and prompt service for customers, the Bank is implementing, jointly with regional Multifunction Centres, a project for offering federal and municipal services at its own points of sale. These efforts correlate very well with Small Business and Support for Business Initiatives, a key government project for Russia's strategic development. The new service is primarily designed for businessmen and helps them use public services directly, quickly, for a minimum fee or free of charge. Looking to grow and make its services more convenient and accessible, the Bank will continue to develop and embed such centres in its regional network so that services are available wherever they are needed.

Mobilizing the inflow of foreign investments

Russian Agricultural Bank's international operations facilitate the inflow of foreign investments into the Russian financial and agricultural sector. In 2018, the Bank signed a Cooperation agreement with JSC "Savings bank "Belarusbank" in the course of the 22nd St. Petersburg International Economic Forum. The parties contemplate closer cooperation in the interbank market, in the sphere of investments in agribusiness and other sectors both in Russia and Belarus.

Russian Agricultural Bank as part of developing cooperation with JCB international payment system started accepting all JCB cards on the Bank's ATM network and POS terminals as well as issuing JCB cards and MIR/ JCB co-badged cards.

For further details please refer to section 3.4 Financial Institutions and International Operations, page 50.

Anti-corruption policies

Being guided by the principle of zero tolerance to corruption and abiding by the anticorruption laws, the Bank continuously pursues respective measures and takes steps towards higher efficiency of preventing corruption. The work done to this effect comprises:

- informing staff on restrictions, bans and requirements, existing in this field;
- monitoring how staff comply with the restrictions, bans and requirements;
- creates negative attitude towards corruption among employees.

In 2018, the Bank set up a Compliance Committee of the Management Board whose responsibility encompasses consideration of issues in the sphere of prevention and counteracting corruption.

Purchasing activities

The Bank works towards making its purchasing processes transparent, efficient and non-discriminatory, prevents unreasonable restraints on competition and promotes compliance with the Russian Federal Procurement Law. The Bank publishes information on its procurement activities online at www.zakupki.gov.ru. To encourage fair competition, as well as cost optimization, the Bank conducts electronic procurement procedures via auctions/ requests for proposals and other methods. As a result, the Bank saved approximately **RUB 567 million**.

With a view to implementing the government approved road map "Enhancing the access of small- and medium-sized business to purchases of infrastructure monopolies and state-owned companies", the Bank placed **51%** of its procurement orders with SMEs, whereas the minimum required threshold is **18%**.

Internal social policies

Internal social policies implemented at Russian Agricultural Bank are designed to recognize employees' merits and fairly assess their contribution to achieving tasks set by the shareholder. The Bank's non-financial motivation includes: commendations, letters of appreciation and other incentives awarded to its most effective employees. The Bank adheres to its principles of creating a favorable working environment, supportive of healthy lifestyle practices and skill development for its employees. In its internal social policy, the Bank promotes personnel protection based on principles of responsibility, non-discrimination and mutual respect. The Bank's employees are eligible for voluntary medical insurance, occupational accident insurance and corporate retirement benefits.

Reducing environmental impact

Russian Agricultural Bank has adopted and implements voluntary environmental responsibility principles to preserve and restore natural resources, and to reduce the environmental footprint from the Bank's activities, as well as to raise social responsibility awareness. When implementing voluntary ecological responsibility mechanisms, the Bank complies with local and international ecological standards and norms, makes provisions for expenses related to ecological aspects of the Bank's activity, including for environmental protection, rationalizes and controls performance related to the input(s) (raw materials, energy, and water) and output(s) (waste) for tangible resources per one employee (per one unit of usable space), and optimizes the use of the Bank resources, including by reducing electricity and heating usage, and water via the application of resource-efficient technologies, and automates the control of resource use and conservation ('smart office' policies).

Data on the Bank's resource consumption

Resource type	2017		2018	
	Natural equivalent	Monetary equivalent, RUB mln	Natural equivalent	Monetary equivalent, RUB mln
Electricity, thousand kWh	48,705,956.38	266.6	50,725,802.10	404.3
Thermal energy, Gcal	95,554.33	108.0	66,738.14	122.4
Water, cubic metres	256,524.70	10.2	239,438.59	12.4
Natural gas, cubic metres	1,664,980.00	12.3	1,690,470.00	11.2
Firewood, cubic metres	273.00	0.3	448.00	0.5
Coal, tonnes	140.00	0.8	71.40	0.6
Petrol, tonnes	3,248.45	112.0	61.36	2.5
Diesel fuel, tonnes	600.54	23.3	779.79	30.9

The Bank employees take part in regional, federal, all-Russia campaigns on environment protection in where they are joined by industry-specific enterprises, including the Agricultural Ministry, forest and nature protection companies, Russian Geographical Society. Special focus is placed on cleaning and planting trees/greenery on the territories adjacent to the Bank's premises.

Russian Agricultural Bank as the key lender to Russian agribusiness supports projects targeted at resource conservation, energy efficiency and support of nature conservation activities. Projects in plant breeding are aimed at increasing the efficient use of land, water and other natural resources. Projects in livestock breeding (structured as investments and project finance) comply with the latest environmental safety standards, comprise waste recycling and utilization stages while minimizing the negative impact on environment.

The Bank's operations are aligned with the goals and tasks of the national Project "Ecology" launched in late 2018 under the Direction of the Russian Ministry of Natural Resources and Ecology.

Volunteering

Volunteer projects evidence that the Bank's staff upholds and embraces the Bank's commitment to socially responsible practices. The Bank actively engages its staff in volunteer projects benefiting local communities. The key projects that have helped enhance the Bank's corporate values are the Donor's Day, Volunteer Descent and Financial Literacy. The Volunteer Descent project supports socially-oriented organizations such as orphanages, II WW veterans, elderly people, children without parental custody, Donor Days and ecology related initiatives.

On a regular basis the Bank's Head Office holds the Blood Donor Day with support of specialists from a Blood Transfusion Station of the Moscow Health Ministry. Circa 100 employees took part in this initiative in 2018.

Socially important projects are an important contribution to cementing the Bank corporate values. Aiming the accomplishment of measures in the CSR sphere by the Bank's staff and with the top managers' support the Bank arranges volunteer campaigns.

Sponsorship and Charity

As a corporate citizen committed to meeting societal needs and expectations, Russian Agricultural Bank extends tangible help to local communities via charitable activities, sponsorships and donations. The Bank promotes philanthropic activities with emphasis on key priorities of Russia's social and economic development and defined by the Bank shareholders. Thus, in 2018, Russian Agricultural Bank engaged in philanthropic activities in five key areas relating to community support, education, spiritual education, sports and physical education; protection of environment and biodiversity.

Protection of environment and biodiversity

The Bank views protection of environment and engendered species as a civic duty for responsible corporations. In 2018 the Bank proceeded with carrying out the Amur Tiger Protection Project in cooperation with an autonomous non-commercial organization "Amur Tiger Center". Also the Bank sponsored a non-profit organization involved in maintaining the Far Eastern leopard population. Russian Agricultural Bank became the primary sponsor of the mass media campaign which effectively combined the resources of a commercial and non-profit entity to increase the number of Amur tigers in Russia and expand their habitat. The large-scale campaign was for the above purposes involved in such mass media channels as public transportation, print and electronic publications. In 2018, the Bank supported three projects for protection of endangered species included in the "red list" and climate change problems.

Community support

As part of "Financial support of individuals" the Bank provided financial aid to a state-financed institution supervising elderly people and a health care institution, two religious establishments, two non-profit funds and a veterans' organization, children's rehabilitation center, agricultural professional union. As part of "Sports and physical culture" the Bank provided financial aid to a regional non-governmental fund, non-profit fund of a sports society, three non-profit organizations and sports federation to promote popular sports in Russia.

Starting from 2008, Russian Agricultural Bank has awarded scholarships to institutions supervised by the Russian Agricultural Ministry and also to students specializing in finance. The Bank provided donations to five agricultural education establishments, three higher education establishments and a regional science library.

Russian Agricultural Bank's initiatives facilitate the education of highly qualified professionals in key rural specializations and the retention of young specialists in rural areas, since these are key prerequisites for Russian agribusiness development.

Financial literacy

The Corporate University adds to the positive social impact of the Bank's core operations and its CSR activities by arranging financial literacy seminars for schoolchildren, students and general public. More than 900 schoolchildren and students took part in such initiatives in 2018.

Support of industry-specific mass media and professional forums

As part of the initiative Russian Agricultural Bank has sponsored TV shows that raise awareness of agricultural issues. In 2018 the Bank became a partner for numerous large specialized events, including: the 22nd St Petersburg Economic Forum, the 20th Golden Autumn Exhibition, the 2nd Global Fishery Forum & Seafood Expo, Farmers' Congress, Gaidar Forum-2018, the 9th Convention of Soyuzmoloko (Dairy producers' union), the 27th 'Agrorus' International Agricultural Exhibition and Trade Fair, the 29th Congress of the Association of Farms and Agricultural Cooperatives of Russia, the 16th Russian Bond Congress, 'SVOE' food festival. The Bank became the primary sponsor of the 4th Eastern Economic Forum, the 27th International financial congress, the Final ceremony of Russian entrepreneurship 'Business Success' award, OPORA ROSSII Forum. Russian Agricultural Bank took part in the VII World Farmers' Organisation General Assembly 2018.

The Bank allocated approximately **RUB 495.7 million** for sponsorship activities in 2018.

In 2018, the Bank sponsored TV shows dedicated to 'SVOE' food festival (Domestic), thematic shows on agribusiness, Russia in figures and "Aerial photoshooting. Agribusiness from a bird's eye view" broadcast on Russia24 TV channel.

The Bank also sponsored a Russian National Census of farmers "Svoe" (Domestic), specialized internet knowledge portal on agribusiness and other industry mass media. Newscasts "Delovoe utro", Segodnya at NTV channel. The Bank supported publications on fish breeding in the "Russian Fish" journal.

Also the Bank held four stages of All-Russia 'SVOE' food festival in various regions. More than 400 farmers exhibited their products at the festival locations with more than 200,000 guests attending the event.

Such projects in line with the Bank's core specialization have a positive impact on building the Bank's image among wider society and business and government elites.

Year after year Russian Agricultural Bank confirms its unwavering commitment to the CSR policies and performing its pivotal role of supporting prioritized economic sectors and various customer segments in urban and rural territories, thereby facilitating the resolution of broader social tasks leading to Russia's economic prosperity.

10

CONSOLIDATED FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS

INDEPENDENT AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS OF **JOINT STOCK COMPANY RUSSIAN AGRICULTURAL BANK AND ITS SUBSIDIARIES** FOR 2018

MARCH 2019

INDEPENDENT AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS OF JOINT STOCK COMPANY RUSSIAN AGRICULTURAL BANK AND ITS SUBSIDIARIES

EY Building a better working world

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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 2018, 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 2018, 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 2018 and its consolidated financial performance and its consolidated cash flows for 2018 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.

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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.

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Other information included in the Russian Agricultural Bank Annual Report 2018

Other information consists of the information included in the Russian Agricultural Bank Annual Report 2018 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 2018, we determined:

1) Whether the Banking group complied as at 1 January 2019 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.

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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 2019 were within the limits established by the Bank of Russia.

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 2018 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 2018 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 2018, 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.

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The procedures pertaining to the internal control and organization of the risk management systems were conducted by us solely for the purpose of determining the conformity of certain elements of the internal control and organization of the risk management systems of the 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 G.A. Shinin

G.A. Shinin
Partner
Ernst & Young LLC

21 March 2019

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.

RUSSIAN AGRICULTURAL BANK GROUP CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

In millions of Russian Roubles	Note	31 December 2018	31 December 2017
Assets			
Cash and cash equivalents	6	390 585	586 437
Mandatory cash balances with the Bank of Russia		20 651	19 112
Trading securities	7	19 226	17 507
Due from other banks	8	38 717	25 937
Derivative financial instruments	33	17 767	50 114
Loans and advances to customers	9	1 957 767	1 765 760
Investment securities	10	532 185	340 629
Investment securities pledged under repurchase agreements	10	40 264	-
Current income tax assets		573	407
Deferred income tax asset	26	16 298	16 298
Intangible assets	11	6 113	3 861
Premises and equipment	11	50 186	37 438
Other assets	12	23 810	25 181
Assets classified as held for sale	36	640	338
Total assets		**3 114 782**	**2 889 019**
Liabilities			
Derivative financial instruments	33	9 213	3 363
Due to other banks	13	171 530	52 757

The notes set out on pages 132 to 259 form an integral part of these consolidated financial statements.

In millions of Russian Roubles	Note	31 December 2018	31 December 2017
Customer accounts	14	2 421 051	2 203 577
Promissory notes issued	15	42 341	36 946
Bonds issued	16	142 609	244 561
Current income tax liability		89	20
Deferred income tax liability	26	1 658	512
Other liabilities	17	27 291	23 423
Total liabilities before subordinated debts		**2 815 782**	**2 565 159**
Subordinated debts	18	147 279	133 444
Total liabilities		**2 963 061**	**2 698 603**
Equity			
Share capital	20	410 598	385 598
Perpetual bonds	19	38 376	15 000
Revaluation reserve for premises		2 890	1 052
Revaluation reserve for investment securities at fair value through other comprehensive income		(3 769)	3 001
Accumulated loss		(298 074)	(214 214)
Equity attributable to the Bank's shareholder		**150 021**	**190 437**
Non-controlling interest		**1 700**	**(21)**
Total equity		**151 721**	**190 416**
Total liabilities and equity		**3 114 782**	**2 889 019**

Approved for issue and signed on behalf of the Management Board on 21 March 2019.

B.P. Listov
Chairman of the Management Board

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

The notes set out on pages 132 to 259 form an integral part of these consolidated financial statements.

RUSSIAN AGRICULTURAL BANK GROUP CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

In millions of Russian Roubles	Note	2018	2017
Interest income at effective interest rate	21	228 701	232 592
Other interest income	21	3 316	2 738
Interest expense at effective interest rate	21	(164 617)	(172 056)
Net interest income		**67 400**	**63 274**
Credit loss expense	22	(58 600)	(64 718)
Net interest income/(expense) after credit loss expense		**8 800**	**(1 444)**
Fee and commission income	23	24 586	22 897
Fee and commission expense	23	(3 069)	(2 707)
(Losses net of gains)/gains less losses from trading securities		(613)	631
Gains less losses from financial instruments and loans to customers at fair value through profit or loss		196	156
Gains less losses from investment securities at fair value through other comprehensive income (2017: gains less losses from investment securities available for sale)		1 646	9 802
Foreign exchange translation (losses net of gains)/gains less losses		(9 419)	19 310
Gains less losses/(losses net of gains) from derivative financial instruments		18 685	(15 969)
Gains less losses/(losses net of gains) from dealing in foreign currencies		2 053	(2 742)
Gains from non-banking activities		13 782	10 388
Losses from non-banking activities		(12 375)	(9 652)
Gains from initial recognition of financial instruments at fair value	4	23 119	-
Other operating (expense)/income		(1 215)	2 209
Administrative and other operating expenses	25	(58 676)	(47 514)
Profit/(loss) before tax		**7 500**	**(14 635)**
Income tax expense	26	(5 975)	(4 844)
Profit/(loss) for the year		**1 525**	**(19 479)**
Loss is attributable to:			
Shareholder of the Bank		1 558	(19 462)
Non-controlling interest		(33)	(17)
Profit/(loss) for the year		**1 525**	**(19 479)**
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods:			
Debt securities at fair value through other comprehensive income:			
- Net (losses)/gains on debt securities at fair value through other comprehensive income (2017: net gains/(losses) on investment securities available-for-sale)		(8 841)	6 389
- Realised revaluation reserve (at disposal)		(1 646)	(9 802)
- Changes in allowance for expected credit losses of debt securities at fair value through other comprehensive income		696	n/a
Income tax	26	2 097	674

The notes set out on pages 132 to 259 form an integral part of these consolidated financial statements.

The notes set out on pages 132 to 259 form an integral part of these consolidated financial statements.

In millions of Russian Roubles	Note	2018	2017
Other comprehensive loss to be reclassified to profit or loss in subsequent periods, net of tax		**(7 694)**	**(2 739)**
Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods:			
- Revaluation of premises		2 348	-
- Income tax		(470)	-
Other comprehensive income not to be reclassified to profit or loss in subsequent periods, net of tax		1 878	-
Total other comprehensive loss		**(5 816)**	**(2 739)**
Total comprehensive loss for the year		**(4 291)**	**(22 218)**
Total comprehensive loss is attributable to:			
Shareholder of the Bank		(4 258)	(22 201)
Non-controlling interest		(33)	(17)
Total comprehensive loss for the year		**(4 291)**	**(22 218)**

RUSSIAN AGRICULTURAL BANK GROUP CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

		Attributable to Shareholder of the Bank							
In millions of Russian Roubles	**Note**	**Share capital**	**Perpetual bonds**	**Revaluation reserve for premises**	**Revaluation reserve for investment securities**	**Accumulated loss**	**Total**	**Non-controlling interest**	**Total equity**
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	20	50 000	-	-	-	-	50 000	-	50 000
Depreciation of revaluation reserve for premises		-	-	(40)	-	40	-	-	-
Dividends paid	27	-	-	-	-	(257)	(257)	-	(257)
Coupon paid and due under perpetual bonds	19	-	-	-	-	(2 160)	(2 160)	-	(2 160)
Tax effect recognized 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**
Impact of adopting IFRS 9	**3**	**-**	**-**	**-**	**924**	**(84 138)**	**(83 214)**	**-**	**(83 214)**

In millions of Russian Roubles	Note	Attributable to Shareholder of the Bank						Non-controlling interest	Total equity
		Share capital	Perpetual bonds	Revaluation reserve for premises	Revaluation reserve for investment securities	Accumulated loss	Total		
Profit for the year, net of tax		-	-	-	-	1 558	1 558	(33)	1 525
Other comprehensive income/(loss) for the year, net of tax		-	-	1 878	(7 694)	-	(5 816)	-	(5 816)
Total comprehensive income/(loss) for the year, net of tax		**-**	**-**	**1 878**	**(7 694)**	**1 558**	**(4 258)**	**(33)**	**(4 291)**
Share issue	20	25 000	-	-	-	-	25 000	-	25 000
Acquisition of subsidiaries	36	-	-	-	-	-	-	1 754	1 754
Depreciation of revaluation reserve for premises		-	-	(40)	-	40	-	-	-
Dividends paid	27	-	-	-	-	(884)	(884)	-	(884)
Initial recognition of financial instruments for transactions under common control		-	-	-	-	2 155	2 155	-	2 155
Perpetual bonds issue	19	-	23 332	-	-	-	23 332	-	23 332
Perpetual bonds buy back	19	-	(98)	-	-	-	(98)	-	(98)
Foreign exchange translation of perpetual bonds		-	142	-	-	(142)	-	-	-
Coupon paid and due under perpetual bonds	19	-	-	-	-	(2 830)	(2 830)	-	(2 830)
Tax effect recognised on perpetual bonds		-	-	-	-	612	612	-	612
Balance at 31 December 2018		**410 598**	**38 376**	**2 890**	**(3 769)**	**(298 074)**	**150 021**	**1 700**	**151 721**

The notes set out on pages 132 to 259 form an integral part of these consolidated financial statements.

RUSSIAN AGRICULTURAL BANK GROUP CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018

In millions of Russian Roubles	Note	2018	2017
Cash flows from operating activities			
Interest received		239 139	246 198
Interest paid		(166 172)	(181 230)
Income received from trading in securities and financial instruments at fair value through profit or loss		1 187	10 689
Income received from derivative financial instruments		56 882	56 289
Income received/(expenses incurred) from dealing in foreign currencies		2 136	(2 735)
Fees and commissions received		24 555	23 074
Fees and commissions paid		(3 069)	(2 707)
Other operating income received		2 002	4 802
Net income received from insurance operations		6 780	2 122
Income received from non-banking activities		6 017	5 844
Expenses incurred from non-banking activities		(6 157)	(10 413)
Administrative and other operating expenses paid		(48 581)	(42 336)
Income tax paid		(4 472)	(3 617)
Cash flows from operating activities before changes in operating assets and liabilities		**110 247**	**105 980**

In millions of Russian Roubles	Note	2018	2017
Changes in operating assets and liabilities			
Net (increase)/decrease in operating assets			
Mandatory cash balances with the Bank of Russia		(1 539)	(7 845)
Trading securities		(2 214)	6 156
Financial instruments at fair value through profit or loss		-	580
Due from other banks		(9 055)	33 799
Loans and advances to customers		(293 889)	(248 522)
Other assets		1 827	(1 987)
Net increase/(decrease) in operating liabilities			
Due to other banks		134 313	(14 618)
Customer accounts		149 856	632 620
Promissory notes issued		2 414	24 582
Other liabilities		(3 147)	2 827
Net cash from operating activities		**88 813**	**533 572**
Cash flows from investing activities			
Acquisition of premises and equipment	11	(7 492)	(2 938)
Proceeds from disposal of premises and equipment		662	187
Acquisition of intangible assets	11	(2 819)	(1 699)
Acquisition of investment securities at FVTPL		(197)	-
Acquisition of investment securities at FVTPL (mandatory)		(3 648)	-
Acquisition of investment securities at FVOCI		(762 331)	(449 909)
Proceeds from redemption and sales of investment securities at FVOCI		530 153	346 036
Acquisition of investment securities at amortised cost		(2 649)	(7 616)
Proceeds from redemption of investment securities at amortised cost		12 336	8 285

In millions of Russian Roubles	Note	2018	2017
Dividends received		12	-
Net cash used in investing activities		**(235 973)**	**(107 654)**
Cash flows from financing activities			
Dividends paid	27	(884)	(257)
Issue of ordinary shares	20	25 000	50 000
Perpetual bonds issue less transaction costs		23 101	-
Amounts paid on perpetual bonds	19	(2 826)	(2 156)
Buy back of perpetual bonds issued	19	(98)	-
Buy back of subordinated debts		(5 886)	(1 484)
Proceeds from sale of previously bought back subordinated debt		219	9
Repayment of subordinated debts	18	-	(12 000)
Proceeds from bonds issue	16	57 900	31 850
Buy back of bonds issued at or prior to put option date		(40 898)	(61 606)
Buy back of Eurobonds issued		(11 332)	(26 433)
Proceeds from sale of previously bought back bonds issued on domestic market		52	16 219
Proceeds from sale of previously bought back Eurobonds issued		37 026	20 867
Repayment of bonds and Eurobonds issued		(151 788)	(179 654)
Proceeds from sale of non-controlling interests in consolidated mutual funds		28	27
Payments on disposal of non-controlling interests in consolidated mutual funds		(25)	(10)
Net cash used in financing activities		**(70 411)**	**(164 628)**
Effect of exchange rate changes on cash and cash equivalents		21 724	(886)

The notes set out on pages 132 to 259 form an integral part of these consolidated financial statements.

In millions of Russian Roubles	Note	2018	2017
Effect of ECL on cash and cash equivalents		(5)	-
Net (decrease)/increase in cash and cash equivalents		(195 852)	260 404
Cash and cash equivalents at the beginning of the period	6	586 437	326 033
Cash and cash equivalents at the end of the period	**6**	**390 585**	**586 437**

The notes set out on pages 132 to 259 form an integral part of these consolidated financial statements.

RUSSIAN AGRICULTURAL BANK GROUP NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2018

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 2018 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 (77.11% from total share capital (31 December 2017: 75.63% from total share capital)), the Ministry of Finance of the Russian Federation which holds the Bank's issued and outstanding preference shares (6.1% from total share capital (31 December 2017: 6.5% from total share capital)) and the State Corporation "Deposit Insurance Agency" which holds the Bank's issued and outstanding preference shares (16.79% from total share capital (31 December 2017: 17.87% 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;
- to maintain an effective and uninterrupted performance of the settlement system in the area of agricultural production across the Russian Federation.

1. Introduction (continued)

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 66 (31 December 2017: 70) 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 123112 Russia, Moscow, Presnenskaya nab., 10, bld. 2.

The number of the Group's employees as at 31 December 2018 was 29 862 (31 December 2017: 29 940).

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 2018 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.

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 2018, the following were the key changes in selected macro-economic indicators:
- The Bank of Russia exchange rate depreciated from RR 57.6002 to RR 69.4706 per US Dollar;
- The Bank of Russia key rate changed during the year and amounted to 7.75% p.a. as at 31 December 2018 (31 December 2017: 7.75% p.a.);
- The RTS stock exchange index decreased from 1154.4 to 1068.7.

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 at fair value through other comprehensive income, 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 changes in accounting policies.

Changes in accounting policies. IFRS 9 Financial Instruments. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods on or after 1 January 2018. The Bank has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings as of 1 January 2018 and are disclosed below.

(a) Classification and measurement
IFRS 9 includes three principal classification categories for financial assets: financial assets measured at amortised cost, financial assets measured at fair value through other comprehensive income (FVOCI) and financial assets measured at fair value through profit or loss (FVTPL). It eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

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

- Instruments that are managed on a "hold to collect contractual cash flows" basis are measured at amortised cost;
- Instruments that are managed on a "hold to collect contractual cash flows and for sale" basis are measured at fair value through other comprehensive income (FVOCI);
- Instruments that are managed on other basis, including trading financial assets, are measured at FVTPL.

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because it's the best way to reflect how the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice, including whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of assets;
- How the performance of the portfolio is evaluated and reported to the Group's management;

3. Summary of Significant Accounting Policies (continued)

- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- How managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected;
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

All financial assets not classified as measured at amortised cost or at FVOCI as described above are measured at FVTPL. In addition, on initial recognition the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Assessment whether contractual cash flows are solely payments of principal and interest
As a part of its classification process the Group assesses the contractual terms of financial assets to identify whether they meet SPPI test.

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This include assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- Contingent events that would change the amount and timing of cash flows;
- Prepayment and extension terms;
- Terms that limit the Group's claim to cash flows from specified assets, e.g. non-recourse asset arrangements;
- Features that modify consideration for the time value of money, e.g. periodic reset of interest rates.

All of the Group's retail loans and certain fixed-rate corporate loans contain prepayment features. A prepayment feature is consistent with the SPPI criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination of the contract.

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

3. Summary of Significant Accounting Policies (continued)

The classification and measurement of financial liabilities remains largely unchanged from the current IAS 39 requirements. Derivatives will continue to be measured at FVTPL. Embedded derivatives are no longer separated from a host financial asset.

Impact assessment
The Group has finalised the business model assessment and SPPI testing:
— Trading assets and derivative assets held for risk management, which are classified as held-for-trading and measured at FVTPL under IAS 39, will also be measured at FVTPL under IFRS 9;
— Loans and advances to banks and to customers that are classified as loans and receivables and measured at amortised cost under IAS 39 will in general also be measured at amortised cost under IFRS 9 except for loans that did not pass SPPI test;
— Debt investment securities that are classified as available-for-sale under IAS 39 may, under IFRS 9, be measured at amortised cost, FVOCI or FVTPL, depending on the particular circumstances.

The impact of these changes is not significant on The Group's financial statement.

(b) Impairment
The adoption of IFRS 9 has fundamentally changed the Group's accounting for loan impairment by replacing IAS 39 incurred loss approach with a forward-looking expected credit loss (ECL) approach. From 1 January 2018, the Group has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or lifetime ECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12-month ECL). The 12-month ECL is the portion of lifetime ECL that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both lifetime ECL and 12-month ECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments. Financial assets grouped on a collective basis according to the segments defined by the Group, industry sector, revenue size and other criteria.

The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on the above process, the Group groups its loans into Stage 1, Stage 2 and Stage 3, as described below:
— Stage 1: When loans do not have factors that indicate a significant increase in credit risk and are not in default at the reporting date, Group recognises an allowance based on ECL over one year.
— Stage 2: When loans have factors that indicate a significant increase in credit risk, but are not in default at the reporting date, Group records an allowance for the lifetime ECL.
— Stage 3: When loans are considered credit-impaired (defaulted) at the reporting date, Group recognises an allowance based on ECL resulting from all possible cash flows arising from different recovery scenarios given default already happened.

3. Summary of Significant Accounting Policies (continued)

For financial assets for which the Group has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset. Financial assets are are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery.

Measurement of ECLs
ECLs are a probability-weighted estimate of credit losses and measured as follows:
— Financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls – i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive, where ECL from including undrawn loan commitments are estimated using credit conversion factor (CCF);
— Financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows;
— Financial guarantee contracts: the present value of the expected payments to reimburse the holder less any amounts that the Group expects to recover.

Financial assets that are credit-impaired are defined by IFRS 9 in a similar way to financial assets that are impaired under IAS 39.

Definition of default
Under IFRS 9, the Group considers a financial asset to be in default when there is available information that:
— The borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held);r
— The borrower is more than 90 days past due on the respective material credit obligation to the Group. Overdrafts are considered past due once the customer has breached an advised limit or been advised of a limit that is smaller than the current amount outstanding.

In assessing whether a borrower is in default, the Group considers indicators that are:
— Qualitative;
— Quantitative: e.g. overdue status;
— Based on data developed internally and obtained from external sources (e.g. insolvency or bankruptcy loan registers).

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time in order to reflect changes in circumstances.

Credit ratings and risk grades
The Group allocates each exposure to a credit rating or a risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement.

Credit ratings and client's score are primary inputs into the determination of the probability of default (PD) estimation and development under IFRS 9 framework.

3. Summary of Significant Accounting Policies (continued)

The Group also employs statistical models to analyze internal and external data to generate estimates lifetime PD-s and how these are expected to change as a result of the passage of time.
This analysis includes – where reasonable and supportable information is available – the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors, as well as analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macroeconomic indicators are likely to include variables such as GDP growth, benchmark interest rates and unemployment.

Determining whether credit risk has increased significantly
Under IFRS 9, when determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, the Group consider reasonable and supportable information that is relevant and available without undue costs or efforts, including both quantitative and qualitative information and analysis consisting – based on availability and complexity – of the Group's historical experience, expert credit assessment and forward-looking information.

The criteria may vary by portfolio and will include a backstop based on delinquency in accordance with IFRS 9. As a backstop, and as required by IFRS 9, the Group will presumptively consider that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. The Group determines days past due by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

The Group primarily identifies whether a significant increase in credit risk has occurred for an exposure by comparing:
- Credit rating as at the reporting date;
- Credit rating that was estimated on initial recognition of the exposure.

The Group also may, using its expert credit judgement and, where possible, relevant historical experience, determine that an exposure has undergone a significant increase in credit risk if particular qualitative factors indicate so.

The Group monitors the suitability of the criteria used to identify significant increases in credit risk by regular reviews to confirm that results of assessment are compliant with IFRS 9 and internal guidelines.

Modified assets and liabilities
The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value.

For the accounting purposes the Group defines significant and non-significant modification of financial assets. In case of significant modification the changing of contractual conditions (changing of currency of the financial instrument (besides conversion of the loan to rubles due to bankruptcy procedure/court decision), changing of interest rate from fix to float or float to fix and including/excluding conditions in the loan agreement which affect the SPPI test result) leads to derecognition of financial instrument.

3. Summary of Significant Accounting Policies (continued)

In case of non-significant modification of financial assets or financial liabilities, the Group recalculates the gross carrying amount of a financial asset as the present value of the estimated future cash payments or receipts through the expected life of the renegotiated or modified financial asset using the original effective rate.

The contractual terms of a financial liabilities may be significantly modified in case of changes contractual conditions of present values of the estimated future cash flows, including commission payments after commission income received discounted on liabilities' original effective rate more than 10% of the discounted present value of the rest cash flows on original financial liability.

Under IFRS 9, when the terms of a financial asset are modified due to borrowers financial difficulties and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly should reflect comparison of:
- The PD at the reporting date based on the modified terms;
- The PD estimated based on data on initial recognition and terms of the original contract.

The Group renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Group's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants.

Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Bank policy to monitor forborne loans to help ensure that future payments continue to be likely to occur.

Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forborne asset until it is collected or written off.

Following forbearance, a customer needs to demonstrate consistently good payment behaviour over a period of time or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECLs.

Inputs into measurement of ECLs
The key input variables into the measurement of ECLs are the following:
- Probability of default (PD) including lifetime PD-s;
- Loss given default (LGD);
- Credit conversion factor (CCF);
- Exposure-at-default (EAD).

3. Summary of Significant Accounting Policies (continued)

These parameters derived – alone or together – from internally developed statistical models based on own historical data or derived from available market data.

For portfolios in respect of which the Group has limited historical data, external benchmark information is used to supplement the internally available data.

Forward-looking information
Under IFRS 9, the Group incorporates forward-looking information as part of measurement of ECLs. External information used may include economic data and forecasts published by governmental bodies and monetary authorities in Russia.

The Group based on data availability and credibility of sources – using an analysis of historical data to estimate relationships between macro-economic variables and credit risk and credit losses. The key drivers include variables such as interest rates, unemployment rates, GDP forecasts and other.

(c) Effect of transition to IFRS 9
The following tables set out the impact of adopting IFRS 9 on the statement of financial position and retained earnings/(accumulated loss) as at 1 January 2018 including the effect of replacing IAS 39 incurred credit loss calculations with IFRS 9 ECL.

A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as at 1 January 2018 is as follows:

In millions of Russian Roubles	Ref	IAS 39 measurement category	IFRS 9 measurement category	Amount as at 31 December 2017	Reclassification	Remeasurement (ECL)	Remeasurement (other)	Amount as at 1 January 2018
Financial assets								
Cash and cash equivalents		Loans and receivables	Amortised cost	586 437	-	(22)	-	586 415
Trading securities		FVTPL	FVTPL (mandatory)	17 507	-	-	-	17 507
Financial instruments at fair value through profit or loss		FVTPL	FVTP (mandatory)	2 091	-	-	-	2 091
Due from other banks		Loans and receivables	Amortised cost	25 937	-	(236)	-	25 701
Derivative financial instruments		FVTPL	FVTPL (mandatory)	50 114	-	-	-	50 114

3. Summary of Significant Accounting Policies (continued)

In millions of Russian Roubles	Ref	IAS 39 measurement category	IFRS 9 measurement category	Amount as at 31 December 2017	Reclassification	Remeasurement (ECL)	Remeasurement (other)	Amount as at 1 January 2018
Loans and advances to customers		Loans and receivables	Amortised cost	1 765 760	(28 968)	(71 154)	(9 947)	1 655 691
To: Loans to customers at FVTPL	A			-	(28 968)	-	-	-
Loans to customers at FVTPL		-	FVTPL (mandatory)	-	25 689	-	(1 667)	24 022
From: Loans and advances to customers	A			-	25 689	-	-	-
Investment securities, including pledged under repurchase agreements – amortised cost		Hold to maturity	Amortised cost	64 685	3 279	(116)	-	67 848
From: Loans and advances to customers				-	3 279	-	-	-
Investment securities, including pledged under repurchase agreements – debt securities at FVOCI		Available for sale	FVOCI (debt)	273 569	-	-	-	273 569
Investment securities, including pledged under repurchase agreements – equity securities at FVOCI	B	Available for sale	FVOCI (equity)	284	-	-	-	284

3. Summary of Significant Accounting Policies (continued)

In millions of Russian Roubles	Ref	IAS 39 measurement category	IFRS 9 measurement category	Amount as at 31 December 2017	Reclassi-fication	Remeasu-rement (ECL)	Remeasu-rement (other)	Amount as at 1 January 2018
Non-financial assets								
Deferred tax assets				16 298	-	-	-	16 298
Other				86 337	-	-	-	86 337
Total assets				**2 889 019**	**-**	**(71 528)**	**(11 614)**	**2 805 877**
Non-financial liabilities								
Deferred tax liabilities				512	-	-	-	512
Provisions for loan commitments				552	-	72	-	624
Other				2 697 539	-	-	-	2 697 539
Total liabilities				**2 698 603**	**-**	**72**	**-**	**2 698 675**
A	As of 1 January 2018, the Group's analysis highlighted that certain loans to customers did not meet the SPPI criterion. Therefore, these loans previously measured at amortised cost are classified by Group as financial assets at FVTPL.							
B	The Group has elected the option to irrevocably designate its previous AFS equity instruments as Equity instruments at FVOCI.							

The column "Remeasurement (other)" of the table above in the amount of RR 9 947 million contains the effect of modification in the amount of RR 2 453 million and effect of the adjustment in recognition of accrued interest income before 1 January 2018 in the amount of RR 7 494 million.

The impact of transition to IFRS 9 on reserves and accumulated loss is as follows:

In millions of Russian Roubles	Retained earnings / (accumulated loss)
Fair value reserve	
Closing balance under IAS 39 (31 December 2017)	3 001
Recognition of expected credit losses under IFRS 9 for debt financial assets at FVOCI	924
Restated opening balance under IFRS 9 (1 January 2018)	**3 925**
Accumulated loss	
Closing balance under IAS 39 (31 December 2017)	(214 214)
Re-measurement impact of reclassifying financial assets held at amortised cost to FVTPL	(1 667)

3. Summary of Significant Accounting Policies (continued)

In millions of Russian Roubles	Retained earnings / (accumulated loss)
Recognition of IFRS 9 ECLs including those measured at FVOCI	(72 524)
Other changes (including modification effect)	(9 947)
Restated opening balance under IFRS 9 (1 January 2018)	**(298 352)**
Total change in equity due to adopting IFRS 9	**(83 214)**

The following table reconciles the aggregate opening loan loss allowances under IAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets to the ECL allowances under IFRS 9.

In millions of Russian Roubles	Provision for loan impairment at 31 December 2017	Remeasurement	Gross up interest on impaired loans	ECL under IFRS 9 at 1 January 2018
Impairment allowance for financial assets				
Loans and advances to customers	(203 081)	(71 154)	(71 713)	(345 948)
Cash and cash equivalents	-	(22)	-	(22)
Due from other banks	(203)	(236)	-	(439)
Held to maturity securities per IAS 39 / Investment securities at amortised cost under IFRS 9	-	(116)	-	(116)
Debt financial assets at FVOCI	-	(924)	-	(924)
Total impairment allowance for financial assets	**(203 284)**	**(72 452)**	**(71 713)**	**(347 449)**
Impairment allowance for financial liabilities				
Credit related commitments	(552)	(72)	-	(624)
Total impairment allowance for financial assets and credit related commitments	**(203 836)**	**(72 524)**	**(71 713)**	**(348 073)**

IFRS 15 Revenue from Contracts with Customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. However, the standard does not apply to revenue associated with financial instruments and leases, and therefore, does not impact the majority of the Group's revenue including interest revenue, gains/(losses) on operations with securities, lease income which are covered by IFRS 9 *Financial Instruments* and IAS 17 *Leases*.

3. Summary of Significant Accounting Policies (continued)

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. Noncontrolling 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.

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.

3. Summary of Significant Accounting Policies (continued)

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.

3. Summary of Significant Accounting Policies (continued)

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.

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 34.

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.

3. Summary of Significant Accounting Policies (continued)

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).

Financial assets and liabilities

Initial recognition

Date of recognition. All regular way purchases and sales of financial assets and liabilities are recognised on the trade date i.e. the date that the Group commits to purchase the asset or liability. Regular way purchases or sales are purchases or sales of financial assets and liabilities that require delivery of assets and liabilities within the period generally established by regulation or convention in the marketplace.

Initial measurement. The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value and, except in the case of financial assets and financial liabilities recorded at FVTPL, transaction costs are added to, or subtracted from, this amount.

Measurement categories of financial assets and liabilities

From 1 January 2018, the Group classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost;
- FVOCI;
- FVTPL.

The Group classifies and measures its derivative and trading portfolio at FVTPL. The Group may designate financial instruments at FVTPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.

Before 1 January 2018, the Bank classified its financial assets as loans and receivables (amortised cost), FVTPL, available-for-sale or held-to-maturity (amortised cost).

3. Summary of Significant Accounting Policies (continued)

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVTPL when they are held for trading, are derivative instruments or the fair value designation is applied.

Amounts due from other banks, loans and advances to customers, investments securities at amortised cost
Before 1 January 2018, amounts due from other banks and loans and advances to customers included non-derivative financial assets with fixed or determinable payments that were not quoted in an active market, other than those:

- That the Group intended to sell immediately or in the near term;
- That the Group, upon initial recognition, designated as at FVTPL or as available-for-sale;
- For which the Group may not recover substantially all of its initial investment, other than because of credit deterioration, which were designated as available-for-sale.

From 1 January 2018, the Group only measures amounts due from credit institutions, loans to customers and other financial investments at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows;
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

Debt instruments at FVOCI
From 1 January 2018, the Group applies the new category under IFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets;
- The contractual terms of the financial asset meet the SPPI test.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in other comprehensive income. Interest revenue and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost. On derecognition, cumulative gains or losses previously recognised in other comprehensive income are reclassified from other comprehensive income to profit or loss.

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in other comprehensive income as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in other comprehensive income is recycled to the profit and loss upon derecognition of the asset.

Equity instruments at FVOCI
From 1 January 2018, upon initial recognition, the Group occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument by-instrument basis.

3. Summary of Significant Accounting Policies (continued)

Gains and losses on these equity instruments are never recycled to profit or loss. Dividends are recognised in profit or loss as other income when the right of the payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in other comprehensive income. Equity instruments at FVOCI are not subject to an impairment assessment. Upon disposal of these instruments, the accumulated revaluation reserve is transferred to retained earnings.

Financial guarantees, letters of credit and undrawn loan commitments
The Group issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognised in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the [consolidated] statement of profit or loss, and – under IAS 37 (before 1 January 2018) – the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee, or – under IFRS 9 (from 1 January 2018) – an ECL provision.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Group is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, under IAS 39, a provision was made if they were an onerous contract but, from 1 January 2018, these contracts are in the scope of the ECL requirements.

The Group occasionally issues loan commitments at below market interest rates drawdown. Such commitments are initially recognized at fair value and subsequently measured at the higher of the amount of the ECL allowance and the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

Performance guarantees. Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Performance guarantees do not transfer credit risk. The risk under performance guarantee contracts is the possibility that the failure to perform the contractual obligation by another party occurs. Therefore, performance guarantees are not considered financial instruments and thus do not fall in scope of IFRS 9.

Held-to-maturity investments. Before 1 January 2018, non-derivative financial assets with fixed or determinable payments and fixed maturity were classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period were not included in this classification. Held-to-maturity investments were subsequently measured at amortised cost. Gains and losses were recognised in profit or loss when the investments are impaired, as well as through the amortisation process.

Loans and advances to customers. Before 1 January 2018, loans and advances to customers were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market. They were not entered into with the intention of immediate or short-term resale and were not classified as trading securities or designated as investment securities available-for-sale.

Such assets were carried at amortised cost using the effective interest method. Gains and losses were recognised in profit or loss when the loans and receivables were derecognised or impaired, as well as through the amortisation process.

Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest revenue is subsequently recognised based on a credit-adjusted EIR. ECL are only recognised or released to the extent that there is a subsequent change in the lifetime expected credit losses.

Available-for-sale financial assets. Before 1 January 2018, available-for-sale financial assets were those non-derivative financial assets that were designated as available-for-sale or were not classified in any of the three preceding categories. After initial recognition available-for sale financial assets were measured at fair value with gains or losses being recognised in other comprehensive income until the investment was derecognised or until the investment was determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income was reclassified to the consolidated statement of profit or loss. However, interest calculated using the effective interest method was recognised in profit or loss.

Reclassification of financial assets and liabilities. From 1 January 2018, the Group does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Group changes the business model for managing financial assets. Financial liabilities are never reclassified.

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.

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, reverse sale and repurchase agreements with other banks, and other cash equivalents 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 the Bank of Russia bid prices, which approximate fair values and are quoted at a discount to London Bullion Market rates. Changes in the Bank of Russia bid prices are recorded as translation differences from precious metals.

Mandatory cash balances with the Bank of Russia. Mandatory cash balances with the Bank of Russia are carried at amortised cost and represent non-interest bearing mandatory reserve deposits which are not available to finance the 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.

3. Summary of Significant Accounting Policies (continued)

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.

Trading securities are carried at fair value. Interest earned on trading securities calculated using the contractual interest method is presented in the consolidated statement of profit or loss and other comprehensive income as interest income. 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.

Investment securities at fair value through other comprehensive income. 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 at fair value through other comprehensive income at the time of purchase.

Investment securities at fair value through profit or loss at initial recognition on management decision. Investment securities at fair value through profit or loss are financial assets designated irrevocably, at initial recognition, into this category by the Group, if such classification eliminates or significantly reduces inconsistency of measurement or recognition approaches (an accounting mismatch) that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them.

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.

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.

3. Summary of Significant Accounting Policies (continued)

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. From 1 January 2018, these contracts are in the scope of the ECL requirements.

Promissory notes purchased. Promissory notes purchased are included in trading securities or investment securities at amortised cost 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.

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 11. 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.

3. Summary of Significant Accounting Policies (continued)

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	40-100	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.

3. Summary of Significant Accounting Policies (continued)

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.

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 classified as 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.

3. Summary of Significant Accounting Policies (continued)

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.

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;

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).

Under IAS 39, derivatives embedded in financial assets, liabilities and non-financial host contacts, were treated as separate derivatives and recorded at fair value if they met the definition of a derivative (as defined above), their economic characteristics and risks were not closely related to those of the host contract, and the host contract was not itself held for trading or designated at FVTPL. The embedded derivatives separated from the host were carried at fair value in the trading portfolio with changes in fair value recognised in the consolidated statement of profit or loss and other comprehensive income.

From 1 January 2018, with the introduction of IFRS 9, the Group accounts in this way for derivatives embedded in financial liabilities and non-financial host contracts. Financial assets are classified based on the business model and SPPI assessments.

3. Summary of Significant Accounting Policies (continued)

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 at fair value through other comprehensive income 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.

3. Summary of Significant Accounting Policies (continued)

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.

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 24.

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 24.

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.

3. Summary of Significant Accounting Policies (continued)

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.

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. The Bank of Russia approved the inclusion of these subordinated bonds in the regulatory capital calculation of the Bank.

The Group accounts for the Perpetual Bonds denominated in the foreign currency in the amount of RUR equivalent amount using the foreign exchange rate at the reporting date with foreign exchange translation effects recorded in Retained earnings.

Coupon payments may be cancelled or deferred in accordance with the terms of the notes. Transaction costs are recorded in retained earnings. 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.

3. Summary of Significant Accounting Policies (continued)

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

Revenue recognition – sale of goods. Revenue is recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct are separately recognised, and any discounts or rebates on the contract price are generally allocated to the separate elements. When the consideration varies for any reason, minimum amounts are 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.

Interest and similar revenue and expense. From 1 January 2018, the Group calculates interest revenue on debt financial assets measured at amortized cost or at FVOCI by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets (before 1 January 2018: by applying EIR to the amortized cost of financial assets).

When a financial asset becomes credit-impaired, the Group calculates interest revenue by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Group reverts to calculating interest revenue on a gross basis.

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.

For purchased or originated credit-impaired (POCI) financial assets, the Group calculates interest revenue by calculating the credit-adjusted EIR and applying that rate to the amortised cost of the asset. The credit-adjusted EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the POCI assets.

Interest revenue on all financial assets at FVTPL is recognised using the contractual interest rate in "Other interest revenue" in the consolidated statement of profit or loss.

Fee and commission income. 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 loan fees, credit rating, loan servicing.

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.

3. Summary of Significant Accounting Policies (continued)

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

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

Fee income from providing transaction services. Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as where the Group's performance obligation is the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Fees or components of fees that are linked to certain performance obligations are recognised after fulfilling the corresponding criteria. When the contract provides for a variable consideration, fee and commission income is only recognized to the extent that itis probable that a significant reversal in the amount of cumulative revenue recognized will not occur until the uncertainty associated with the variable consideration is subsequently resolved.

Customer loyalty programs. The Group offers a number customer loyalty programs. Accounting for such programs varies depending on who is identified as the customer, and whether the Group acts as an agent or as a principal under the contract. Cashbacks on plastic card transactions reduce fee and commission income.

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 Bank of Russia 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 Bank of Russia, 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.

As at 31 December 2018 the principal rates of exchange used for translating foreign currency balances were USD 1 = RR 69.4706 (31 December 2017: USD 1 = RR 57.6002), EUR 1 = RR 79.4605 (31 December 2017: EUR 1 = RR 68.8668).

3. Summary of Significant Accounting Policies (continued)

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 Operating segments 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.

3. Summary of Significant Accounting Policies (continued)

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

Government grants and government assistance. Government grants are recognized where there is reasonable assurance that the grant will be received and all the related conditions will be complied with. Where the grant relates to an expense item, it is recognized as income in the same periods as the respective expenses it is intended to compensate on a systematic basis. Where the grant relates to an asset, it is recognized as deferred income and released to income in equal amounts over the expected useful life of the related asset.

Government loans provided at below market interest rates are recognized in accordance with IFRS 9. The benefit of the government loan is measured at the inception of the loan as the difference between the cash received and the amount at which the loan is initially recognized in the consolidated statement of financial position. This benefit is accounted for in accordance with IAS 20.

A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs shall be recognized in profit or loss of the period in which it becomes receivable.

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

In the process of applying accounting policies, the management of the Group, in addition to accounting estimates, makes judgments and assumptions that affect the amounts reflected in the consolidated financial statements. Judgments and assumptions are made based on management experience and other factors, including expectations regarding future events that management believes are reasonable in the light of current circumstances.

In the process of applying the Group's accounting policies, management used its judgments and made estimates in determining the amounts recognized in the consolidated financial statements. Below are the most significant use of judgments and evaluations:

Impairment losses on financial assets. The measurement of impairment losses both under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:
— The Group's internal credit grading model, which assigns PDs to the individual grades;
— The Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment;

4. Critical Accounting Estimates and Judgements in Applying Accounting Policies (continued)

— The segmentation of financial assets when their ECL is assessed on a collective basis;
— Development of ECL models, including the various formulae and the choice of inputs;
— Determination of associations between macroeconomic scenarios and, economic inputs, and the effect on PDs, EADs and LGDs. Thus, the functional dependence of the level of defaults on macroeconomic factors is determined by evaluating the regression between the values of the default level and various transformations of this indicator taking into account macroeconomic factors such as GDP growth rate, growth rate of the agro-industrial complex, oil prices, inflation rate, etc.;
— Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

The amount of allowance for loan impairment recognised in consolidated statement of financial position at 31 December 2018 was RR 332 411 million (at 31 December 2017: RR 203 081 million). More details are provided in Notes 9 and 29.

Fair value of financial instruments. Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Additional details are provided in Note 34.

Loans and advances to customers at fair value. As of 1 January 2018, the Group's analysis highlighted that certain loans to customers did not meet the SPPI criterion. Therefore, these loans previously measured at amortised cost are classified by Group as financial assets at FVTPL. Refer to Notes 9 and 34.

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 33.

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 26.

4. Critical Accounting Estimates and Judgements in Applying Accounting Policies (continued)

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 2018 the Group guarantees all obligations of the consolidated structured entity represented by subordinated debts in the amount of RR 27 765 million (31 December 2017: Eurobonds issued in the amount of RR 113 819 million and subordinated debts in the amount of RR 29 202 million). During 2018 and 2017 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 16.

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.

Gains from initial recognition of financial instruments at fair value. In the fourth quarter of 2018, the Group attracted long-term financing on terms that allowed the Group to reflect in the item "Gains from initial recognition of financial instruments at fair value" of the consolidated statement of profit and loss and other comprehensive income gains from initial recognition in the amount of 23 119 RR million.

Changes in presentation. Started from 1 January 2018, the Group presents investment securities available for sale, investment securities held to maturity and financial instruments designated at fair value through profit or loss within investment securities in the consolidated statement of financial position as at 31 December 2017. The reclassification and its impact on information as at 31 December 2017 stated in the consolidated statement of financial position are as follows:

In millions of Russian Roubles	31 December 2017		
	As previously reported	Reclassification	As adjusted
Investment securities	-	340 629	340 629
Investment securities available for sale	273 853	(273 853)	-
Investment securities held to maturity	64 685	(64 685)	-
Financial instruments designated at fair value through profit or loss	2 091	(2 091)	-

4. Critical Accounting Estimates and Judgements in Applying Accounting Policies (continued)

Started from 1 January 2018, the Group presents losses from impairment of investment securities and provision for credit related commitments and other assets impairment within credit loss expense. The reclassification and its impact on comparative period information for the year ended 31 December 2017 stated in the consolidated statement of profit or loss and other comprehensive income are as follows:

In millions of Russian Roubles	For the year ended 31 December 2017		
	As previously reported	Reclassification	As adjusted
Credit loss expense	(63 885)	(833)	(64 718)
Losses from impairment of investment securities available for sale	(441)	441	-
Provision for credit related commitments and other assets impairment	(392)	392	-

Started from 1 January 2018, the Group separates interest income at effective interest rate and other interest income as part of net interest income. The reclassification and its impact on comparative period information for the year ended 31 December 2017 stated in the consolidated statement of profit or loss and other comprehensive income are as follows:

In millions of Russian Roubles	For the year ended 31 December 2017		
	As previously reported	Reclassification	As adjusted
Interest income at effective interest rate	-	232 592	232 592
Other interest income	-	2 738	2 738
Interest income	235 330	(235 330)	-

5. New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2019 or later, and which the Group has not early adopted.

IFRS 16 Leases. IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease

5. New Accounting Pronouncements (continued)

liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

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

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

The Group will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

Based on the available data and current implementation status, Group management estimates the adoption of IFRS 16 will lead to recognition of right-to-use assets in the approximate amount of RR 5 billion and respective lease liability in the equal amount starting 1 January 2019.

The Group applies IFRS 16 using limited retrospective approach starting the effective date of 1 January 2019 without recalculation of comparatives.

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.

5. New Accounting Pronouncements (continued)

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.

Amendments to IFRS 9 – Prepayment Features with Negative Compensation. Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments have no impact on the consolidated financial statements of the Group.

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 IAS 19 – Plan Amendment, Curtailment or Settlement. The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event;
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

5. New Accounting Pronouncements (continued)

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Group.

Amendments to IAS 28 – Long-term interests in associates and joint ventures. The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.

The amendments should be applied retrospectively and are effective from 1 January 2019, with early application permitted. Since the Group does not have such long-term interests in its associate and joint venture, the amendments will not have an impact on its consolidated financial statements.

Annual improvements 2015-2017 cycle (issued in December 2017)
IFRS 3 Business Combinations. The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments will apply on future business combinations of the Group.

IFRS 11 Joint Arrangements. A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments are currently not applicable to the Group but may apply to future transactions.

5. New Accounting Pronouncements (continued)

IAS 12 Income Taxes. The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. Since the Group's current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements.

IAS 23 Borrowing Costs. The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. Since the Group's current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements.

6. Cash and Cash Equivalents

In millions of Russian Roubles	31 December 2018	31 December 2017
Cash on hand	148 475	147 866
Cash balances (other than mandatory) with the Bank of Russia	86 289	382 304
Correspondent accounts and deposits with other banks with original maturities less than one month	144 993	48 586
Settlement accounts with stock and currency exchanges	5 115	1 038
Settlement accounts with clearing and brokerage organisations	5 682	840
Deals with securities pledged under repurchase agreements with original maturities of less than one month	36	5 803
Less: provision for impairment	(5)	-
Total cash and cash equivalents	**390 585**	**586 437**

As at 31 December 2018, correspondent accounts and deposits with other banks with original maturities less than one month within cash and cash equivalents included balances with two Russian banking groups with rating of the parent bank at Ba2 (Moody's), individually above 10% of the Group's equity, in the amount of RR 134 304 million, or 34% of total cash and cash equivalents (31 December 2017: 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).

6. Cash and Cash Equivalents (continued)

Analysis by credit quality as at 31 December 2018 is as follows. Refer to Notes 3 and 29 for the description of credit risk grading system used by the Group and the approach to ECL measurement.

In millions of Russian Roubles	Stage 1	Stage 2	Stage 3	Total
Cash on hand	148 475	-	-	148 475
Cash balances (other than mandatory) with the Bank of Russia	86 289	-	-	86 289
Settlement accounts with clearing organisations	5 682	-	-	5 682
Settlement accounts with stock and currency exchanges	5 115	-	-	5 115
Low credit risk (internationally rated)	2 153	-	-	2 153
Moderate credit risk (internationally rated)	134 437	-	-	134 437
Increased credit risk (internationally rated)	8 439	-	-	8 439
High credit risk (internationally rated)	-	-	-	-
Default (internationally rated)	-	-	-	-
Not rated	-	-	-	-
Total cash and cash equivalents (before impairment)	**390 590**	**-**	**-**	**390 590**
Less: allowance for impairment	(5)	-	-	(5)
Total cash and cash equivalents	**390 585**	**-**	**-**	**390 585**

Analysis by credit quality of cash and cash equivalents as at 31 December 2017 is as follows:

In millions of Russian Roubles	31 December 2017
Current and not impaired	
Cash on hand	147 866
Cash balances (other than mandatory) with the Bank of Russia	382 304
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

6. Cash and Cash Equivalents (continued)

In millions of Russian Roubles	31 December 2017
- OECD banks and their subsidiary banks	1 145
- other Russian banks	460
- other non-resident banks	25
Settlement accounts with stock and currency exchanges	1 038
Settlement accounts with clearing and brokerage organisations	840
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
- other Russian banks	-
Less: provision for impairment	-
Total cash and cash equivalents	**586 437**

As at 31 December 2018, cash and cash equivalents in the amount of RR 36 million were effectively collateralized by securities purchased under reverse repo agreements with a fair value of RR 37 million (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). The Group had the right to sell or repledge securities.Refer to Note 34 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 29. The information on related party transactions is disclosed in Note 35.

7. Trading Securities

In millions of Russian Roubles	31 December 2018	31 December 2017
Federal loan bonds (OFZ)	15 532	16 741
Corporate bonds	3 683	766
Municipal and subfederal bonds	11	-
Total trading securities	**19 226**	**17 507**

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 2018 is as follows:

In millions of Russian Roubles	Securities internationally rated not lower than BB- (S&P)*	Securities nationally rated not lower than BBB- (AKRA)*	Securities internationally or nationally unrated	Total
Federal loan bonds (OFZ)	15 532	-	-	15 532
Corporate bonds	1 966	1 367	350	3 683
Municipal an subfederal bonds	11	-	-	11
Total debt trading securities	**17 509**	**1 367**	**350**	**19 226**

* or analogous ratings of other rating agencies.

7. Trading Securities (continued)

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.

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 2018, these bonds have maturity dates from May 2019 to March 2033 and coupon rates from 6.4% to 8.25% p.a. (31 December 2017: these bonds had maturity dates from March 2018 to January 2025 and coupon rates from 7.5% to 10.6% p.a.).Corporate bonds in the Group's portfolio 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, semi-annually or annually depending on the type of the bond issue and the issuer. As at 31 December 2018, these bonds have maturity dates from May 2019 to May 2033 and coupon rates from 4.5% to 10.8% p.a. (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.

Municipal and subfederal bonds are represented by Russian Roubles bonds of Russian municipal and subfederal authorities. These bonds were traded at a discount or premium to face value and carried a coupon payable quarterly. As at 31 December 2018 these bonds had maturity dates from November 2023 to October 2025 and coupon rates from 7.6% to 9.65% p.a.Refer to Note 34 for the disclosure of fair value hierarchy for trading securities. Geographical and liquidity analyses of trading securities are disclosed in Note 29.

8. Due from Other Banks

In millions of Russian Roubles	31 December 2018	31 December 2017
Current term placements with other banks	31 925	18 697
Promissory notes	6 936	7 163
Overdue placements with other banks	181	280
Less: provision for impairment	(325)	(203)
Total due from other banks	**38 717**	**25 937**

8. Due from Other Banks (continued)

An analysis of changes in gross carrying value and corresponding ECL allowance on amounts due from other banks during the year ended 31 December 2018 is as follows:

In millions of Russian Roubles	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as at 1 January 2018	**25 860**	**-**	**280**	**26 140**
Transfers to Stage 1	-	-	-	**-**
Transfers to Stage 2	-	-	-	**-**
Transfers to Stage 3	-	-	-	**-**
Change in gross carrying value(new issue and repayments)	10 146	-	(99)	**10 047**
Amounts written off	-	-	-	**-**
Foreign exchange adjustments	2 855	-	-	**2 855**
Gross carrying value as at 31 December 2018	**38 861**	**-**	**181**	**39 042**

In millions of Russian Roubles	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2018	**162**	**-**	**277**	**439**
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Impact on period end ECL of exposures transferred between stages during the period and changes to models and inputs used for ECL calculations (including expense on new issue and income from repayments)	(25)	-	(99)	(121)
Unwind of discount (recognised in interest income)	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	7	-	-	7
ECL as at 31 December 2018	**144**	**-**	**181**	**325**

Allowance for impairment of amounts due from other banks during 2017 year did not changed and amounted to RR 203 million.

8. Due from Other Banks (continued)

Analysis by credit quality of amounts due from other banks as at 31 December 2018 is as follows. Refer to Notes 3 and 29 for the description of credit risk grading system used by the Group and the approach to ECL measurement.

In millions of Russian Roubles	Stage 1	Stage 2	Stage 3	Total
Low credit risk (internationally rated)	-	-	-	-
Moderate credit risk (internationally rated)	9 491	-	-	9 491
Increased credit risk (internationally rated)	29 370	-	-	29 370
High credit risk (internationally rated)	-	-	-	-
Default (internationally rated)	-	-	-	-
Not rated	-	-	181	181
Total due from other banks (before impairment)	**38 861**	**-**	**181**	**39 042**
Less: allowance for impairment	(144)	-	(181)	(325)
Total due from other banks	**38 717**	**-**	**-**	**38 717**

Analysis by credit quality of amounts due from other banks as at 31 December 2017 was as follows:

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

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

In millions of Russian Roubles	31 December 2018	31 December 2017
Unsecured due from other banks placements	38 717	25 860
Due from other banks placements collateralised by:		
- other assets	-	77
Total due from other banks	**38 717**	**25 937**

8. Due from Other Banks (continued)

As at 31 December 2018 and 31 December 2017, due from other banks included no balances with other banks individually above 10% of the Group's equity. As at 31 December 2018, due from other banks included the balances with two 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 20 943 million, or 54% of total due from other banks (31 December 2017: 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 34 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 29. The information on related party transactions is disclosed in Note 35.

9. Loans and Advances to Customers

In millions of Russian Roubles	31 December 2018	31 December 2017
Loans to legal entities	**1 830 924**	**1 602 154**
- Loans to corporates	1 801 780	1 565 696
- Lending for food interventions	29 144	36 458
Subfederal bonds	**-**	**3 279**
Loans to individuals	**434 233**	**363 408**
Total loans and advances to customers at amortised cost (before impairment)	**2 265 157**	**1 968 841**
Less: allowance for impairment	(332 411)	(203 081)
Total loans and advances to customers at amortised cost	**1 932 746**	**1 765 760**
Loans to customers at fair value through profit or loss (2017: not applicable)	25 021	n/a
Total loans and advances to customers	**1 957 767**	**1 765 760**

As at 31 December 2018, included in gross amount of loans are loans in the principal amount of RR 677 831 million (31 December 2017: RR 611 247 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 2018, the Group has loans before impairment to ten largest borrowers (groups of borrowers) in the total amount of RR 570 967 million, or 25% of total loans and advances to customers before impairment (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).

9. Loans and Advances to Customers (continued)

Certain loans to customers did not meet the SPPI criterion. Therefore, these loans previously measured at amortised cost are classified by Group as financial assets at FVTPL.An analysis of changes in the gross carrying value and corresponding ECL in relation to loans to legal entities during the year ended 31 December 2018 is as follows:

In millions of Russian Roubles	Stage 1	Stage 2	Stage 3	Total
Loans to legal entities				
Gross carrying value as at 1 January 2018	**846 829**	**264 186**	**517 510**	**1 628 525**
Transfers to Stage 1	180 108	(136 501)	(43 607)	-
Transfers to Stage 2	(65 351)	72 305	(6 954)	-
Transfers to Stage 3	(17 442)	(42 786)	60 228	-
Change in gross carrying value (new issue and repayments)	335 835	(31 198)	6 443	311 080
Changes due to modifications not resulting in derecognition	-	(2 465)	-	(2 465)
Amounts written off	-	-	(11 562)	(11 562)
Foreign exchange adjustments	27 229	820	832	28 881
Loans sold during the period	(1 831)	(41 266)	(67 465)	(110 562)
Disposal due to transfer to subsidiaries	-	-	(12 973)	(12 973)
Gross carrying value as at 31 December 2018	**1 305 377**	**83 095**	**442 452**	**1 830 924**

In millions of Russian Roubles	Stage 1	Stage 2	Stage 3	Total
Loans to legal entities				
ECL as at 1 January 2018	**14 100**	**14 236**	**284 963**	**313 299**
Transfers to Stage 1	10 146	(4 828)	(5 318)	-
Transfers to Stage 2	(2 174)	4 634	(2 460)	-
Transfers to Stage 3	(423)	(5 426)	5 849	-
Impact on period end ECL of exposures transferred between stages during the period and changes to models and inputs used for ECL calculations (including expense on new issue and income from repayments)	12 561	7 219	36 439	56 219
Unwind of discount (recognised in interest income)	-	-	9 998	9 998
Changes due to modifications not resulting in derecognition	-	(99)	-	(99)
Amounts written off	-	-	(11 562)	(11 562)
Foreign exchange adjustments	202	148	232	582

9. Loans and Advances to Customers (continued)

In millions of Russian Roubles	Stage 1	Stage 2	Stage 3	Total
Allowance for loans sold during the period	(82)	(11 801)	(50 376)	(62 259)
Recovery of loans previously written off sold during the period	-	-	147	147
Recovery of loans previously written off	-	-	1 988	1 988
Disposal due to transfer to subsidiaries	-	-	(7 713)	(7 713)
ECL as at 31 December 2018	**34 330**	**4 083**	**262 187**	**300 600**

An analysis of changes in the gross carrying value and corresponding ECL in relation to loans to individuals during the year ended 31 December 2018 is as follows:

In millions of Russian Roubles	Stage 1	Stage 2	Stage 3	Total
Loans to individuals				
Gross carrying value as at 1 January 2018	333 134	3 481	34 831	371 446
Transfers to Stage 1	1 580	(743)	(837)	-
Transfers to Stage 2	(2 397)	2 999	(602)	-
Transfers to Stage 3	(5 000)	(1 976)	6 976	-
Change in gross carrying value (new issue and repayments)	68 262	(405)	(898)	66 959
Amounts written off	-	-	(65)	(65)
Loans sold during the period	-	-	(4 107)	(4 107)
Gross carrying value as at 31 December 2018	**395 579**	**3 356**	**35 298**	**434 233**

In millions of Russian Roubles	Stage 1	Stage 2	Stage 3	Total
Loans to individuals				
ECL as at 1 January 2018	**2 806**	**994**	**28 850**	**32 650**
Transfers to Stage 1	750	(160)	(590)	-
Transfers to Stage 2	(60)	489	(429)	-
Transfers to Stage 3	(172)	(632)	804	
Impact on period end ECL of exposures transferred between stages during the period and changes to models and inputs used for ECL calculations (including expense on new issue and income from repayments)	(1 935)	67	2 483	615
Unwind of discount (recognised in interest income)	-	-	2 559	2 559
Amounts written off	-	-	(65)	(65)
Provision for loans sold during the period	-	-	(3 948)	(3 948)
ECL as at 31 December 2018	**1 389**	**758**	**29 664**	**31 811**

9. Loans and Advances to Customers (continued)

A reconciliation of the allowance for impairment of loans to customers by class during the year ended 31 December 2017 is as follows:

In millions of Russian Roubles	Loans to corporates	Loans to individuals	Total
At 1 January 2017	176 202	13 750	189 952
Net provision for loan impairment during the year	57 351	6 534	63 885
Provision for loans sold during the year	(33 733)	(2 963)	(36 696)
Loans and advances to customers written off during the year as uncollectible	(15 425)	(22)	(15 447)
Recovery of loans previously written off sold during the year	527	-	527
Recovery of loans previously written off	860	-	860
At 31 December 2017	**185 782**	**17 299**	**203 081**

No provision for "Lending for food interventions" and "Subfederal bonds" was recorded as at 31 December 2017. The economic sector structure of the credit portfolio is as follows:

In millions of Russian Roubles	31 December 2018		31 December 2017	
	Amount	%	Amount	%
Agriculture	994 716	43	930 874	48
Individuals	434 233	19	363 408	18
Oil and gas	253 861	11	159 527	8
Manufacturing	197 777	9	175 297	9
Construction	188 369	8	180 858	9
Trading	43 519	2	44 126	2
Other	177 703	8	114 751	6
Total loans and advances to customers at amortised cost (before impairment)	**2 290 178**	**100**	**1 968 841**	**100**

As at 31 December 2018, the aggregate amount of loans to individuals included loans in the principal amount of RR 15 447 million issued to individuals-sole farmers (31 December 2017: RR 22 384 million).The table below presents an analysis of the credit quality of loans and advances to customers as of 31 December 2018. The classification of credit risk taking into account the credit quality scale of borrowers by levels and a description of the approach to estimating expected credit losses, including the determination of default and a significant increase in credit risk, is provided in Notes 3 and 29.

In millions of Russian Roubles	Stage 1	Stage 2	Stage 3	Total
Loans to legal entities at amortised cost				
Low credit risk (internally rated)	23	-	-	23
Moderate credit risk (internally rated)	695 225	3 121	-	698 346
Increased credit risk (internally rated)	610 055	25 814	-	635 869
High credit risk (internally rated)	74	54 160	-	54 234
Default (internally rated)	-	-	442 452	442 452
Unrated	-	-	-	-
Total loans to legal entities at amortised cost (before impairment)	**1 305 377**	**83 095**	**442 452**	**1 830 924**
Less: allowance for impairment	(34 330)	(4 082)	(262 188)	(300 600)
Total loans to legal entities at amortised cost	**1 271 047**	**79 013**	**180 264**	**1 530 324**

9. Loans and Advances to Customers (continued)

Analysis by credit quality in relation to loans to individuals as at 31 December 2018 is as follows:

In millions of Russian Roubles	Stage 1	Stage 2	Stage 3	Total
Loans to individuals at amortised cost				
Non overdue	391 413	1 036	54	392 503
Up to 30 days overdue	4 166	380	160	4 706
31 to 90 days overdue	-	1 940	985	2 925
91 to 180 days overdue	-	-	2 293	2 293
181 to 365 days overdue	-	-	3 608	3 608
Over 365 days overdue	-	-	28 198	28 198
Total loans to individuals at amortised cost (before impairment)	**395 579**	**3 356**	**35 298**	**434 233**
Less: allowance for impairment	(1 389)	(758)	(29 664)	(31 811)
Total loans to individuals at amortised cost	**394 190**	**2 598**	**5 634**	**402 422**

For ECL calculation on loans to individuals, the assessment of the probability of default is based on the migration matrix of overdue debts, taking into account the depth of overdue, the probability of default for scoring models and forecast information.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	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	1 231 254	-	3 279	329 317	1 563 850
Overdue					

9. Loans and Advances to Customers (continued)

In millions of Russian Roubles	Loans to corporates	Lending for food interventions	Subfederal bonds	Loans to individuals	Total
- overdue by: less than 31 days for legal entities and individuals	11 603	-	-	4 691	16 294
Total collectively assessed for impairment	**1 242 857**	**-**	**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)	**1 565 696**	**36 458**	**3 279**	**363 408**	**1 968 841**
Provision for loan impairment	**(185 782)**	**-**	**-**	**(17 299)**	**(203 081)**
Total loans and advances to customers	**1 379 914**	**36 458**	**3 279**	**346 109**	**1 765 760**

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

As at 31 December 2017, loans included in the watch list were in the process of restructuring and/or renegotiation. Watch list included loans and advances to customers overdue from 1 to 180 days of RR 13 679 million and loans and advances to customers overdue more than 180 days of RR 96 601 million. The remaining loans included in the watch list were 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.

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%, mortgage loans – 51% and consumer and other individual loans – 43%.

9. 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 83%) (31 December 2017: over 82%) relates to the following types: real estate – 59% (31 December 2017: 59%), equipment – 16% (31 December 2017: 15%) and vehicles – 8% (31 December 2017: 8%).

Refer to Note 34 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 29. The information on related party transactions is disclosed in Note 35.

Modified and restructured loans. The Group derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been significantly renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be purchased or originated credit impaired.
If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Group records a modification gain or loss, to the extent that an impairment loss has not already been recorded.
The table below includes Stage 2 and 3 assets that were modified during the year, with the related modification loss suffered by the Group.

In millions of Russian Roubles	31 December 2018
Loans modified during the period	
Amortised cost before modification	17 170
Net modification loss	(2 465)
Loans modified since initial recognition	
Gross carrying amount at 1 January 2018 of loans for which loss allowance has changed to 12 month measurement during the period	2 098

10. Investment Securities

Investment securities including those pledged under repurchase agreements comprise:

In millions of Russian Roubles	31 December 2018	31 December 2017
Investment securities at fair value through other comprehensive income (2017: investment securities available for sale)	507 270	273 853
Investment securities at amortised cost (2017 investment securities held to maturity)	56 891	64 685
Investment securities at fair value through profit or loss	2 846	2 091
Investment securities at fair value through profit or loss (mandatory)	5 442	n/a
Total investment securities	**572 449**	**340 629**

In millions of Russian Roubles	31 December 2018	31 December 2017
Investment securities at fair value through other comprehensive income (2017: investment securities available for sale)		
Federal loan bonds (OFZ)	183 673	129 536
Corporate bonds	117 418	102 086
Bank of Russia bonds	105 809	24 672
Corporate Eurobonds	45 852	11 776
Municipal and subfederal bonds	12 857	5 499
State Eurobonds	638	-
Total debt securities at fair value through other comprehensive income	**466 247**	**273 569**
Corporate Eurobonds	31 477	-
Federal loan bonds (OFZ)	8 787	-
Total debt securities at fair value through other comprehensive income pledged under repurchase agreements	**40 264**	**-**
Equity securities		
Corporate shares	759	284
Total equity securities at fair value through other comprehensive income	**759**	**284**
Total investment securities at fair value through other comprehensive income (2017: investment securities available for sale)	**507 270**	**273 853**

10. Investment Securities (continued)

Federal loan bonds (OFZ) are represented by state securities denominated in Russian Rouble. 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 2018, these bonds have maturity dates from January 2025 to June 2047 (31 December 2017: from August 2018 to February 2036) and coupon rates from 6.5% to 8.8% p.a. (31 December 2017: from 5.0% to 10.6% p.a.), depending on the type of the bond issue and the market conditions.

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 2018, these bonds have maturity dates from January 2019 to June 2048 (31 December 2017: from January 2018 to October 2052) and coupon rates from 6.5% to 13.5% p.a. (31 December 2017: from 4.8% to 15.8% 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 2018, these bonds had maturity dates from January 2019 to March 2019 (31 December 2017: from January 2018 to March 2018) and coupon rate 7.5% p.a. (31 December 2017: 7.8% p.a.), payable quarterly.

Corporate Eurobonds are bonds denominated in Russian Roubles, US Dollars and Euro issued by major Russian companies and banks. As at 31 December 2018, these bonds have maturity dates from March 2019 to December 2050 (31 December 2017: from February 2018 to October 2023) and coupon rates from 2.95% to 9.84% p.a. (31 December 2017: from 4.1% to 9.3% 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 2018, these bonds have maturity dates from October 2019 to December 2026 (31 December 2017: from July 2018 to December 2026) and coupon rates from 7.45% to 14% p.a. (31 December 2017: from 7.4% to 12.7% p.a.), depending on the type of the bond issue, the issuer and the market conditions.

State Eurobonds are represented by Russian Federation bonds denominated in US Dollars issued by the Ministry of Finance of Russian Federation. As at 31 December 2018, these bonds had maturity dates at April 2042 and coupon rate 5.63% p.a., payable semi-annually.

In millions of Russian Roubles	31 December 2018	31 December 2017
Investment securities at amortised cost (2017: investment securities held-to-maturity)		
Corporate bonds	37 425	42 553
Municipal and subfederal bonds	15 868	20 136
Federal loan bonds (OFZ)	3 548	1 996
Corporate Eurobonds	208	-
Less: allowance for impairment	(158)	-
Total investment securities at amortised cost (2017: investment securities held-to-maturity)	**56 891**	**64 685**

10. Investment Securities (continued)

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, semi-annually or annually, depending on the type of the bond issue and the issuer. As at 31 December 2018, these bonds have maturity dates from January 2019 to October 2052 (31 December 2017: from January 2018 to September 2052) and coupon rates from 7.2% to 12.05% p.a. (31 December 2017: from 7.65% to 12.05% 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 or semi-annually. As at 31 December 2018, these bonds have maturity dates from April 2019 to November 2024 (31 December 2017: June 2018 to November 2024) and coupon rates from 6.0% to 12.7% p.a. (31 December 2017: from 6.0% to 12.7% 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 2018, these OFZ have maturity dates from November 2021 to February 2036 (31 December 2017: from August 2018 to February 2036) and coupon rates from 5.5% to 8.15% p.a. (31 December 2017: 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.

Corporate Eurobonds are bonds denominated in USD issued by major Russian companies and banks. As at 31 December 2018, these bonds have maturity dates from February 2023 to June 2023 and coupon rates from 3.94% to 5.37% p.a., payable semi-annually, depending on the type of the bond issue, the issuer and the market conditions.

In millions of Russian Roubles	31 December 2018	31 December 2017
Investment securities at fair value through profit or loss		
Credit linked notes	574	2 091
Corporate shares	2 272	-
Total debt securities at fair value through profit or loss	**2 846**	**2 091**

Corporate shares are mainly represented by investments in shares of financial companies

In millions of Russian Roubles	31 December 2018	31 December 2017
Investment securities at fair value through profit or loss (mandatory)		
Corporate bonds	3 386	n/a
Credit linked notes	1 646	
Investments in mutual funds	207	n/a
Total debt securities at fair value through profit or loss (mandatory)	**5 239**	**n/a**
Equity securities		
Corporate shares	203	n/a
Total investment securities at fair value through profit or loss (mandatory)	**5 442**	**n/a**

10. Investment Securities (continued)

Corporate bonds are represented by securities denominated in Russian Roubles, issued by Russian company. Corporate bonds are traded at a discount to face value and carry a coupon payable quarterly or semi-annually, depending on the type of the bond issue. As at 31 December 2018, these bonds have maturity date at October 2025 and coupon rate of 9.5% p.a.

An analysis of changes in the fair values and associated ECLs in relation to debt securities at fair value through other comprehensive income is as follows:

In millions of Russian Roubles	Stage 1	Stage 2	Stage 3	Total
Debt securities at fair value through other comprehensive income				
Fair value as at 1 January 2018	**276 292**	**2 854**	**203**	**279 349**
Transfers to Stage 1	417	(417)	-	-
Transfers to Stage 2	(1 420)	1 420	-	-
Transfers to Stage 3	-	-	-	-
Change in gross carrying value(new issue and repayments)	217 040	(1 027)	(203)	215 810
Amounts written off	-	-	-	-
Foreign exchange adjustments	9 482	1 870	-	11 352
Fair value as at 31 December 2018	**501 811**	**4 700**	**-**	**506 511**

International credit ratings of issuers of the notes and of counterparty banks were not less than A (S&P) as at 31 December 2018 (31 December 2017: not less than A- (S&P)).

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 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.

In millions of Russian Roubles	Stage 1	Stage 2	Stage 3	Total
Debt securities at fair value through other comprehensive income				
ECL as at 1 January 2018	**840**	**38**	**46**	**924**
Transfers to Stage 1	6	(6)	-	-
Transfers to Stage 2	(1)	1	-	-
Transfers to Stage 3	-	-	-	-
Impact on period end ECL of exposures transferred between stages during the period and changes to models and inputs used (including expense on new issue and income from repayments)	694	(1)	(46)	647

10. Investment Securities (continued)

In millions of Russian Roubles	Stage 1	Stage 2	Stage 3	Total
Unwind of discount (recognised in interest income)	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	42	7	-	49
ECL as at 31 December 2018	**1 581**	**39**	**-**	**1 620**

An analysis of changes in the gross carrying values and associated ECLs in relation to debt securities at amortised cost is as follows:

In millions of Russian Roubles	Stage 1	Stage 2	Stage 3	Total
Debt securities at amortised cost				
Gross carrying value as at 1 January 2018	**64 405**	**3 463**	**-**	**67 868**
Transfers to Stage 1	3 463	(3 463)	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Change in gross carrying value(new issue and repayments)	(10 819)	-	-	(10 819)
Unwind of discount (recognised in interest income)	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
Gross carrying value as at 31 December 2018	**57 049**	**-**	**-**	**57 049**

In millions of Russian Roubles	Stage 1	Stage 2	Stage 3	Total
Debt securities at amortised cost				
ECL as at 1 January 2018	**96**	**20**	**-**	**116**
Transfers to Stage 1	20	(20)	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Impact on period end ECL of exposures transferred between stages during the period and changes to models and inputs used (including expense on new issue and income from repayments)	42	-	-	42
Unwind of discount (recognised in interest income)	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
ECL as at 31 December 2018	**158**	**-**	**-**	**158**

10. Investment Securities (continued)

Analysis by credit quality in relation to investment debt securities at fair value through other comprehensive income as at 31 December 2018 is as follows. Refer to Notes 3 and 29 for the description of credit risk grading system used by the Group and the approach to ECL measurement.

In millions of Russian Roubles	Stage 1	Stage 2	Stage 3	Total
Investment debt securities at fair value through other comprehensive income				
Low credit risk (internationally rated)	245 401	4 520	-	**249 921**
Low credit risk (nationally rated)	10 308	-	-	**10 308**
Low credit risk (internally rated)	-	-	-	**-**
Moderate credit risk (internationally rated)	90 097	-	-	**90 097**
Moderate credit risk (nationally rated)	464	-	-	**464**
Moderate credit risk (internally rated)	107 358	-	-	**107 358**
Increased credit risk (internationally rated)	12 626	180	-	**12 806**
Increased credit risk (nationally rated)	-	-	-	**-**
Increased credit risk (internally rated)	35 557	-	-	**35 557**
High credit risk (internationally rated)	-	-	-	**-**
High credit risk (nationally rated)	-	-	-	**-**
High credit risk (internally rated)	-	-	-	**-**
Default (internationally rated)	-	-	-	**-**
Default (nationally rated)	-	-	-	**-**
Default (internally rated)	-	-	-	**-**
Unrated	-	-	-	**-**
Total investment debt securities at fair value through other comprehensive income	**501 811**	**4 700**	**-**	**506 511**

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.

10. Investment Securities (continued)

Analysis by credit quality in relation to investment debt securities at amortised cost as at 31 December 2018 is as follows:

In millions of Russian Roubles	Stage 1	Stage 2	Stage 3	Total
Investment debt securities at amortised cost				
Low credit risk (internationally rated)	40 081	-	-	**40 081**
Low credit risk (nationally rated)	1 123	-	-	**1 123**
Moderate credit risk (internationally rated)	15 031	-	-	**15 031**
Moderate credit risk (nationally rated)	-	-	-	**-**
Moderate credit risk (internally rated)	814	-	-	**814**
Increased credit risk (internationally rated)	-	-	-	**-**
Increased credit risk (nationally rated)	-	-	-	**-**
High credit risk (internationally rated)	-	-	-	**-**
High credit risk (nationally rated)	-	-	-	**-**
Default (internationally rated)	-	-	-	**-**
Default (nationally rated)	-	-	-	**-**
Unrated	-	-	-	**-**
Total investment debt securities at amortised cost (before impairment)	**57 049**	**-**	**-**	**57 049**
Less: allowance for impairment	(158)	-	-	**(158)**
Total investment debt securities at amortised cost	**56 891**	**-**	**-**	**56 891**

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.

10. Investment Securities (continued)

During 2017 the Group reclassified certain financial assets 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 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**	

Refer to Note 34 for the disclosure of the fair value hierarchy for investment securities. Geographical and liquidity analyses of investment securities are disclosed in Note 29.

11. Premises, Equipment and Intangible Assets

In millions of Russian Roubles	Note	Used in banking activities				Used in non-banking activities			Total premises and equipment	Intangible assets	Total
		Office premises and construction in progress	Leasehold (premises) improvements	Office and computer equipment	Land	Production premises	Equipment	Land			
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	36	-	-	-	-	750	325	109	1 184	-	1 184
Disposals		-	(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	25	(165)	(41)	(1 408)	-	(137)	(66)	-	(1 817)	(892)	(2 709)

11. Premises, Equipment and Intangible Assets (continued)

In millions of Russian Roubles	Note	Used in banking activities				Used in non-banking activities			Total premises and equipment	Intangible assets	Total
		Office premises and construction in progress	Leasehold (premises) improvements	Office and computer equipment	Land	Production premises	Equipment	Land			
Depreciation release (disposals)		-	-	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

In millions of Russian Roubles	Note	Used in banking activities				Used in non-banking activities			Total premises and equipment	Intangible assets	Total
		Office premises and construction in progress	Leasehold (premises) improvements	Office and computer equipment	Land	Production premises	Equipment	Land			
Cost or valuation at 1 January 2018		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 1 January 2018		27 018	523	6 359	385	1 565	1 222	366	37 438	3 861	41 299
Additions		2 357	79	4 715	45	168	227	1	7 592	3 413	11 005
Acquisition of subsidiaries	36	-	-	-	-	7 919	-	353	8 272	-	8 272
Changes in gross carrying value resulting from revaluation recognized in other comprehensive income		3 090	-	-	-	-	-	-	3 090	-	3 090

11. Premises, Equipment and Intangible Assets (continued)

In millions of Russian Roubles	Note	Used in banking activities				Used in non-banking activities			Total premises and equipment	Intangible assets	Total
		Office premises and construction in progress	Leasehold (premises) improvements	Office and computer equipment	Land	Production premises	Equipment	Land			
Disposals (cost)		-	(66)	(564)	-	(98)	(90)	(25)	(843)	(668)	(1 511)
Depreciation charge: before revaluation	25	(476)	(28)	(1 432)	-	(42)	(191)	-	(2 169)	(993)	(3 162)
Changes in accumulated depreciation resulting from revaluation recognized in other comprehensive income		(742)	-	-	-	-	-	-	(742)	-	(742)
Realised revaluation reserve	25	(47)	-	-	-	-	-	-	(47)	-	(47)
Depreciation release (disposals)		-	-	554	-	7	63	-	624	500	1 124
Carrying amount at 31 December 2018		28 171	508	9 632	430	9 519	1 231	695	50 186	6 113	56 299
Cost or valuation at 31 December 2018		31 400	1 291	18 151	430	10 723	1 824	695	64 514	9 861	74 375
Accumulated depreciation		(3 229)	(783)	(8 519)	-	(1 204)	(593)	-	(14 328)	(3 748)	(18 076)
Carrying amount at 31 December 2018		28 171	508	9 632	430	9 519	1 231	695	50 186	6 113	56 299

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 2018 was RR 1 476 million (31 December 2017: RR 17 741 million).

11. Premises, Equipment and Intangible Assets (continued)

Carrying amount of office premises without revaluation at 31 December 2018 is RR 29 531 million, including cost in amount of RR 31 857 million and accumulated depreciation of RR 2 326 million (31 December 2017: carrying amount of office premises without revaluation was RR 26 739 million, including cost in amount of RR 28 524 million and accumulated depreciation of RR 1 785 million).

As at 31 December 2018 the Group recognised revaluation of premises in the consolidated financial statements (31 December 2017: the Group believes that fair value of premises used in banking activities has not changed significantly during 2017, therefore as at 31 December 2017 the Group has not recognised revaluation of premises in the consolidated financial statement).

Refer to Note 34 for the disclosure of the fair value hierarchy for office premises.

12. Other Assets

In millions of Russian Roubles	Note	31 December 2018	31 December 2017
Non-financial assets			
Repossessed collateral		3 262	2 889
Precious metals		1 719	776
Prepayment for services		1 606	3 103
Inventory		1 564	1 587
Prepayment for goods		200	841
Prepaid taxes		129	155
Settlements on social insurance and security		115	121
Prepayments on lease		4	36
Other		1 728	725
Total non-financial assets		**10 327**	**10 233**
Financial assets			
Credit support annex agreements for derivatives		3 304	679
Settlements on banking cards		1 826	3 659
Trade receivables		1 676	1 268
Due from State Corporation Deposit Insurance Agency		826	4 499
State duty		654	235
Settlements on funds transfer operations		324	907
Restricted cash	32	-	202
Government assistance on loans to customers receivable		-	3
Other		3 246	3 379
Provision for impairment of other financial assets		(3 854)	(3 098)
Total financial assets		**8 002**	**11 733**
Insurance assets		**5 481**	**3 215**
Total other assets		**23 810**	**25 181**

12. Other Assets (continued)

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.

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	2018	2017
Provision for impairment of other financial assets at 1 January	**3 098**	**2 720**
Provision for impairment of other financial assets during the year	1 054	392
Other financial assets written off during the year as uncollectible	(298)	(14)
Provision for impairment of other financial assets at 31 December	**3 854**	**3 098**

The movements in repossessed collateral are as follows:

In millions of Russian Rouble	2018	2017
Repossessed collateral at 1 January	**2 889**	**2 254**
Additions for the year	1 921	1 976
Disposal during the year	(1 385)	(979)
Reclassification to assets held for sale	(163)	(294)
Net losses from changes in net realisable value	-	(68)
Repossessed collateral at 31 December	**3 262**	**2 889**

During 2018 and 2017, 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 34 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 29. The information on related party transactions is disclosed in Note 35.

An analysis of corresponding ECL in relation to other financial assets during the year ended 31 December 2018 is as follows:

In millions of Russian Roubles	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2018	-	-	3 098	3 098
Transfers to Stage 1	7	-	(7)	-
Transfers to Stage 2	-	-	-	-

12. Other Assets (continued)

In millions of Russian Roubles	Stage 1	Stage 2	Stage 3	Total
Transfers to Stage 3	-	-	-	-
Impact on period end ECL of exposures transferred between stages during the period and changes to models and inputs used for ECL calculations (including expense on new issue and income from repayments)	6	-	1 048	1 054
Unwind of discount (recognised in interest income)	-	-	-	-
Amounts written off	-	-	(298)	(298)
ECL as at 31 December 2018	**13**	**-**	**3 841**	**3 854**

13. Due to Other Banks

In millions of Russian Roubles	31 December 2018	31 December 2017
Correspondent accounts and overnight placements of other banks	40 101	1 150
Borrowings from other banks with term to maturity:		
- repo deals less than 30 days	35 700	-
- less than 30 days	26 393	9 622
- from 31 to 180 days	132	738
- from 181 days to 1 year	63	81
- from 1 year to 3 years	1 051	444
- more than 3 years	20 037	19 248
Borrowings from the Bank of Russia with term to maturity:		
- less than 30 days	44	150
- from 31 to 180 days	2 442	1 689
- from 181 days to 1 year	4 255	8 601
- from 1 year to 3 years	41 312	11 034
Total due to other banks	**171 530**	**52 757**

As at 31 December 2018, due to other banks included balances with the Bank of Russia above 10% of the Group's equity in the amount of RR 48 054 million, or 28% of total due to other banks (31 December 2017: due to other banks included balances with the Bank of Russia above 10% of the Group's equity in the amount of RR 21 474 million, or 41% of total due to other banks).

As at 31 December 2018, due to other banks included no balances with other banks individually above 10% of the Group's equity (31 December 2017: due to other banks included no balances with other banks individually above 10% of the Group's equity). As at 31 December 2018, due to other banks included the balances with one OECD banking group with rating of the parent bank at A (S&P) and one Russian banking group with rating of the parent bank at BBB- (S&P) in aggregate above 10% of the Group's equity, in the amount of RR 25 132 million, or 15% of total due to other banks (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).

13. Due to Other Banks (continued)

Refer to Note 34 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 29. The information on related party transactions is disclosed in Note 35.

14. Customer Accounts

In millions of Russian Roubles	31 December 2018	31 December 2017
State and public organisations		
- Current/settlement accounts	23 683	24 243
- Term deposits	569 886	532 264
Other legal entities		
- Current/settlement accounts	173 689	144 487
- Term deposits	618 974	644 962
Individuals		
- Current/demand accounts	85 378	73 414
- Term deposits	949 441	784 207
Total customer accounts	**2 421 051**	**2 203 577**

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

Economic sector concentrations within customer accounts are as follows:

	31 December 2018		31 December 2017	
In millions of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Individuals	1 034 819	43	857 621	39
State and public organisations	593 569	25	556 507	25
Manufacturing	149 151	6	206 930	9
Construction	110 290	5	78 444	4
Trading	95 303	3	81 587	4
Agriculture	92 830	4	70 577	3
Financial services and pension funds	89 653	4	146 062	7
Insurance	52 477	2	41 040	2
Real estate	40 704	2	26 730	1
Transport	21 899	1	20 102	1
Communication	15 252	-	3 161	-
Leasing	2 710	-	8 706	-
Other	122 394	5	106 110	5
Total customer accounts	**2 421 051**	**100**	**2 203 577**	**100**

14. Customer Accounts (continued)

As at 31 December 2018, customer accounts included balances with nine customers each above 10% of the Group's equity (31 December 2017: balances with nine customers each individually above 10% of the Group's equity). The aggregate balance of these customers was RR 671 174 million, or 28% of total customer accounts (31 December 2017: RR 698 763 million, or 32% of total customer accounts).

Refer to Note 34 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 29. The information on related party transactions is disclosed in Note 35.

15. Promissory Notes Issued

In millions of Russian Roubles	31 December 2018	31 December 2017
Promissory notes issued	42 341	36 946
Total promissory notes issued	**42 341**	**36 946**

As at 31 December 2018, promissory notes issued are represented by interest bearing and at a discount to nominal value promissory notes denominated in Russian Roubles and US Dollars with effective interest or discount rates from zero p.a. (for promissory notes on demand) up to 8% p.a. and maturity dates from January 2019 to December 2021 (31 December 2017: 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).

As at 31 December 2018, 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 22 623 million, or 53% of total promissory notes issued. 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.

Refer to Note 34 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 29.

16. Bonds Issued

In millions of Russian Roubles	31 December 2018	31 December 2017
Bonds issued on domestic market	142 609	130 742
Eurobonds issued	-	113 819
Total bonds issued	**142 609**	**244 561**

As at 31 December 2018, bonds issued consist of Russian Roubles denominated bonds issued on domestic market.

16. Bonds Issued (continued)

Currency of denomination	Nominal value, in million of currency, in circulation	Issue date	Maturity date	Put option date	Coupon rate	Coupon payment
Bonds issued on domestic market						
Russian Roubles	2 173	26 November 2009	14 November 2019	-	7.00%	6 months
Russian Roubles	2 402	26 November 2009	14 November 2019	-	7.00%	6 months
Russian Roubles	572	11 February 2010	29 January 2020	-	8.30%	6 months
Russian Roubles	581	11 February 2010	30 January 2020	-	8.30%	6 months
Russian Roubles	3 482	12 July 2011	29 June 2021	4 July 2019	7.80%	6 months
Russian Roubles	1 058	14 July 2011	1 July 2021	8 July 2019	7.80%	6 months
Russian Roubles	1 459	15 July 2011	2 July 2021	9 July 2019	7.80%	6 months
Russian Roubles	4 117	8 November 2011	26 October 2021	30 April 2020	8.00%	6 months
Russian Roubles	481	16 April 2012	4 April 2022	10 April 2019	6.60%	6 months
Russian Roubles	74	23 October 2012	11 October 2022	15 October 2020	8.20%	6 months
Russian Roubles	5 000	25 October 2012	13 October 2022	22 April 2019	9.35%	6 months
Russian Roubles	562	23 April 2013	11 April 2023	18 April 2019	6.60%	6 months
Russian Roubles	1 484	30 July 2013	18 July 2023	21 January 2021	7.40%	6 months
Russian Roubles	26	30 September 2013	18 September 2023	27 March 2019	6.60%	6 months
Russian Roubles	2 770	22 November 2013	10 November 2023	16 November 2021	8.85%	6 months
Russian Roubles	5 000	10 October 2014	27 September 2024	8 October 2019	11.10%	3 months
Russian Roubles	4 985	13 October 2014	30 September 2024	9 October 2019	11.10%	3 months
Russian Roubles	661	26 December 2014	13 December 2024	22 December 2020	8.60%	3 months
Russian Roubles	10 000	11 February 2015	29 January 2025	7 February 2020	15.00%	3 months
Russian Roubles	902	26 February 2015	13 February 2025	26 August 2019	8.30%	3 months

16. Bonds Issued (continued)

Currency of denomination	Nominal value, in million of currency, in circulation	Issue date	Maturity date	Put option date	Coupon rate	Coupon payment
Russian Roubles	2 820	30 October 2015	17 October 2025	28 April 2020	7.95%	3 months
Russian Roubles	10 000	31 March 2017	25 September 2020	-	9.50%	3 months
Russian Roubles	10 000	26 June 2017	21 June 2021	-	8.65%	6 months
Russian Roubles	7 000	3 October 2017	28 September 2021	-	8.40%	6 months
Russian Roubles	5 000	5 December 2017	9 December 2020	-	8.10%	6 months
Russian Roubles	25 000	14 March 2018	9 March 2022	-	7.40%	6 months
Russian Roubles	13 000	19 October 2018	14 October 2022	-	9.00%	6 months
Russian Roubles	19 900	29 November 2018	22 November 2038	-	10.50%	6 months

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

16. Bonds Issued (continued)

Currency of denomination	Nominal value, in million of currency, in circulation	Issue date	Maturity date	Put option date	Coupon rate	Coupon payment
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	11 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	11 April 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

16. Bonds Issued (continued)

Currency of denomination	Nominal value, in million of currency, in circulation	Issue date	Maturity date	Put option date	Coupon rate	Coupon payment
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
Eurobonds issued						
Russian Roubles	9 949	26 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

Refer to Note 34 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 29. Refer to Note 38 for information on redemptions after the end of the reporting period.

17. Other Liabilities

In millions of Russian Roubles	Note	31 December 2018	31 December 2017
Non-financial liabilities			
Accrued staff costs		4 638	4 194
Insurance contribution		1 525	999
Taxes payable other than on income		1 523	1 149
Provision for ECL for credit related commitments	32	656	552
Other provisions	32	633	-
Litigations provision		14	11
Other		1 476	780
Total non-financial liabilities		**10 465**	**7 685**

17. Other Liabilities (continued)

In millions of Russian Roubles	Note	31 December 2018	31 December 2017
Financial liabilities			
Trade payables		1 504	1 284
Amounts due under credit support annex agreements		799	4 462
Amounts due under perpetual bonds		673	669
Settlements on banking cards		487	1 942
Non-controlling interests in consolidated mutual funds		68	17
Carrying value of guarantees issued		34	111
Other		104	452
Total financial liabilities		**3 669**	**8 937**
Insurance liabilities			
Provision for unearned premiums		4 910	3 971
Loss provision		6 634	2 154
Insurance payables		1 613	676
Total insurance liabilities		**13 157**	**6 801**
Total other liabilities		**27 291**	**23 423**

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	2018	2017
Provision for unearned premiums as at 1 January		3 971	3 401
Premium earned	24	(9 307)	(5 029)
Premium written		10 246	5 599
Provision for unearned premiums as at 31 December		**4 910**	**3 971**

Movements in the loss provision are as follows:

In millions of Russian Roubles	Note	2018	2017
Loss provision as at 1 January		2 154	1 463
Claims incurred during the period	24	6 941	1 175
Insurance claims settled		(2 461)	(484)
Loss provision as at 31 December		**6 634**	**2 154**

Refer to Note 34 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 29.

18. Subordinated Debts

As at 31 December 2018, the Group's subordinated debts equal to RR 147 279 million (31 December 2017: RR 133 444 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 the Bank of Russia key rate plus 1.6% p.a. for the next interest periods. As at 31 December 2018, coupon rate amounts to 10.1% p.a. (31 December 2017: 10.1% 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 2024.

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 34 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 29. The information on related party transactions is disclosed in Note 35.

19. Perpetual Bonds

As at 31 December 2018 the Group's perpetual bonds in circulation equal to RR 38 376 million (as at 31 December 2017 the Group's perpetual bonds equal to RR 15 000 million).

As at 31 December 2018 the Group bought back perpetual bonds in the total amount of RR 98 million.

In January 2018, the Group paid the amount due under perpetual bonds in the total amount of RR 723 million including coupon accrued in 2018 in the amount of RR 54 million for the coupon period ended in January 2018 (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 April 2018, the Group issued on the domestic market RR 15 000 million subordinated perpetual bonds (placed at par). Perpetual bonds have an unlimited term and are redeemable at the Group's option starting from April 2028 at their principal amount in the end date of each next duration 10-year-period. Coupon rate is fixed at 9% 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 from October 2018 and may be cancelled or deferred in accordance with the terms of the notes.

19. Perpetual Bonds (continued)

In April 2018, the Group paid the amount due under perpetual bonds in the total amount of RR 355 million for the coupon period ended in April 2018 (in April 2017, the Group paid the amount due under perpetual bonds in the total amount of RR 355 million for the coupon period ended in April 2017).

In July 2018, the Group paid the amount due under perpetual bonds in the total amount of RR 723 million for the coupon period ended in July 2018 (in July 2017, the Group paid the amount due under perpetual bonds in the total amount of RR 723 million for the coupon period ended in July 2017).

In October 2018, the Group paid the amount due under perpetual bonds in the total amount of RR 1 025 million for the coupon period ended in October 2018 (in October 2017, the Group paid the amount due under perpetual bonds in the total amount of RR 355 million for the coupon period ended in October 2017).

In November 2018, 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 November 2028 at their principal amount in the end date of each next duration 10-year-period. Coupon rate is fixed at 10.1% 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 from May 2019 and may be cancelled or deferred in accordance with the terms of the notes.

In December 2018, the Group issued on the domestic market USD 50 million subordinated perpetual bonds, equivalent to RR 3 332 million as of the date of issue. Perpetual bonds have an unlimited term and are redeemable at the Group's option starting from December 2028 at their principal amount in the end date of each next duration 10-year-period. Coupon rate is fixed at 9% p.a. and will be reset every 10 years as 10-year US Treasury bonds yield increased by initial spread plus 100 b.p. Coupon payments are paid semi-annually from June 2019 and may be cancelled or deferred in accordance with the terms of the notes.

As at 31 December 2018, the Group accrued amounts due under perpetual bonds in the amount of RR 673 million (as at 31 December 2017, the Group accrued amounts due under perpetual bonds in the amount of RR 669 million).

20. 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 2017	**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**
New ordinary shares issued	25 000	25 000	25 000
At 31 December 2018	**347 928**	**409 848**	**410 598**

20. Share Capital (continued)

As at 31 December 2018, issued and fully paid share capital comprises 316 048 issued and registered ordinary shares and 31 880 preference shares (31 December 2017: 291 048 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 2018, the Bank increased its share capital by issuing 25 000 ordinary shares (2017: 50 000 ordinary shares) with the total nominal amount of RR 25 000 million (2017: RR 50 000 million).

In 2018 and 2017, 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.

21. Interest Income and Expense

In millions of Russian Roubles	2018	2017
Interest income on debt financial assets carried at amortised cost		
Loans and advances to legal entities	132 230	139 143
Loans and advances to individuals	51 445	48 932
Cash equivalents	12 032	14 084
Investment securities at amortised cost including pledged under repurchase agreements (2017: investment securities held to maturity including pledged under repurchase agreements)	4 360	2 634
Due from other banks	1 744	5 931
	201 811	**210 724**
Interest income on debt financial assets carried at fair value through other comprehensive income		
Investment securities at FVOCI including pledged under repurchase agreements (2017: investment securities available for sale including pledged under repurchase agreements)	26 890	21 868
	26 890	**21 868**
Total interest income at effective interest rate	228 701	232 592
Loans to customers at fair value through profit or loss	1 834	-
Trading securities	1 348	2 527
Investment securities at fair value through profit or loss	134	211
Total other interest income	**3 316**	**2 738**
Interest expense at effective interest rate		
Term deposits of legal entities	(74 618)	(77 247)
Term deposits of individuals	(53 666)	(46 920)

21. Interest Income and Expense (continued)

In millions of Russian Roubles	2018	2017
Bonds issued	(16 400)	(30 152)
Subordinated debts	(10 088)	(9 291)
Current/settlement accounts	(3 695)	(3 682)
Term deposits of other banks	(2 591)	(795)
Promissory notes issued	(2 266)	(2 123)
Term deposits of the Bank of Russia	(1 293)	(1 846)
Total interest expense at effective interest rate	**(164 617)**	**(172 056)**
Net interest income	**67 400**	**63 274**

The information on related party transactions is disclosed in Note 35.

22. Credit Loss Expense

The table below shows the ECL charges on financial instruments recorded in the income statement for the year ended 31 December 2018:

In millions of Russian Roubles	Note	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents		(17)	-	-	**(17)**
Due from other banks		(17)	-	(95)	**(112)**
Loans to customers at amortised cost	9	18 895	1 412	37 010	**57 317**
Debt securities measured at amortised cost		42	-	-	**42**
Debt securities measured at FVOCI		737	6	(47)	**696**
Other financial assets		-	-	642	**642**
Credit related commitments		30	2	-	**32**
Total credit loss expense		**19 670**	**1 420**	**37 510**	**58 600**

An analysis of credit loss expense for the year ended 31 December 2017 is as follows:

In millions of Russian Roubles	Note	2017
Loans and advances to customers	9	63 885
Investment securities available for sale		441
Credit related commitments and other financial assets		392
Total credit loss expense		**64 718**

23. Fee and Commission Income and Expense

In millions of Russian Roubles	2018	2017
Fee and commission income		
Commission on cash and settlements transactions	10 178	10 852
Fees for sale of insurance contracts	6 353	5 879
Commission on banking cards and acquiring	4 185	2 217
Commission on guarantees issued	2 196	2 333
Fees for currency control	834	222
Commission received from the Deposit Insurance Agency	246	707
Other	594	687
Total fee and commission income	**24 586**	**22 897**
Fee and commission expense		
Commission on settlement transactions	(2 489)	(1 720)
Commission on cash collection	(387)	(496)
Other	(193)	(491)
Total fee and commission expense	**(3 069)**	**(2 707)**
Net fee and commission income	**21 517**	**20 190**

24. Gains less Losses from Non-banking Activities

In millions of Russian Roubles	2018	2017
Sales of goods	5 615	6 069
Including:		
- sugar	2 605	2 386
- feed	1 119	1 638
- meat and dairy products	552	705
- grain	282	323
- other goods and services	1 057	1 017
Cost of goods sold	(4 556)	(6 069)
Provision for trade receivables, prepayments and other financial assets	(411)	(158)
Net income from insurance operations	2 344	1 860
Other non-banking income	1 098	1 356
Other non-banking expenses	(2 683)	(2 322)
Total gains less losses from non-banking activities	**1 407**	**736**

24. Gains less Losses from Non-banking Activities (continued)

In 2018 cost of goods sold includes depreciation of non-banking premises and equipment in the total amount of RR 233 million (2017: RR 203 million).

Net income from insurance operations is as follows:

In millions of Russian Roubles	Note	2018	2017
Insurance premiums			
Premium earned	17	9 307	5 029
Reinsurers share in premiums earned		(2 238)	(2 066)
Net insurance premiums earned		**7 069**	**2 963**
Insurance benefits and claims			
Net claims incurred during the year	17	(6 941)	(1 175)
Acquisition costs		(635)	(526)
Reinsurers share in claims incurred during the year		2 851	598
Net insurance benefits and claims		**(4 725)**	**(1 103)**
Net income from insurance operations		**2 344**	**1 860**

25. Administrative and Other Operating Expenses

In millions of Russian Roubles	Note	2018	2017
Staff costs		27 105	26 843
Deposit Insurance expenses		5 711	3 269
Rental expenses		3 850	4 382
Loss from revaluation of premises	11	3 029	-
Provision on impairment of contingencies	32	2 694	-
Other costs of premises		1 742	1 376
Depreciation of premises and equipment	11	1 983	1 644
Taxes other than on income		1 961	1 512
Communications and information services		1 958	1 703
Maintenance of equipment, transportation costs		1 343	667
Security services		1 110	963
Amortization of intangible assets	11	993	892
Advertising and marketing services		895	948
Supplies and other materials		690	974
Charity expenses		578	269
Other		3 034	2 072
Total administrative and other operating expenses		**58 676**	**47 514**

25. Administrative and Other Operating Expenses (continued)

In 2018 staff costs include statutory social security and contributions to a state pension fund in the amount of RR 5 256 million (2017: RR 4 944 million). Also in 2018 staff costs include expenses for defined contribution pension plans in the amount of RR 39 million (2017: RR 870 million). The information on related party transactions is disclosed in Note 35.

26. Income Taxes

In millions of Russian Roubles	2018	2017
Current tax	4 388	3 465
Deferred tax	1 587	1 379
Income tax expense for the year	**5 975**	**4 844**

The income tax rate applicable to the majority of the Group's income is 20% (2017: 20%). Reconciliation between the theoretical and the actual taxation charge is provided below.

In millions of Russian Roubles	2018	2017
IFRS profit/(loss) before tax	**7 500**	**(14 635)**
Theoretical tax charge at statutory rate (2018: 20%; 2017: 20%)	**1 500**	**(2 927)**
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-deductible staff costs	32	15
- Non-deductible charity costs	101	48
- Change of income tax on tax return in past periods	972	-
Income on government securities taxed at different rates	(1 456)	(945)
Unrecognised deferred tax asset	5 183	8 399
Other non-temporary differences	(357)	254
Income tax expense for the year	**5 975**	**4 844**

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% (2017: 20%), except for income on particular category of securities that is taxed at 15% (2017: 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).

26. Income Taxes (continued)

In millions of Russian Roubles	31 December 2017	Changes due to transition to IFRS9	Credited/ (charged) to profit or loss	Charged directly to other comprehensive income	Acquisition of subsidiaries	31 December 2018
Tax effect of deductible/(taxable) temporary differences						
Accruals on loans	16 395	-	(4 989)	-	-	11 406
Tax losses carried forward	20 007	-	6 697	-	-	26 704
Provision for impairment	19 197	16 827	8 996	-	-	45 020
Fair valuation of derivative financial instruments	104	-	(207)	-	-	(103)
Accrued staff costs	1 139	-	(227)	-	-	912
Accruals on due to other banks	23	-	(4 643)	-	-	(4 620)
Fair valuation of securities	3	-	(2 911)	2 097	-	(811)
Deferral of fees on guarantees issued	22	-	(15)	-	-	7
Promissory notes issued	276	-	(276)	-	-	-
Premises and equipment	(831)	-	224	(470)	(1 186)	(2 263)
Accruals on bonds issued and subordinated debts	(437)	-	136	-	-	(301)
Intangible assets	36	-	(124)	-	-	(88)
Other	1 409	-	935	-	-	2 344
Deferred tax asset	**57 343**	**16 827**	**3 596**	**1 627**	**(1 186)**	**78 207**
Unrecognised deferred tax asset	(41 557)	(16 827)	(5 183)	-	-	(63 567)
Net deferred income tax asset	**15 786**	**-**	**(1 587)**	**1 627**	**(1 186)**	**14 640**
Recognised deferred income tax asset	16 298	-	-	-	-	16 298

26. Income Taxes (continued)

In millions of Russian Roubles	31 December 2017	Changes due to transition to IFRS9	Credited/ (charged) to profit or loss	Charged directly to other comprehensive income	Acquisition of subsidiaries	31 December 2018
Recognised deferred income tax liability	(512)	-	(1 587)	1 627	(1 186)	(1 658)
Net deferred income tax asset	**15 786**	**-**	**(1 587)**	**1 627**	**(1 186)**	**14 640**

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**

26. Income Taxes (continued)

As of 31 December 2018, the taxable temporary difference between investments in subsidiaries in the statement of financial position of the parent company for tax purposes and the value of the net assets of subsidiaries in accordance with IFRS was 2 136 million (31 December 2017: 1 470 million). In accordance with IAS 12 Income Tax, the corresponding deferred tax liability in the amount of 427 million (31 December 2018: 294 million) was not recognized in the consolidated statement of financial position, since the Group has the ability to control the timing of the reversal of the temporary difference, and also does not expect that this temporary difference will be restored in the foreseeable future.

As at 31 December 2018, deferred tax assets included RR 26 704 million resulting from tax losses carried forward (31 December 2017: RR 20 007 million). The existing tax losses eligible for carry forward are expected to be fully utilized within limits envisaged by the Russian tax legislation.

27. Dividends

	2018			2017		
In millions of Russian Roubles	Ordinary shares	Preference shares	Type A preference shares	Ordinary shares	Preference shares	Type A preference shares
Dividends payable at 1 January	**-**	**-**	**-**	**-**	**-**	**-**
Dividends declared during the year	668	58	158	186	19	52
Dividends paid during the year	(668)	(58)	(158)	(186)	(19)	(52)
Dividends payable at 31 December	**-**	**-**	**-**	**-**	**-**	**-**
Dividends per share declared during the year	**0.002**	**0.002**	**0.023**	**0.001**	**0.001**	**0.008**

28. 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.

28. Segment Analysis (continued)

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 2018 and 31 December 2017 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 21, 23.

(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.

(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 2018 and 31 December 2017 and segment reporting of the Group's assets as at 31 December 2018 and 31 December 2017 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 2018										
Revenue from external customers	**64 385**	**68 493**	**8 080**	**37 715**	**18 041**	**9 923**	**15 761**	**7 894**	**32 300**	**262 592**

28. Segment Analysis (continued)

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
- Interest income from loans and advances to customers, due from other banks and other placed funds	62 771	61 299	6 853	33 176	16 256	8 218	12 992	7 117	29 601	238 283
- Net fee and commission income from credit related operations	1 614	7 194	1 227	4 539	1 785	1 705	2 769	777	2 699	24 309
Gains less losses / (losses net of gains) arising from securities, derivative financial instruments and foreign currency	(5 081)	16 992	2 106	(1 973)	455	(221)	(2 492)	1 818	6 034	17 638
Interest expenses from due to other banks, customer accounts and bonds issued	(83 816)	(27 202)	(5 651)	(17 324)	(10 626)	(2 923)	(9 103)	(5 530)	(5 741)	(167 916)
(Provision)/ recovery of provision for impairment*	(20 761)	(161)	951	3 673	1 248	1 764	5 974	468	7 824	980
Administrative and maintenance expense	(35 778)	(2 335)	(662)	(1 920)	(787)	(773)	(1 332)	(450)	(849)	(44 886)
- Including depreciation charge	(1 405)	(252)	(63)	(215)	(91)	(116)	(177)	(43)	(94)	(2 456)
Other expenses less other income*	(13 118)	(19 624)	(673)	(7 222)	(2 470)	(6 291)	(3 406)	(978)	(8 681)	(62 463)

28. Segment Analysis (continued)

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
Income tax expense	(3 751)	-	-	-	-	-	-	-	-	(3 751)
(Loss)/ profit of reportable segments	**(97 920)**	**36 163**	**4 151**	**12 949**	**5 861**	**1 479**	**5 402**	**3 222**	**30 887**	**2 194**
Intersegment income/ (expense)**	**110 526**	**(50 847)**	**(2 066)**	**(13 634)**	**(4 056)**	**(6 810)**	**(2 713)**	**(2 712)**	**(27 689)**	**(1)**
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
(Losses net of gains) / gains less losses 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)

28. Segment Analysis (continued)

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
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)
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)**	**-**
Total assets										
31 December 2018	2 681 609	1 206 994	156 062	526 189	320 582	156 811	223 893	136 912	401 287	5 810 339
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
Provision for loan impairment (RAR)										
31 December 2018	(13 251)	(37 800)	(4 788)	(20 200)	(12 206)	(17 983)	(11 274)	(2 862)	(10 467)	(130 831)
31 December 2017	(261)	(38 709)	(6 407)	(22 746)	(13 892)	(19 964)	(15 805)	(3 562)	(18 272)	(139 618)

* 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.

28. Segment Analysis (continued)

Intersegment income and expenses include transfer income and expenses, 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.

Reconciliation of income/(loss) of the reportable segments for the reporting period ended 31 December 2018 and 31 December 2017 is as follows:

In millions of Russian Roubles	2018	2017
Total income of reportable segments after tax	**2 194**	**1 767**
Adjustments of provision for impairment	9 714	(6 350)
Results of non-reportable segments, including the effect of consolidation*	(11 222)	(3 081)
Accounting for financial instruments at fair value	(2 714)	(6 503)
Adjustments of deferred tax	(3 113)	258
Losses net of gains from revaluation of other financial instruments at fair value through profit and loss	(85)	137
Accrued staff costs	(220)	69
Adjustments of financial assets and liabilities carried at amortised cost	4 493	(4 714)
Revaluation of premises	(3 029)	-
Other	5 507	(1 062)
The Group's profit/(loss) under IFRS after tax	**1 525**	**(19 479)**

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

Reconciliation of assets of the reportable segments for the reporting period ended 31 December 2018 and 31 December 2017 is as follows:

In millions of Russian Roubles	31 December 2018	31 December 2017
Assets of reportable segments	**5 810 339**	**5 251 847**
Elimination of settlements between branches	(2 268 900)	(1 959 045)
Provision for loan impairment	(332 736)	(203 284)
Assets of non-reportable segments, including the effect of consolidation*	(21 448)	(33 496)
Elimination of back-to-back deposits	(4 526)	(46 613)
Accounting for financial instruments at fair value	(8 822)	(13 255)
Adjustments of financial assets carried at amortised cost	2 059	(48 187)
Other	(61 184)	(58 948)
The Group's assets under IFRS	**3 114 782**	**2 889 019**
Provision for loan impairment for loans and advances to customers of reportable segments	**(130 831)**	**(139 618)**
Accounting for provision under IFRS	(211 941)	(63 531)
Provision related to non-reportable segments, including the effect of consolidation*	10 361	68
The Group's provision for loan impairment for loans and advances to customers under IFRS	**(332 411)**	**(203 081)**

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

28. Segment Analysis (continued)

Reconciliation of material items of income and expenses for the years ended 31 December 2018 and 31 December 2017 is as follows:

In millions of Russian Roubles	2018	2017
Total revenue of reportable segments from external customers	**262 592**	**265 014**
Reclassification of income not included in segment revenue	(2 090)	2 475
Interest income related to effective interest rate implication	13 709	(85)
Results of non-reportable segments, including the effect of consolidation*	(4 591)	2 404
Effect of disposal of loans (interest income)	(16 080)	(14 288)
Other	(6)	-
The Group's revenue under IFRS**	**253 534**	**255 520**
Total interest expenses from due to other banks, customer accounts and bonds issued of reportable segments	**(167 916)**	**(176 491)**
Reclassification of interest expense not included in segment interest expenses	2 632	2 551
Effective interest rate adjustments	(734)	851
Results of non-reportable segments, including the effect of consolidation*	1 386	1 031
Other	15	2
The Group's interest expense under IFRS	**(164 617)**	**(172 056)**
Provision charge for impairment	**980**	**(10 447)**
Accounting for provision under IFRS and effect of disposal of loans	(56 604)	(50 101)
Provision related to non-reportable segments, including the effect of consolidation*	(2 976)	(4 170)
The Group's provision charge for impairment under IFRS	**(58 600)**	**(64 718)**
Administrative and maintenance expenses of reportable segments	**(44 886)**	**(42 480)**
Reclassification of payments to the Deposit Insurance Agency not included in segment administrative and maintenance expenses	(5 711)	(3 269)

28. Segment Analysis (continued)

In millions of Russian Roubles	2018	2017
Accrued staff costs	(1 201)	(722)
Results of non-reportable segments, including the effect of consolidation*	687	777
Other	(7 565)	(1 820)
The Group's administrative and other operating expenses under IFRS	**(58 676)**	**(47 514)**

* 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 expected credit loss model (before 2018 – 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 33. 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.
- 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 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.

29. 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 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 Compliance Control Department.

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.

29. Risk Management (continued)

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

In 2018 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.
- There is a vertical hierarchy to the Risks Department 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 2018 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, 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 2018 the Bank continued implementing measures for the system automation and enhancing approaches to liquidity control risk management in accordance with recommendations by the Bank of Russia and Basel Committee on Banking Supervision (BCBS).

29. Risk Management (continued)

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 the Bank of Russia # 193-T dated 29 December 2012 On Methodical recommendations for the development of financial sustainability plans for credit institutions. 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.

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 32.

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.

29. Risk Management (continued)

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;
- 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, operating office and the Head Office of the Bank.

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.

The Risk Department operates its internal rating models. The Bank runs separate models for its key portfolios in which its customers are rated from 1 to 7 using internal grades. The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilise supplemental external information that could affect the borrower's behaviour. Where practical, they also build on information from the national and international external rating agencies. PDs, incorporating forward looking information and the IFRS 9 stage classification of the exposure, are assigned for each grade. The Bank's internal credit rating grades are as follows:

Internal rating	Average PD	Min PD	Max PD	S&P/Fitch	Moody's	Credit risk level
From 1+ to 2-	**From 0.03% to 0.35%**	From 0.00% to 0.27%	From 0.04% to 0.40%	From AAA to BBB-	From Aaa to Baa3	**Low:** High ability to fulfill financial obligations in full. Corresponds to the investment ratings of the international rating agencies.
From 3+ to 4-	**From 0.46% to 1.83%**	From 0.40% to 1.60%	From 0.53% to 2.10%	From BB+ to BB-	From Ba1 to Ba3	**Moderate:** Adequate ability to meet financial obligations in the medium term. Possible deterioration of the financial position in case of adverse economic conditions.
From 5+ to 6-	**From 2.42% to 9.60%**	From 2.10% to 8.36%	From 2.77% to 11.02%	From B+ to B-	From B1 to B3	**Increased:** Adequate ability to meet financial obligations in the short term. In case of unfavorable economic conditions, difficulties in servicing obligations in time and in full are likely to occur.
From 7+ to D+	**From 12.65% to 28.95%**	From 11.02% to 25.22%	From 14.52% to 33.24%	From CCC+ to C	From Caa1 to C	**High:** Difficult fulfillment of obligations on time and in full. Possible overdue liabilities. Protective actions of creditors (lawsuits, sale of collateral). Borrower in the recovery period after default.
D	**100.00%**	33.24%	100.00%	D	D	**Default**

Market risk. The Group takes on exposure to market risk arising from open positions in (a) currency, (b) interest, (c) equity and (d) commodity instruments. 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 Risks Department within their competence.

29. Risk Management (continued)

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 Risks Department. The Risks Department'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 and 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 Risks Department 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.

Limits are regularly reviewed and update by the Bank's authorised bodies. The Risks Department monitors limits and reports information on compliance with the set limits to the Bank's management. The Risks Department 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 Risks Department 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);

29. Risk Management (continued)

- 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);
- 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 the Bank of Russia requirements.

Interest rate risk. The Group takes on exposure of deterioration in its financial position due to a decrease in the size of capital, income levels, and value of assets as a result of changes in market interest rates.

The sources of interest rate risk are:
- Gap risk – the risk arising from the mismatch of the timing of changes in interest rates of assets, liabilities, off-balance sheet claims and obligations of the Bank.
- Baseline risk – a risk that arises when interest rates on financial instruments of the same maturity change depending on different financial indices.
- Yield curve risk – the risk of a change in the slope and/or shape of the interest rate curve.
- Option risk – a risk that manifests itself in the exercise of options (both directly concluded by the Bank and embedded in banking products), changing the value of the interest rate or the timing for meeting the requirements/obligations of the transaction.

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 2018 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*	747 530	408 725	169 868	209 558	495 498	656 811	2 687 990
Total interest bearing financial liabilities*	744 401	500 465	395 471	383 000	467 368	313 346	2 804 051
Sensitivity gap	**3 129**	**(91 740)**	**(225 603)**	**(173 442)**	**28 130**	**343 465**	**(116 061)**
Cumulative sensitivity gap	**3 129**	**(88 611)**	**(314 214)**	**(487 656)**	**(459 526)**	**(116 061)**	**-**

* 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.

29. Risk Management (continued)

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)**
Cumulative 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.

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

For the year ended 31 December 2018, 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 2 999 million higher (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). As at 31 December 2018, other components of equity (pre-tax) would have been RR 8 641 million higher (31 December 2017: RR 2 596 million higher), as a result of an increase in the fair value of debt investments classified as at fair value through other comprehensive income and at fair value through profit or loss.

For the year ended 31 December 2018, 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 2 999 million lower (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). As at 31 December 2018, other components of equity (pre-tax) would have been RR 8 641 million lower (31 December 2017: RR 2 596 million lower), as a result of a decrease in the fair value of debt investments classified as at fair value through other comprehensive income and at fair value through profit or loss.

Currency and equity risk management

Currency risk, market risk for commodity instruments and equity risk 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 Risks Department to the Bank's management and heads of interested units in compliance with the internal regulatory documents.

29. Risk Management (continued)

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. 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).

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;
- 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.

In millions of Russian Roubles	31 December 2018	31 December 2017
(Short)/long position	(1 784)	1 215
VAR	33	18
Expected Shortfall	41	20

29. Risk Management (continued)

Geographical risk concentration

The geographical concentration of the Group's assets and liabilities as at 31 December 2018 is set out below:

In millions of Russian Roubles	Russia	OECD*	Other countries	Total
Assets				
Cash and cash equivalents	386 750	2 581	1 254	**390 585**
Mandatory cash balances with the Bank of Russia	20 651	–	–	**20 651**
Trading securites	19 226	–	–	**19 226**
Due from other banks	9 461	–	29 256	**38 717**
Derivative financial instruments	10 693	7 074	–	**17 767**
Loans and advances to customers	1 957 767	–	–	**1 957 767**
Investment securities	529 832	2 326	27	**532 185**
Investment securities pledged under repurchase agreements	40 264	–	–	**40 264**
Current income tax assets	573	–	–	**573**
Deferred income tax asset	16 298	–	–	**16 298**
Intangible assets	6 113	–	–	**6 113**
Premises and equipment	50 186	–	–	**50 186**
Other assets	23 794	15	1	**23 810**
Assets classified as held for sale	640	–	–	**640**
Total assets	**3 072 248**	**11 996**	**30 538**	**3 114 782**
Liabilities				
Derivative financial instruments	5 298	3 915	–	**9 213**
Due to other banks	155 425	16 008	97	**171 530**
Customer accounts	2 420 708	91	252	**2 421 051**
Promissory notes issued	42 341	–	–	**42 341**
Bonds issued	142 609	–	–	**142 609**
Current income tax liability	89	–	–	**89**
Deferred income tax liability	1 658	–	–	**1 658**
Other liabilities	**27 271**	**20**	**–**	**27 291**
Total liabilities before subordinated debts	2 795 399	20 034	349	**2 815 782**
Subordinated debts	119 514	27 765	–	**147 279**
Total liabilities	**2 914 913**	**47 799**	**349**	**2 963 061**
Net position in on-balance sheet instruments	**157 335**	**(35 803)**	**30 189**	**151 721**

* OECD – Organisation for Economic Cooperation and Development.

29. Risk Management (continued)

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.

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 Bank of Russia	19 112	–	–	**19 112**
Trading securites	17 507	–	–	**17 507**
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	338 426	2 179	24	**340 629**
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**

29. Risk Management (continued)

In millions of Russian Roubles	Russia	OECD*	Other countries	Total
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.

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;
- Optimal matching of the volumes and maturities of funding sources with the volumes and maturities of placed assets.

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 Risks Department 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;
- Limiting active operations;
- Analysing maturity gaps of the Group on the basis of the most likely claim/repayment dates by main currencies;
- 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.

29. Risk Management (continued)

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 Bank of Russia 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 which is supervised by the Risks Department as part of ongoing monitoring.

The table below shows distribution of financial liabilities as at 31 December 2018 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.

29. Risk Management (continued)

The maturity analysis of undiscounted financial liabilities as at 31 December 2018 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	(5 559)	(2 901)	(4 540)	(31 294)	(38 154)	**(82 448)**
- outflow	5 860	3 053	4 773	32 784	30 831	**77 301**
Net settled derivative financial instruments (liabilities)	3 518	2 684	29	5	-	**6 236**
Due to other banks	102 410	3 371	5 589	69 138	21 541	**202 049**
Customer accounts	910 398	935 023	366 819	343 835	11 496	**2 567 571**
Promissory notes issued	11 596	4 001	1 343	27 790	-	**44 730**
Bonds issued	668	11 821	27 652	70 171	95 534	**205 846**
Other financial liabilities	2 502	795	52	252	68	**3 669**
Subordinated debts	681	4 641	5 479	31 907	165 421	**208 129**
Off-balance sheet financial liabilities						
Financial guarantees	-	-	-	-	-	**-**
Letters of credit	3 928	-	-	-	-	**3 928**
Other credit related commitments*	165 502	-	-	-	-	**165 502**
Total potential future payments for financial obligations	**1 201 504**	**962 488**	**407 196**	**544 588**	**286 737**	**3 402 513**

* 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 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**

29. Risk Management (continued)

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
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	48 207	-	-	-	-	**48 207**
Letters of credit	6 414	-	-	-	-	**6 414**
Other credit related commitments*	102 724	-	-	-	-	**102 724**
Total potential future payments for financial obligations	**1 019 368**	**920 674**	**370 101**	**364 319**	**245 557**	**2 920 019**

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

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 14.

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 2018:

In millions of Russian Roubles	Less than 1 year	More than 1 year	Total
Financial assets			
Cash and cash equivalents	390 585	-	**390 585**
Mandatory cash balances with the Bank of Russia	20 651	-	**20 651**
Trading securities	17 160	2 066	**19 226**
Due from other banks	30 144	8 573	**38 717**
Derivative financial instruments	3 083	14 684	**17 767**
Loans and advances to customers	668 066	1 289 701	**1 957 767**
Investment securities	126 358	405 827	**532 185**

29. Risk Management (continued)

In millions of Russian Roubles	Less than 1 year	More than 1 year	Total
Investment securities pledged under repurchase agreements	40 264	-	**40 264**
Other financial assets	7 978	24	**8 002**
Total financial assets	**1 304 289**	**1 720 875**	**3 025 164**
Financial liabilities			
Derivative financial instruments	(6 918)	(2 295)	**(9 213)**
Due to other banks	(109 157)	(62 373)	**(171 530)**
Customer accounts	(2 121 554)	(299 497)	**(2 421 051)**
Promissory notes issued	(16 817)	(25 524)	**(42 341)**
Bonds issued	(7 081)	(135 528)	**(142 609)**
Other financial liabilities	(3 349)	(320)	**(3 669)**
Total financial liabilities before subordinated debts	**(2 264 876)**	**(525 537)**	**(2 790 413)**
Subordinated debts	(1 721)	(145 558)	**(147 279)**
Total financial liabilities	**(2 266 597)**	**(671 095)**	**(2 937 692)**
Net liquidity gap	**(962 308)**	**1 049 780**	**87 472**
Cumulative liquidity gap	**(962 308)**	**87 472**	**-**

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 Bank of Russia	19 112	-	**19 112**
Trading securities	16 613	894	**17 507**
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	36 866	303 763	**340 629**
Other financial assets	11 674	59	**11 733**
Total financial assets	**1 511 155**	**1 306 074**	**2 817 229**
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)**

29. Risk Management (continued)

In millions of Russian Roubles	Less than 1 year	More than 1 year	Total
Bonds issued	(122 069)	(122 492)	**(244 561)**
Other financial liabilities	(8 743)	(194)	**(8 937)**
Total financial liabilities before subordinated debts	**(2 087 794)**	**(462 347)**	**(2 550 141)**
Subordinated debts	(1 651)	(131 793)	**(133 444)**
Total financial liabilities	**(2 089 445)**	**(594 140)**	**(2 683 585)**
Net liquidity gap	**(578 290)**	**711 934**	**133 644**
Cumulative liquidity gap	**(578 290)**	**133 644**	**-**

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.

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.

29. Risk Management (continued)

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 life and 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.

30. 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 2018 and 31 December 2017:

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	10 977	-	10 977	(1 671)	(793)	8 513
Cash and cash equivalents (reverse repurchase agreements)	36	-	36	(36)	-	-
Liabilities subject to offsetting, master netting and similar arrangement						
Derivative financial instruments	9 213	-	9 213	(1 671)	(46)	7 496
Due to other banks (direct repurchase agreements)	35 700	-	35 700	(35 700)	-	-

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

30. Offsetting Financial Assets and Financial Liabilities (continued)

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	
Liabilities subject to offsetting, master netting and similar arrangement						
Derivative financial instruments	3 363	-	3 363	(414)	-	2 949

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.

31. Management of Capital

The Group's objectives when managing capital are:
i. To comply with the capital requirements set by the Bank of Russia;
ii. To ensure the Group's ability to continue as a going concern.

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

Under the capital requirements set by the Bank of Russia effective at 31 December 2018 and 2017, 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 2018 and 2017 the Bank's capital adequacy ratio in accordance with the Bank of Russia requirements exceeded the minimum level and as at 31 December 2018 and 31 December 2017 was as follows:

In millions of Russian Roubles	31 December 2018	31 December 2017
Capital of the Bank	483 879	419 348
CET1 Ratio (N1.1)	9.5%	10.5%
Tier1 Ratio (N1.2)	10.7%	11.0%
Capital Adequacy Ratio (N1.0)	15.2%	15.5%

31. Management of Capital (continued)

Capital of the Bank and capital adequacy is calculated as required by the Bank of Russia Regulation # 646-*P Methodology for Capital Adequacy Calculation by Credit Organizations* (Basel III) and the Bank of Russia Instruction # 180I *Methodology for Mandatory Prudential Ratios Calculation by Banks.*

As at 31 December 2018 and 2017, the Group is subject to minimum capital requirements established by covenants stated in loan agreements, including capital adequacy levels calculated on the IFRS figures in accordance with Basel II Capital Accord equals 8%. At the same time, during 2018, the Group redeemed part of the instruments for which the loan agreements contained requirements for the minimum capital level under Basel II. However, as at 31 December 2018, the level of the capital adequacy ratio of the Group under Basel II did not exceed 8%. Management of the Group analyzed the consequences of non-compliance with the requirement to maintain the minimum level of the capital adequacy ratio under Basel II and concluded that there are no negative consequences, including the right of creditors to early redemption of the debt.

32. 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 2018, 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 2017: 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).

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 Russian tax 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 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 tax accounting of interest.

During the year ended 31 December 2018, the Group determined its tax liabilities arising from the "controlled" transactions using actual transaction prices.

32. Contingencies and Commitments (continued)

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 2018, 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 2018, the Group has contractual capital expenditure commitments of RR 1 342 million (31 December 2017: RR 710 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 2018	31 December 2017
Not later than 1 year	2 351	3 299
Later than 1 year and not later than 5 years	4 445	3 869
Later than 5 years	1 868	1 638
Total operating lease commitments	**8 664**	**8 806**

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, except those disclosed in Note 31.

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.

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.

32. Contingencies and Commitments (continued)

Performance guarantees. Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. The risk under performance guarantee contracts is the possibility that the insured event (i.e. the failure to perform the contractual obligation by another party) occurs.
Outstanding credit related commitments and performance guarantees are as follows:

In millions of Russian Roubles	31 December 2018	31 December 2017
Undrawn credit lines	95 344	56 114
Letters of credit	3 928	6 414
Financial guarantees	-	48 207
Less: provisions for ECL	(656)	(552)
Total credit related commitments	**98 616**	**110 183**
Performance guarantees	162 834	139 763
Less: provision	(633)	-
Total credit related commitments and performance guarantees	**260 817**	**249 946**

An analysis of changes in the ECLs during the year ended 31 December 2018 are as follows:

In millions of Russian Roubles	Stage 1	Stage 2	Stage 3	Total
ECLs as at 1 January 2018	**624**	**-**	**-**	**624**
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Impact on period end ECL of exposures transferred between stages during the period (including expense on new issue and income from repayments)	30	2	-	**32**
ECLs as at 31 December 2018	**654**	**2**	**-**	**656**

The total outstanding contractual amount of 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.

An analysis of changes in the provision for performance guarantees during the year ended 31 December 2018 are as follows:

In millions of Russian Roubles	2018
Provision as at 1 January	
Provision	2 694
Amount written off	(2 061)
Provision as at 31 December	**633**

32. Contingencies and Commitments (continued)

Credit related commitments are denominated in currencies as follows:

In millions of Russian Roubles	31 December 2018	31 December 2017
Russian Roubles	250 612	193 935
Euros	3 898	50 305
US Dollars	6 307	5 706
Total credit related commitments and performance guarantees	**260 817**	**249 946**

Analysis by credit quality in relation to credit related commitments as at 31 December 2018 is as follows:

In millions of Russian Roubles	Stage 1	Stage 2	Stage 3	Total
Credit related commitments				
Low credit risk	-	-	-	-
Moderate credit risk	49 003	1 497	-	50 500
Increased credit risk	41 779	1 061	-	42 840
High credit risk	-	1 697	161	1 858
Default	-	-	-	-
Unrated	4 074	-	-	4 074
Total credit related commitments (before impairment)	**94 856**	**4 255**	**161**	**99 272**
Less: allowance for impairment	(655)	(1)	-	(656)
Total credit related commitments	**94 201**	**4 254**	**161**	**98 616**

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

In millions of Russian Roubles	Note	31 December 2018	31 December 2017
Assets pledged under loan agreements with banks (including the Bank of Russia)		18 556	20 799
Repurchase agreements		40 264	-
Security deposit under the lease agreement	12	-	202

As at 31 December 2018, mandatory cash balances with the Bank of Russia in the amount of RR 20 651 million (31 December 2017: RR 19 112 million) represent mandatory reserve deposits which are not available to finance the Group's day to day operations.

As at 31 December 2018 and 31 December 2017, assets pledged under loan agreements with banks (including the Bank of Russia) mainly include loans and advances to customers pledged to the Bank of Russia under loan agreements in accordance with the Bank of Russia Act # 4801-U On the Forms and Conditions of Refinancing of Credit Institutions Secured by Assets dated 22 May 2018.

32. Contingencies and Commitments (continued)
Financial assets transferred without derecognition

Transferred financial assets that are not derecognized in their entirety are represented by securities transferred without derecognition and pledged under repurchase agreements. As at 31 December 2018 the associated liabilities of these agreements in the current amount of RR 35 700 million were included in due to other banks.

The following table provides a summary of financial assets transferred without derecognition:

In millions of Russian Roubles	31 December 2018		31 December 2017	
	Carrying amount assets	Carrying amount associated liabilities	Carrying amount assets	Carrying amount associated liabilities
Repurchase agreements				
Corporate Eurobonds	31 477	27 360	-	-
Federal loan bonds (OFZ)	-	-	-	-
State Eurobonds	8 787	8 340	-	-
Total	**40 264**	**35 700**	**-**	**-**

33. 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 2018, 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 Japanese yens to one large OECD bank with maturities from March 2023 to May 2023 (31 December 2017: 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").

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 2018, international credit rating of this counterparty was A (S&P) (31 December 2017: not less than BB+ (S&P)).

33. Derivative Financial Instruments (continued)

Interest rate swaps entered into by the Group has underlying assets of RR 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 2018 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	216 849	(213 176)	9 490	(5 817)
- Precious metals	1 515	(1 526)	6	(17)
- Interest rate	1 797	(1 795)	238	(236)
- Securities	146 384	(141 502)	7 859	(2 978)
Options	**3 580**	**(3 581)**	**171**	**(165)**
Futures				
- Index	90	(88)	3	-
Total derivative financial instruments	**370 215**	**(361 668)**	**17 767**	**(9 213)**

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)	-	-
- Securities	107	(107)	-	-
Options	**1 870**	**(1 883)**	**76**	**(90)**
Total derivative financial instruments	**255 266**	**(208 514)**	**50 114**	**(3 363)**

As at 31 December 2018 and 2017, the Group had no foreign exchange swaps with fair value individually above 10% of the Group's equity.

Refer to Note 34 for the disclosure of fair value hierarchy for derivative financial instruments. Geographical and liquidity analyses of derivative financial instruments are disclosed in Note 29. The information on related party transactions is disclosed in Note 35.

34. 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, investment securities at fair value through other comprehensive income, 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 where all of material inputs are observable.

Financial instruments 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 on the market. 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 cash flow discounting technique using observable market data about yield curves changes, as well as market statistical data, reflecting the distribution of the probability of default of financial instruments over time.

As of 1 January 2018, the Group's analysis highlighted that certain loans to customers did not meet the SPPI criterion. Therefore, these loans previously measured at amortised cost are classified by Group as financial assets at FVTPL.

The Group determines the fair value in relation to securities that are not traded in an active market as a price of a security, which can be determined taking into account the specific conditions of the transaction, the circulation characteristics of the security and other indicators, information about which may serve as a basis for such a calculation, including the involvement of an independent appraiser to assess the fair value.

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

Loans and receivables. The fair value of floating rate instruments is normally equals 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.
Loans at fair value through profit or loss are valued using a combination of approaches. Where appropriate, loans are valued with reference to observable prices of debt securities issued by the borrower or by comparable entities. In other cases, valuation is performed using internal models based on present value techniques or, in some circumstances (for example, in respect of cash flow from assets held as collateral), external valuation reports. The non-observable inputs to the models include adjustments for credit, market and liquidity risks associated with the expected cash flows from the borrower's operations or in respect of collateral valuation.

34. Fair Value of Financial Instruments (continued)

Investment securities carried at amortised cost. The fair value for investment securities carried at amortised cost 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

In millions of Russian Roubles	31 December 2018		31 December 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets carried at amortised cost				
Cash and cash equivalents	390 585	390 585	586 437	586 437
Mandatory cash balances with the Bank of Russia	20 651	20 651	19 112	19 112
Due from other banks	38 717	41 015	25 937	26 287
Loans and advances to customers				
- Loans to corporates	1 503 878	1 515 051	1 379 914	1 392 895
- Lending for food interventions	26 446	26 446	36 458	36 458
- Subfederal bonds	-	-	3 279	3 305
- Loans to individuals	402 422	407 937	346 109	369 387
Investment securities				
- Corporate bonds	37 308	37 245	42 553	42 585
- Municipal and subfederal bonds	15 838	15 931	20 136	20 265
- Federal Loan bonds (OFZ)	3 537	3 350	1 996	1 928
- Corporate Eurobonds	208	208	-	-
Other financial assets	8 002	8 002	11 733	11 733
Total financial assets carried at amortised cost	**2 447 592**	**2 466 421**	**2 473 664**	**2 510 392**
Financial assets carried at fair value	577 572	577 572	343 565	343 565
Total financial assets	**3 025 164**	**3 043 993**	**2 817 229**	**2 853 957**
Financial liabilities carried at amortised cost				
Due to other banks:				
- Term borrowings from other banks	83 375	84 787	30 133	32 175

34. Fair Value of Financial Instruments (continued)

In millions of Russian Roubles	31 December 2018		31 December 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
- Correspondent accounts and overnight placements of other banks	40 101	40 101	1 150	1 150
Customer accounts:				
- State and public organisations	593 569	594 114	556 507	556 845
- Other legal entities	792 663	792 743	789 449	790 524
- Individuals	1 034 819	1 031 971	857 621	859 212
Promissory notes issued	42 341	42 341	36 946	36 946
Bonds issued:				
- Bonds issued on domestic market	142 609	145 806	130 742	135 055
- Eurobonds issued	-	-	113 819	115 652
Other financial liabilities	3 669	3 669	8 937	8 937
Total financial liabilities carried at amortised cost before subordinated debts	**2 781 200**	**2 782 679**	**2 546 778**	**2 557 671**
Subordinated debts	147 279	153 774	133 444	142 245
Total financial liabilities carried at amortised cost	**2 928 479**	**2 936 453**	**2 680 222**	**2 699 916**
Financial liabilities carried at fair value	9 213	9 213	3 363	3 363
Total financial liabilities	**2 937 692**	**2 945 666**	**2 683 585**	**2 703 279**

(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);
(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.

34. Fair Value of Financial Instruments (continued)

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 2018 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	17 362	1 864	-	19 226
Investment securities	470 203	43 083	2 272	515 558
Derivative financial instruments	-	17 767	-	17 767
Loans to customers at fair value through profit or loss	-	-	25 021	25 021
Office premises	-	-	28 171	28 171
Assets for which fair values are disclosed				
Cash and cash equivalents	-	390 585	-	390 585
Mandatory cash balances with the Bank of Russia	-	-	20 651	20 651
Due from other banks	-	41 015	-	41 015
Loans and advances to customers	-	-	1 949 434	1 949 434
Investment securities	48 762	7 972	-	56 734
Other financial assets	-	-	8 002	8 002
Total financial and non-financial assets	**536 327**	**502 286**	**2 033 551**	**3 072 164**
Liabilities measured at fair value				
Derivative financial instruments	-	9 213	-	9 213
Liabilities for which fair values are disclosed				
Due to other banks	-	172 035	-	172 035
Customer accounts	-	-	2 418 828	2 418 828
Promissory notes issued	-	-	42 341	42 341
Bonds issued:				
- Bonds issued on domestic market	106 781	39 025	-	145 806
Other financial liabilities	-	-	3 669	3 669

34. Fair Value of Financial Instruments (continued)

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
Total financial liabilities before subordinated debts	**106 781**	**220 273**	**2 464 838**	**2 791 892**
Subordinated debts	28 194	125 580	-	153 774
Total financial liabilities	**134 975**	**345 853**	**2 464 838**	**2 945 666**

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
Investment securities	232 934	43 010	-	275 944
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 Bank of Russia	-	-	19 112	19 112
Due from other banks	-	26 287	-	26 287
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**	**715 310**	**1 856 603**	**2 880 975**
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

34. Fair Value of Financial Instruments (continued)

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
Bonds issued				
- Eurobonds issued	115 652	-	-	115 652
- Bonds issued on domestic market	122 574	12 481	-	135 055
Other financial liabilities	-	-	8 937	8 937
Total financial liabilities before subordinated debts	**238 226**	**70 344**	**2 252 464**	**2 561 034**
Subordinated debts	38 640	103 605	-	142 245
Total financial liabilities	**276 866**	**173 949**	**2 252 464**	**2 703 279**

The following table show a reconciliation of the opening and closing amount of Level 3 financial assets which are recorded at fair value:

In millions of Russian Roubles	At 31 December 2017	Transfers at adoption of IFRS 9	Total gain/ (loss) recorded in profit or loss	New assets recognised	Assets derecognised	At 31 December 2018
Financial assets						
Loans to customers at fair value through profit or loss	n/a	24 022	2 485	10 757	(12 243)	25 021
Investment securities at fair value through profit or loss	n/a	-	-	2 272	-	2 272
Total level 3 financial assets	**n/a**	**24 022**	**2 485**	**13 029**	**(12 243)**	**27 293**

Gains or losses on Level 3 financial assets included in the profit or loss for the period comprise:

In millions of Russian Roubles	For the year ended 31 December 2018			For the year ended 31 December 2017		
	Realised gains/ (losses)	Unrealised gains/ (losses)	Total	Realised gains/ (losses)	Unrealised gains/ (losses)	Total
Total gains included in the profit or loss for the period*	2 263	222	**2 485**	n/a	n/a	**n/a**

* Gains are recorded for Interest income and Gains less losses from financial instruments and loans to customers at fair value through profit or loss.

34. Fair Value of Financial Instruments (continued)

Loans at fair value through profit or loss

The Group determines the fair value of loans based on discounted cash flow models taking into account the borrower's credit risk. The models use a number of unobservable input market data, the main ones being the discount rate and the value of collateral. The models use a number of unobservable input market data, the main ones being the discount rate and credit spread.

If the discount rate used by the Group in the model increases/decreases by 1%, the book value of loans will decrease by RR 513 million/increase by RR 535 million. The discount rates used are in range from 8.87% to 49.94%.

As of 31 December 2018, the impact of collateral in assessing loans at fair value was 83 million (31 December 2017: not applicable).

Investment securities at fair value through profit or loss

Investment securities at fair value through profit or loss include unquoted equity securities at fair value through an independent appraiser. The estimation was based on the income approach using the discounted dividend method, which includes the forecast and post-forecast period of activity. Forecasting was based on the analysis of the structure of financial investments, the company's strategy for working with clients, assumptions on the forecast of changes in the future of reserves, income from investing funds, the company's own funds. When calculating the total market value of securities, a discount for lack of liquidity was applied expertly. If the liquidity discount were increased/decreased by 10%, the carrying amount of investment securities at fair value through profit or loss would be lower/higher by RR 252 million.

The table below reflects transfers of financial instruments measured at fair value between Level 1 and Level 2 of the fair value hierarchy during 2018:

In millions of Russian Roubles	Transfers between Level 1 and Level 2	
	From Level 1 to Level 2	From Level 2 to Level 1
Financial assets		
Investment securities at fair value through other comprehensive income	-	3 168
Total transfers of financial assets	**-**	**3 168**

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:

In millions of Russian Roubles	Transfers between Level 1 and Level 2	
	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**

34. Fair Value of Financial Instruments (continued)

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 2018 and 2017.

The following table shows the quantitative information as at 31 December 2018 about significant unobservable inputs used in the fair value measurement categorized within Level 3 of the fair value hierarchy:

Assets	Fair value, *in millions of Russian Roubles*	Valuation technique	Inputs used		
			Input	Min	Max
Office premises and construction in progress (based on valuation at 31 December 2018)	28 171	Comparative method	Trade discount	6.0%	21.0%

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:

Assets	Fair value, *in millions of Russian Roubles*	Valuation technique	Inputs used		
			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%

35. 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.
The outstanding balances with related parties were as follows:

In millions of Russian Roubles	31 December 2018	31 December 2017
Cash and cash equivalents		
Bank of Russia	86 289	382 304
Other banks	148 301	55 062
Loans and advances to customers		
Loans and advances to customers (before impairment)	229 223	179 008
Less: allowance for impairment	(10 833)	(5 631)
Derivative financial instruments — assets	9 405	12 095
Securities		
Securities issued by Russian Federation	212 179	148 273
Securities of entities and banks	272 115	138 479
Less: allowance for impairment	(300)	-
Due from other banks	10 520	11 496
Other assets		
State Corporation Deposit Insurance Agency	826	4 499
Accrued subsidies under the government program to subsidise mortgage and car loans	3	3
Customer accounts		
Entities	800 158	827 286
Key management and their family members	3 209	2 050
Due to other banks		
Bank of Russia	48 054	21 474
Other banks	93 743	10 036
Derivative financial instruments — liabilities	2 039	48

35. Related Party Transactions (continued)

In millions of Russian Roubles	31 December 2018	31 December 2017
Subordinated debts	80 694	66 939
Credit related commitments		
Undrawn credit lines	1 182	4 169
Performance guarantees	8 808	9 086
Financial guarantees received	27 885	29 117

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

In millions of Russian Roubles	2018	2017
Interest income on cash and cash equivalents		
Bank of Russia	9 700	9 470
Other banks	1 035	4 917
Interest income on due from other banks	450	2 512
Interest income on loans and advances to customers		
Loans to legal entities	16 754	11 770
Key management and their family members	6	5
Interest income on securities		
Securities issued by Russian Federation	16 014	14 387
Securities of entities and banks	13 445	6 915
Gains less losses / (losses net of gains) from securities		
Securities issued by Russian Federation	1 522	9 867
Securities of entities and banks	(922)	(269)
Fee and commission income		
Commission received from the Deposit Insurance Agency	246	707
Gains less losses / (losses net of gains) from derivative financial instruments	12 011	(5 547)
Gains from initial recognition of financial instruments at fair value	23 119	-
Interest expense on customer accounts		
Entities	(42 616)	(51 252)
Key management and their family members	(42)	(121)
Interest expense on subordinated debts	(3 893)	(3 426)
Interest expense on due to other banks		
Bank of Russia	(1 293)	(1 846)

35. Related Party Transactions (continued)

In millions of Russian Roubles	2018	2017
Other banks	(656)	(630)
Administrative and other operating expenses		
Payments to the Deposit Insurance Fund	(5 711)	(3 269)

In 2018 transactions with the shareholder included share capital increase, dividends paid, taxes paid and subsidies received under the government program to subsidize lending (2017: share capital increase, dividends paid, taxes paid and subsidies received under the government program to subsidize lending).

In 2018, the Bank increased its share capital by issuing 25 000 ordinary shares with the total nominal amount of RR 25 000 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 2018, dividends were paid out to the Bank's shareholder in the amount of RR 884 million.

Key management of the Group represents members of the Supervisory Board, the Management Board and Chief Accountant of the Bank. In 2018 total remuneration of the key management amounted of RR 456 million (2017: RR 324 million) including the payments to pension funds and social fund amounted of RR 72 million (2017: RR 46 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 25). There were no other expenditures for the key management personnel in 2018 (expenditures for the key management in respect of defined pension contribution plans for 2017 amounted of RR 184 million and are payable on the occurrence of a retirement conditions in accordance with the laws of the Russian Federation).

36. Acquisition and Disposal of Subsidiaries, Groups Classified as Held for Sale and Assets Held for Sale

(a) Business Combination

At the end of 2018, the Group obtained control over LLC Tambov Sugar Company and LLC Tambovsakharinvest (hereinafter, "TSK Group"). Taking into account potential rights, the Group's share in LLC Tambov Sugar Company as at 31 December 2018 was 74.99%.

As at 31 December 2018 and the date of approval of these financial statements for release, the assessment of the fair value of assets and liabilities of the TSC Group has not been completed. The allocation of the acquisition cost to the fair value of the assets and liabilities acquired will be completed within 12 months from the date of acquisition. The following is a preliminary distribution of the aggregate acquisition value at the fair value of the assets and liabilities of the TSK Group acquired.

In millions of Russian Roubles	Note	Fair value recognised on acquisition
Assets		
Cash and cash equivalents		4
Property and equipment	11	8 272
		8 276

36. Acquisition and Disposal of Subsidiaries, Groups Classified as Held for Sale and Assets Held for Sale (continued)

In millions of Russian Roubles	Note	Fair value recognised on acquisition
Liabilities		
Deferred tax liability	26	1 186
Other liabilities		77
		1 263
Total identifiable net assets		**7 013**
Consideration transferred		-
Non-controlling interests		1 754
Fair value of pre-existing relationships		5 259
Less: fair value of the identifiable net assets of the acquired Group		(7 013)
Goodwill		**-**

In accordance with IFRS 3 Business Combinations, the value of the consideration transferred upon acquisition includes a loan provided by the Group to a subsidiary in the amount of RR 5 260 million, which is shown as "Derecognition of pre-existing relationships". Since the carrying value of the loan received is approximately equal to the fair value of the loan provided by the Group, such a settlement of intragroup relationships that existed prior to the acquisition did not affect the result in the consolidated statement of profit or loss and other comprehensive income.

Acquiring the TSK Group at the beginning of the reporting period would not have a material effect on the Group's profit.

Below is information about cash flows from the acquisition of TSK Group.

In millions of Russian Roubles	
Cash and cash equivalents of the TSK Group acquired	4
Less: cash transferred	-
Less: intragroup balances	(4)
Net cash flow during the reporting period	**-**

(b) 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 11.

36. Acquisition and Disposal of Subsidiaries, Groups Classified as Held for Sale and Assets Held for Sale (continued)

(c) 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 2019.

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 2018, 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	Balance amount (before reclassification)	Accumulated depreciation (before reclassification)	Net carrying value before reclassification	Impairment	Carrying value after reclassification
Reclassified from repossessed collateral before 2018	423	(29)	394	(56)	338
Reclassified from repossessed collateral in 2018	828	-	828	-	828
Assets disposed of in 2018	(526)	-	(526)	-	(526)
Total	**725**	**(29)**	**696**	**(56)**	**640**

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	Balance amount (before reclassification)	Accumulated depreciation (before reclassification)	Net carrying value before reclassification	Impairment	Carrying value after reclassification
Reclassified from repossessed collateral before 2017	342	(29)	313	-	313
Reclassified from repossessed collateral in 2017	294	-	294	(56)	238
Assets disposed of in 2017	(213)	-	(213)	-	(213)
Total	**423**	**(29)**	**394**	**(56)**	**338**

36. Acquisition and 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	Reclassified from repossessed collateral	Reclassified from premises and equipment	Total
Net carrying value before reclassification as at 1 January 2018	**303**	**35**	**338**
Additions during the period	665	-	665
Reclassified during the period	163	-	163
Disposed during the period	(526)	-	(526)
Net carrying value before reclassification as at 31 December 2018	**605**	**35**	**640**

37. Changes in Liabilities Arising from Financing Activities

In millions of Russian Roubles	Bonds issued	Eurobonds issued	Subordinated debts	Total liabilities from financing activities
Carrying amount at 31 December 2016	**160 943**	**294 941**	**153 126**	**609 010**
Proceeds from issue	31 850	-	-	31 850
Proceeds from sale of previously bought back liabilities	16 219	20 867	9	37 095
Redemption	(15 200)	(164 454)	(12 000)	(191 654)
Buy back of liabilities	(61 606)	(26 433)	(1 484)	(89 523)
Foreign currency translation	-	(11 683)	(5 175)	(16 858)
Other	(1 464)	581	(1 032)	(1 915)
Carrying amount at 31 December 2017	**130 742**	**113 819**	**133 444**	**378 005**
Proceeds from issue	57 900	-	-	57 900
Proceeds from sale of previously bought back liabilities	52	37 026	219	37 297
Redemption	(5 396)	(146 392)	-	(151 788)
Buy back of liabilities	(40 898)	(11 332)	(5 886)	(58 116)
Foreign currency translation	-	8 646	18 915	27 561

37. Changes in Liabilities Arising from Financing Activities (continued)

In millions of Russian Roubles	Bonds issued	Eurobonds issued	Subordinated debts	Total liabilities from financing activities
Other	209	(1 767)	587	(971)
Carrying amount at 31 December 2018	**142 609**	**-**	**147 279**	**289 888**

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.

38. Events after the End of the Reporting Period

In January 2019, the Group paid the amount due under perpetual bonds in the total amount of RR 723 million.

11 ADDENDUM

11.1. REGIONAL BRANCH ADDRESSES[1]

Adygea Regional Branch Reg. № 3349/12 as of September 27, 2000 24 Krasnooktiabrskaya St., Maikop, Russia, 385000 Tel/Fax: +7 (8772) 52-30-24, 57-12-01 E-mail: **Direktor@adg.rshb.ru**	**Altai Regional Branch** Reg. № 3349/18 as of December 18, 2000 80b Lenina Ave., Barnaul, Altai Krai, Russia, 656015 Tel/Fax: +7 (3852) 53-89-48 E-mail: **bank@altay.rshb.ru**
Amur Regional Branch Reg. № 3349/23 as of December 18, 2000 142 Lenina St., Blagoveshchensk, Russia, 675000 Tel/Fax: +7 (4162) 22-18-00 E-mail: **referent@amur.rshb.ru**	**Arkhangelsk Regional Branch** Reg. № 3349/48 as of October 4, 2001 34 Karla Libchnechta St., Arkhangelsk, Russia, 163000 Tel/Fax: +7 (8182) 65-38-42 E-mail: **info@arh.rshb.ru**
Bashkir Regional Branch Reg. № 3349/62 as of April 26, 2004 70 Lenina St., Ufa, Russia, 450008 Tel/Fax: +7 (3472) 73-54-32 E-mail: **info@bash.rshb.ru**	**Belgorod Regional Branch** Reg. № 3349/30 as of April 10, 2001 49 Pushkina St., Belgorod, Russia, 308015 Tel/Fax: +7 (4722) 23-50-23 E-mail: **BRF@belg.rshb.ru**
Bryansk Regional Branch Reg. № 3349/69 as of September 14, 2006 23 Lenin Ave., Sovetskiy District, Bryansk, Russia, 241050 Tel/Fax: +7 (4832) 66-84-00 E-mail: **dir@bryansk.rshb.ru**	**Buryatia Regional Branch** Reg. № 3349/59 as of August 1, 2002 57d Smolina St., Ulan-Ude, Russia, 670000 Tel/Fax: +7 (3012) 28-71-00 E-mail: **bank@bur.rshb.ru**
Chechen Regional Branch Reg. № 3349/34 as of April 10, 2001 10/77 M. A. Esambaeva Ave., Grozny, Russia, 364024 Tel/Fax: +7 (8712) 22-27-50 E-mail: **erihanov@rshb.ru**	**Chelyabinsk Regional Branch** Reg. № 3349/78 as of August 7, 2008 26a Lenina Ave., Chelyabinsk, Russia, 454091 Tel/Fax: +7 (351) 749-08-46 E-mail: **bank@chel.rshb.ru**

[1] Note: Bank information as of January 1, 2019.

Chita Regional Branch Reg. № 3349/47 as of October 4, 2001 21 Alexandro-Zavodskaya St., Ingodinsky District, Chita, Russia, 672039 Tel/Fax: +7 (3022) 36-99-10 E-mail: **referent@chita.rshb.ru**	**Corporate business center** Reg. № 3349/79 as of January 17, 2017 1 Krasnogvardeysky pr-d, 7, bld. 1, Moscow,123100 **referent@ckb.rshb.ru** Tel: (495) 981-36-57
Chuvash Regional Branch Reg. № 3349/11 as of September 27, 2000 31 Presidentskiy Blvd., Cheboksary, Russia, 428032 Tel/Fax: +7 (8352) 66-24-64 E-mail: **RF@chuvashia.rshb.ru**	**Daghestan Regional Branch** Reg. № 3349/4 as of September 27, 2000 54a Gamidova Ave., Makhachkala, Russia, 367010 Tel/Fax: +7 (8722) 51-71-11 E-mail: **referent@dag.rshb.ru**
Ivanovo Regional Branch Reg. № 3349/38 as of May 29, 2001 21-1 Lenina Ave., Ivanovo, Russia, 153002 Tel/Fax: +7 (4932) 24-98-00 E-mail: **ivrshb@ivanovo.rshb.ru**	**Irkutsk Regional Branch** Reg. № 3349/66 as of October 13, 2005 21 Surikova St., Irkutsk, Russia, 664025 Tel/Fax: +7 (3952) 50-33-23 E-mail: **director@irk.rshb.ru**
Ingush Regional Branch Reg. № 3349/42 as of June 21, 2001 13a Moskovskaya St., Nazran, Russia, 386102 Tel/Fax: +7 (8732) 22-08-01 E-mail: **office@ing.rshb.ru**	**Kabardino-Balkaria Regional Branch** Reg. № 3349/44 as of June 26, 2001 10a Koulieva Ave., Nalchik, Russia, 360030 Tel/Fax: +7 (8662) 40-97-75 E-mail: **kbr@kbal.rshb.ru**
Kaliningrad Regional Branch Reg. № 3349/55 as of March 6, 2002 3 Gostinaya St., Kaliningrad, Russia, 236022 Tel/Fax: +7 (4012) 556-200 E-mail: **info@klngd.rshb.ru**	**Kaluga Regional Branch** Reg. № 3349/27 as of February 13, 2001 9a Kirova St., Kaluga, Russia, 248001 Tel/ Fax: +7 (4848-2) 277-377 E-mail: **Director@kaluga.rshb.ru**
Kamchatka Regional Branch Reg. № 3349/53 as of February 8, 2002 63 Pobedy Ave., Petropavlovsk-Kamchatsky, Russia, 683023 Tel/Fax: +7 (4152) 49-02-15 E-mail: **post@kamchatka.rshb.ru**	**Kemerovo Regional Branch** Reg. № 3349/56 as of March 6, 2002 8a Sovetsky Ave., Kemerovo, Russia, 650099 Tel/Fax: +7 (3842) 34-60-32 E-mail: **office@kemerovo.rshb.ru**
Khabarovsk Regional Branch Reg. № 3349/75 as of October 1, 2007 120 Kalinina St., Khabarovsk, Russia, 680000 Tel/Fax: +7 (4212) 47-66-52 E-mail: **priem@hab.rshb.ru**	**Khakassia Regional Branch** Reg. № 3349/37 as of April 20, 2001 72 Chertygashev St., Abakan, Russia, 655017 Tel/Fax: +7 (3902) 22-33-60, 22-44-67 E-mail: **office@hakas.rshb.ru**
Kirov Regional Branch Reg. № 3349/22 as of December 18, 2000 5 Gorkogo St., Kirov, Russia, 610017 Tel/Fax: +7 (88332) 51-98-00 E-mail: **mail@kirov.rshb.ru**	**Komi Regional Branch** Reg. № 3349/74 as of June 5, 2007 112/1 Pervomayskaya St., Syktyvkar, Russia, 167000 Tel/Fax: +7 (8212) 25-10-98 E-mail: **filial@komi.rshb.ru**

Kostroma Regional Branch Reg. № 3349/51 as of January 11, 2002 6 Mira Ave., Kostroma, Russia, 156000 Tel/Fax: +7 (4942) 37-07-00 E-mail: **mail@kostroma.rshb.ru**	**Krasnodar Regional Branch** Reg. № 3349/3 as of September 27, 2000 2 Korolenko St., Central District, Krasnodar, Russia, 350038 Tel/Fax: +7 (861) 254-25-65 E-mail: **director@krd.rshb.ru**
Krasnoyarsk Regional Branch Reg. № 3349/49 as of December 13, 2001 33 Perensona St., Krasnoyarsk, Russia, 660049 Tel/Fax: +7 (391) 267-67-00 E-mail: **info@krsn.rshb.ru**	**Kursk Regional Branch** Reg. № 3349/32 as of April 10, 2001 12 Sadovaya St., Kursk, Russia, 305004 Tel/Fax +7 (4712) 39-05-80 E-mail: **referent@kursk.rshb.ru**
Lipetsk Regional Branch Reg. № 3349/24 as of December 18, 2000 17a Vodopianova St., Lipetsk, Russia, 398046 Tel/Fax: +7 (4742) 30-75-06 E-mail: **office@lip.rshb.ru**	**Mari El Regional Branch** Reg. № 3349/16 as of September 29, 2000 116 Volkova St., Yoshkar-Ola, Russia, 424002 Tel/Fax: +7 (8362) 45-23-55 E-mail: **office@mar.rshb.ru**
Mordovia Regional Branch Reg. № 3349/20 as of December 18, 2000 47a Sovetskaya St., Saransk, Russia, 430005 Tel/Fax: +7 (8342) 29-23-00 E-mail: **info@mrd.rshb.ru**	**Moscow Regional Branch** Reg. № 3349/63 as of January 28, 2005 1 Krasnogvardeysky pr-d, 7, bld. 1, Moscow, 123100 Tel/Fax: +7 (495) 644-02-25 E-mail: **referent@msk.rshb.ru**
Novgorod Regional Branch Reg. № 3349/8 as of September 27, 2000 9 Bolshaya Moscovskaya St., Veliky Novgorod, Russia, 173000 Tel/Fax: +7 (8162) 63-22-21 E-mail: **ngd@vnovgorod.rshb.ru**	**Nizhny Novgorod Regional Branch** Reg. № 3349/39 as of June 13, 2001 3 Kulibina St., Nizhny Novgorod, Russia, 603022 Tel/Fax: +7 (831) 421-62-70 E-mail: **nnrshb@nnovgorod.rshb.ru**
Omsk Regional Branch Reg. № 3349/9 as of September 27, 2000 52 Frunze St., Omsk, Russia, 644099 Tel/Fax +7 (3812) 23-34-23 E-mail: **office@omsk.rshb.ru**	**Novosibirsk Regional Branch** Reg. № 3349/25 as of February 9, 2001 13 Fabrichnaya St., Novosibirsk, Russia, 630007 Tel/Fax: +7 (383) 218-30-35 E-mail: **bank@nsk.rshb.ru**
Penza Regional Branch Reg. № 3349/15 as of September 29, 2000 39 Bekeshskaya St., Penza, Russia, 440018 Tel/Fax: +7 (8412) 42-18-73 E-mail: **info@penza.rshb.ru**	**Orenburg Regional Branch** Reg. № 3349/5 as of September 27, 2000 59b Leninskaya St., Orenburg, Russia, 460000 Tel/Fax: +7 (3532) 77-02-95 E-mail: **referent@orn.rshb.ru**

Perm Regional Branch Reg. № 3349/76 as of December 14, 2007 50 Lenina St., Perm, Russia, 614000 Tel/Fax: +7 (342) 259-07-26 E-mail: **office@perm.rshb.ru**	**Orel Regional Branch** Reg. № 3349/10 as of September 27, 2000 31 Moskovskaya St., Bld. A, Orel, Russia, 302030 Tel/Fax: +7 (4862) 73-57-88 E-mail: **ref@orel.rshb.ru**
Pskov Regional Branch Reg. № 3349/68 as of September 14, 2006 44a Nekrasova St., Pskov, Russia, 180000 Tel/Fax: +7 (8112) 68-72-22 E-mail: **bank@pskov.rshb.ru**	**Primorsky Regional Branch** Reg. № 3349/54 as of February 8, 2002 26-1 Okeansky Ave., Vladivostok, Russia, 690091 Tel/Fax: +7 (423) 222-13-27 E-mail: **referent@primor.rshb.ru**
Smolensk Regional Branch Reg. № 3349/43 as of June 25, 2001 2b Tvardovskogo St., Smolensk, Russia, 214014 Tel/Fax: +7 (4812) 38-14-41 E-mail: **info@smol.rshb.ru**	**Samara Regional Branch** Reg. № 3349/13 as of September 29, 2000 10 Academika Platonova St., Samara, Russia, 443011 Tel/Fax: +7 (846) 373-51-04 E-mail: **tmas@samara.rshb.ru**
Ryazan Regional Branch Reg. № 3349/58 as of July 31, 2002 58 Svobody St., Ryazan, Russia, 390000 Tel/Fax: +7 (4912) 28-42-00 E-mail: **bank@ryazan.rshb.ru**	**Rostov Regional Branch** Reg. № 3349/7 as of September 27, 2000 14a M. Nagibina Ave., Rostov-on-Don, Russia, 344038 Tel/Fax:+7 (863) 243-25-00 E-mail: **rshb@rostov.rshb.ru**
Saratov Regional Branch Reg. № 3349/52 as of February 6, 2002 65/2 Radyscheva St., Saratov, Russia, 410003 Tel/Fax: +7 (8452) 26-38-38 E-mail: **info@saratov.rshb.ru**	**St. Petersburg Regional Branch** Reg. № 3349/35 as of April 12, 2001 5 Paradnaya St., Block 1, Bld. A, St. Petersburg, Russia, 119014 Tel/Fax: +7 (812) 335-06-30 E-mail: **office@spb.rshb.ru**
Sverdlovsk Regional Branch Reg. № 3349/73 as of May 18, 2007 15 Fevralskoj Revolyutsii St., Ekaterinburg, Russia, 620014 Tel/Fax: +7 (343) 356-18-60 E-mail: **office@sverdlovsk.rshb.ru**	**Sakhalin Regional Branch** Reg. № 3349/72 as of April 19, 2007 107 Mira Ave., Yuzhno-Sakhalinsk, the Sakhalin Region, Russia, 693020 Tel/Fax: +7 (4242) 31-21-01 E-mail: **office72@shl.rshb.ru**
Stavropol Regional Branch Reg. № 3349/6 as of September 27, 2000 26 Marshala Zhukova St., Stavropol, Stavropol Krai, Russia, 355055 Tel/Fax: +7 (8652) 25-80-80 E-mail: **referent@stavropol.rshb.ru**	**Tatarstan Regional Branch** Reg. № 3349/67 as of March 16, 2006 80 Dostoevsky St., Kazan, Russia, 420097 Tel/Fax: +7 (843) 524-98-05 E-mail: **rkazan@kazan.rshb.ru**

Tver Regional Branch Reg. № 3349/19 as of December 18, 2000 37 Dmitry Donskoy St., Tver, Russia, 170006 Tel/Fax: +7 (4822) 31-07-20 E-mail: **mail@tver.rshb.ru**	**Tambov Regional Branch** Reg. № 3349/2 as of September 27, 2000 20 Maksim Gorky St., Tambov, Russia, 392000 Tel/Fax: + 7 (4752) 63-03-05 E-mail: **office@tambov.rshb.ru**
Tula Regional Branch Reg. № 3349/1 as of September 27, 2000 5 Turgenevskaya St., Tula, Russia, 300041 Tel/Fax: +7 (4872) 55-04-04 E-mail: **filial@tula.rshb.ru**	**Tomsk Regional Branch** Reg. № 3349/64 as of May 11, 2005 8b Moskovsky Tract, Tomsk, Russia, 634050 Tel/Fax: +7 (3822) 20-22-24 E-mail: **info@tomsk.rshb.ru**
Tyumen Regional Branch Reg. № 3349/71 as of December 29, 2006 21 Pervomaiskaya St., Tyumen, Russia, 625000 Tel/Fax: +7 (3452) 50-06-25 E-mail: **office@tumen.rshb.ru**	**Tuva Regional Branch** Reg. № 3349/57 as of March 6, 2002 23 Tyvinskie Dobrovoltsy St., Kyzl, the Tuva Republic, Russia, 667000 Tel/Fax: +7 (39422) 2-04-01 E-mail: **referent@tuva.rshb.ru**
Ulyanovsk Regional Branch Reg. № 3349/65 as of June 17, 2005 15-1 Minayeva St., Ulyanovsk, Russia, 432017 Tel/Fax: +7 (8422) 41-00-22 E-mail: **DirectorUln@uln.rshb.ru**	**Udmurt Regional Branch** Reg. № 3349/28 as of February 26, 2001 30 Telegina St., Izhevsk, Russia, 426006 Tel/Fax: +7 (3412) 631-136 E-mail: **RF@udm.rshb.ru**
Volgograd Regional Branch Reg. № 3349/46 as of October 4, 2001 1b Barrikadnaya St., Volgograd, Russia, 400047 Tel/Fax: +7 (8442) 96-23-01 E-mail: **mail@volg.rshb.ru**	**Vladimir Regional Branch** Reg. № 3349/41 as of June 21, 2001 1b Bolshaya Moskovskaya St., Vladimir, Russia, 600000 Tel/Fax: +7 (4922) 47-43-0 E-mail: **info@vladimir.rshb.ru**
Voronezh Regional Branch Reg. № 3349/14 as of September 29, 2000 19b Moskovskiy Ave., Voronezh, Russia, 394016 Tel/Fax: +7 (4732) 69-71-77 E-mail: **vrf@vrn.rshb.ru**	**Yakutsk Regional Branch** Reg. № 3349/60 as of February 11, 2003 12 Pushkina St., Yakutsk, Russia, 677000 Tel/Fax: +7 (4112) 40-21-01 E-mail: **office@yakutia.rshb.ru**
Yaroslavl Regional Branch Reg. № 3349/61 as of June 11, 2003 28a Pobedy St., Yaroslavl, Russia, 150040 Tel/Fax: +7 (4852) 32-12-44 E-mail: **dir@yar.rshb.ru**	

11.2. LICENSES AND CERTIFICATES

Licenses:	
No. 3349 Issuing authority: the Bank of Russia Date of issue: 12.08.2015 Licensed activities: General license for banking operations	No. 3349 Issuing authority: the Bank of Russia Date of issue: 12.08.2015 Licensed activities: Attracting deposits and operations with precious metals
No. 007-08461-000100 Issuing authority: the Federal Financial Markets Service Date of issue: 19.05.2005 Licensed activities: Depositary activity	No. 007-08456-010000 Issuing authority: the Federal Financial Markets Service Date of issue: 19.05.2005 Licensed activities: Dealing operations
No. 007-08455-100000 Issuing authority: the Federal Financial Markets Service Date of issue: 19.05.2005 Licensed activities: Brokerage activity	No. 1473 Issuing authority: the Federal Financial Markets Service Date of issue: 17.11.2009 Licensed activities: License of the stock market agent for concluding commodity futures and options transactions in stock trading
No. 14953 Issuing authority: the Centre of the Federal Security Service of the Russian Federation for Licensing, Certification and the Protection of State Secrets Date of issue: 17.02.2016 Licensed activities: Development, production, distribution of encryption (cryptographic) facilities, information and telecommunication systems, which are protected with encryption (cryptographic) facilities, for works and services in the field of data encryption, technical support services of encryption (cryptographic) facilities, information and telecommunication systems, which are protected with encryption (cryptographic) facilities (except where technical support services of encryption (cryptographic) facilities, information and telecommunication systems, which are protected with encryption (cryptographic) facilities, are performed for the own needs of the legal entity or individual entrepreneur)	No. Version 3.2 DN-2017-01 Issuing authority: JSC "DialogueScience", QSA-auditor, certificated by PCI DSS Council Date of issue: 09.01.2017 Licensed activities: Certificate of conformity of JSC Rosselkhozbank to requirements of the Payment Card Industry Data Security Standard (PCI DSS)

Certificates:	
No. 3349 Issuing authority: the Bank of Russia Date of issue: 24.04.2000 Certified activities: Certificate of state registration of the credit organization	No. 760 Issuing authority: the State Agency for Deposit Insurance Date of issue: 14.03.2005 Certified activities: Certificate of inclusion of the bank in the State Register of Banks – participants of the obligatory deposit insurance system
No. - Issuing authority: Department of the Federal Tax Service of the city of Moscow Date of issue: 14.03.2005 Certified activities: Certificate of registration of the legal entity in the tax authority for the location within the Russian Federation	No. - Issuing authority: the Office of the Ministry of Taxation of Russia of the city of Moscow Date of issue: 22.10.2002 Certified activities: Certificate of registration in the Unified State Register of Legal Entities on the legal entity registered before July 1, 2002
No. - Issuing authority: the Moscow regional branch № 13 of the Social Insurance Fund of the Russian Federation Date of issue: 14.03.2001 Certified activities: Insurance certificate	No. 002.003.381 Issuing authority: the Moscow Registration Chamber Date of issue: 18.05.2000 Certified activities: Certificate of registration in the Municipal Register of Enterprises of the city of Moscow
No. - Issuing authority: the Office of the Federal Tax Service of the city of Moscow Date of issue: 25.12.2008 Certified activities: Certificate of registration in the Unified State Register of Legal Entities	

11.3. CONTACT AND PAYMENT DETAILS

Full Corporate Name	Joint stock company Russian Agricultural Bank
Abbreviated Corporate Name	JSC Rosselkhozbank
General Banking License	3349 dated 12.08.2015
Registration Details	Central Bank of the Russian Federation, April 24, 2000, Moscow
Legal Address	3 Gagarinsky Pereulok, Moscow, Russia, 119034
General inquiries	+ 7(495)787-77-87
E-mail	office@rshb.ru
Website	**www.rshb.ru, www.rusagrobank.com**

International Contacts

Place of business	10, Bld. 2 Presnenskaya Emb. (Moscow City, IQ-quarter Complex), 123112, Moscow, Russian Federation
Phone/Fax	+7 (495) 787 77 87 , +7 (495) 644 33 48
E-mail	**Investor Relations** IR_RusAgroBank@rshb.ru
	Financial Institutions fininst@rshb.ru
	Structured and Trade Finance exterfin@rshb.ru

Account Details

Correspondent Account	30101810200000000111 with the Central Bank of the Russian Federation Main Branch for the Central Federal District, Moscow
Tax Identification Number (TIN) / KPP	7725114488/997950001
BIC	044525111

OKPO	52750822
OKONKH	96120
OKOGU	15001
OKATO	45286590000
OKFS	12
OGRN	1027700342890
OKVED	64.19
OKOPF	12267
OKTMO	45383000
Telex	485493 RSB RU
SWIFT	RUAGRUMM