Independent auditor's report
on the consolidated financial statements of
Expobank LLC
for 2017

April 2018

Contents

Совершенствуя бизнес,
улучшаем мир

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

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

Independent auditor's report

To the participants and Board of Directors of
Expobank LLC

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Expobank LLC (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as of 31 December 2017, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, including 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 of 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each 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 matters 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
Allowance for impairment of loans to customers	
The appropriateness of allowance for impairment of the loan portfolio is a key area of judgment for the Group's management. The identification of impairment indicators and the determination of the recoverable amount involve a high level of subjectivity, the use of assumptions and analysis of various factors, including the analysis of the borrower's financial position, expected future cash flows and observable market prices for collateral. The Group management's approach to assessing and managing credit risk is described in Note 28 to the consolidated financial statements. The use of various models and assumptions may significantly affect the estimates of allowance for impairment of the loan portfolio. Due to the significance of loans to customers, which account for 43% of total assets, and the significant use of professional judgment, the estimation of the allowance for impairment was one of the key audit matters.	Our audit procedures included analysis of indicators of impairment, which differ depending on the type of credit product and client. We analyzed the methodology for estimating the allowance on the basis of the collective impairment assessment, including with respect to the corporate, consumer and mortgage loans due to significant amounts and potential effect of changes in assumptions. We also paid attention to significant individually impaired loans, as well as loans mostly exposed to the risk of individual impairment. Our audit procedures included testing of controls over the process of making allowance for impairment of loans issued to individuals and legal entities, review of the methodology, testing of input data, analysis of assumptions used by the Group to perform collective assessment for impairment, and the assessment of adequacy of allowance for individually impaired loans issued. In the course of our audit procedures, we analyzed the consistency of the management's assumptions used to assess the economic factors and statistical information on losses incurred and amounts recovered and their compliance with the generally accepted practices and our professional judgment. On the basis of our professional judgment and available market information we analyzed the expected future cash flows from significant individually impaired loans issued, including the value of collateral. We performed procedures with respect to the information disclosed in Notes 10 and 28 to the consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Land and buildings revaluation	
As of 31 December 2017, the carrying amount of land and buildings in the Groups' property and equipment totaled RUB 1,605,596 thousand (Note 13), and the carrying amount of land and buildings in investment property totaled RUB 687,000 thousand (Note 12). Land and buildings valuation was a matter of most significance in our audit, since land and buildings account for a substantial portion of the Group's assets, and as the process of the fair value measurement by the Group's management is complex, highly subjective and is based on assumptions and techniques developed using market and income approaches; the Group engaged an independent appraiser to determine the fair value of its land and buildings.	In the course of our audit procedures, we analyzed the land and buildings valuation report prepared by an independent appraiser and engaged our real estate valuation specialists to review the valuation methods applied. We also reviewed disclosures in Notes 12 and 13 to the consolidated financial statements.
Approaches to assessing the purchase price allocation upon business combination	
In 2017, the Group purchased a 100% interest in the share capital of JSCB Yapi Kredi Bank Moscow (JSC). This acquisition is disclosed in detail in Note 34. We believe that assessing the purchase price allocation is a key matter for the audit of the consolidated financial statements as determining the fair value of assets and liabilities involves the use of significant estimates and assumptions by the Group's management and is performed by an independent appraiser. The financial result from this acquisition in the amount of excess of the fair value of the acquiree's net assets over the consideration paid totaled RUB 240,705 thousand and significantly affected the Group's net profit.	In the course of the audit procedures, we reviewed the transaction documentation required to assess purchase price allocation upon business combination, tested the estimation of the fair value of assets and liabilities on a selective basis, and engaged our experts in this field to review the valuation methods and assumptions used. We performed procedures with respect to the information disclosed in Note 34 to the consolidated financial statements.

Other information included in the Bank's 2017 Annual Report

Other information consists of the information included in the 2017 Annual Report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Bank's 2017 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 when we obtain it 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 Board of Directors for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these 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 Board of Directors is 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 Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and communicated with it 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 Board of Directors, 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 Federal Law No. 395-1 of the Russian Federation *Concerning Banks and Banking Activity* of 2 December 1990

The management of the Bank is responsible for the compliance by the banking group where the Bank is the parent credit institution (hereinafter, the "Banking Group") with the obligatory ratios established by the Central Bank of the Russian Federation (hereinafter, the "Bank of Russia") and for compliance by the Banking Group's internal control and risk management systems with the requirements set forth by the Bank of Russia in relation to these systems.

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

1) whether the Banking Group complies as of 1 January 2018 with the obligatory ratios established by the Bank of Russia;

2) whether the internal control and risk management systems of the Banking Group meet the requirements set forth by the Bank of Russia for these systems in respect of the following:

   - subordination of risk management departments;
   - methods approved by the Bank's respective authorized bodies for detecting and managing risks that are significant to the Bank and for performing stress-testing; a reporting system at the Bank pertaining to its significant risks and equity (capital);
   - consistency in applying and assessing the effectiveness of methods for managing risks that are significant to the Bank;
   - oversight functions performed by the Board of Directors and executive management bodies to ensure that the Bank complies with internally established risk limits and equity (capital) adequacy requirements, and applies the risk management procedures in an effective and consistent manner.

This review was limited to procedures selected on the basis of our judgment, including inquiries, analysis, review of documents, comparison of the requirements, procedures and methods approved by the Bank with the requirements set forth by the Bank of Russia, and recalculation, comparison and reconciliation of digital values and other information.

The results of the conducted review are provided below.

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

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

We did not perform any procedures regarding the Banking Group's accounting data, except for procedures we considered necessary to express our opinion on the fairness of the Group's consolidated financial statements.

Compliance by the internal control and risk management systems of the Banking Group with the requirements set forth by the Bank of Russia in relation to these systems

- We found that internal control and risk management within the Banking Group are maintained at the level of its individual participants rather than at the level of the Banking Group as a whole.

- We found that, in accordance with the legal acts and recommendations issued by the Bank of Russia, as of 31 December 2017, the Bank's internal audit function was subordinated and accountable to the Board of Directors, and the Bank's risk management departments were not subordinated or accountable to the departments that take the relevant risks.

- We found that the Bank's internal documents effective as of 31 December 2017 that establish the methodologies for detecting and managing credit, market, operational, and liquidity risks, as well as interest rate risk of the banking book that are significant to the Bank and stress-testing have been approved by the Bank's authorized bodies in accordance with the legal acts and recommendations issued by the Bank of Russia. We also confirmed that, as of 31 December 2017, the Bank has a reporting system pertaining to credit, market, operational, and liquidity risks, as well as interest rate risk of the banking book that are significant to the Bank and an equity (capital) reporting system.

- We found that the periodicity and consistency of reports prepared by the Bank's risk management departments and internal audit function during the year ended 31 December 2017 with regard to the management of the Bank's credit, market, operational, and liquidity risks, as well as interest rate risk of the banking book complied with the Bank's internal documents and that those reports included observations made by the Bank's risk management departments and internal audit function regarding the effectiveness of the Bank's relevant risk management methods as well as recommendations on their improvement.

- We found that, as of 31 December 2017 the competences of the Board of Directors and executive management bodies of the Bank included control over compliance by the Bank with internally established risk limits and equity (capital) adequacy requirements. For the purposes of control over the efficiency and consistency of the risk management procedures applied by the Bank during the year ended 31 December 2017, the Board of Directors and executive management bodies of the Bank regularly review the reports prepared by the Bank's risk management departments and internal audit function and measures suggested to eliminate weaknesses.

The procedures pertaining to the internal control and risk management systems were conducted by us solely for the purposes of confirming the compliance of certain internal control elements and risk management systems, 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 A. V. Sorokin.

A.V. Sorokin
Partner
Ernst & Young LLC

6 April 2018

Details of the audited entity

Name: Expobank LLC
Record made in the State Register of Legal Entities on 5 November 2002, State Registration Number 1027739504760.
Address: Russia 107078, Moscow, ul. Kalanchevskaya, 29, building 2.

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 the 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.

Expobank Group
Consolidated statement of financial position
As of 31 December 2017

(in thousands of Russian rubles)	Notes	31 December 2017	31 December 2016
Assets			
Cash and cash equivalents	7	9,452,890	19,901,538
Obligatory reserve with the CBR		494,409	530,179
Trading securities, including:	8	11,338,499	10,272,689
- non-pledged trading securities		11,338,499	10,272,689
Amounts due from other banks	9	632,385	2,648,273
Loans to customers	10	26,018,201	14,515,998
Investment securities available for sale, including:	11	9,756,328	13,091,925
- non-pledged securities available for sale		8,020,988	13,091,925
- pledged securities available for sale sold under direct repurchase agreements		1,735,340	–
Investment securities held to maturity, including:	11	811,862	2,283,112
- non-pledged securities held to maturity		811,862	2,283,112
Prepayment for current income tax liabilities		80,294	–
Intangible assets	14	29,361	35,631
Investment property	12	687,000	698,000
Property and equipment	13	1,698,871	1,440,353
Deferred tax assets	26	–	254,549
Other assets	15	202,235	226,911
Total assets		**61,202,335**	**65,899,158**
Liabilities			
Amounts due to other banks	16	2,953,720	1,851,213
Amounts due to customers	17	43,288,315	48,644,965
Debt securities issued	19	535,411	892,817
Income tax liabilities		–	346,933
Other liabilities	18	536,702	962,244
Deferred tax liabilities	26	27,752	–
Subordinated Eurobonds issued	20	1,155,215	1,212,854
Total liabilities		**48,497,115**	**53,911,026**
Equity			
Share capital	21	10,413,412	10,413,412
Share premium		548,256	548,256
Treasury shares	21	(1,220,018)	–
Retained earnings, including dividends paid	21	2,232,158	364,127
Unrealized gains on revaluation of investment securities available for sale		310,836	270,563
Revaluation reserve for property and equipment		420,576	391,774
Total equity		**12,705,220**	**11,988,132**
Total liabilities and equity		**61,202,335**	**65,899,158**

Signed on behalf of the Management Board on 6 April 2018.

A.M. Sannikov
Chairman of the Management Board

G.M. Ulanova
Chief Accountant

The accompanying notes from 1 to 39 are an integral part of these consolidated financial statements.

Expobank Group
Consolidated statement of comprehensive income
For the year ended 31 December 2017

(in thousands of Russian rubles)	**Notes**	**2017**	**2016**
Interest income	22	5,551,042	6,272,655
Interest expense	22	(2,851,348)	(3,584,486)
Net interest income		**2,699,694**	**2,688,169**
Reversal/(charge) of allowance for impairment of amounts due from other banks and loans to customers	9, 10	223,683	(782,648)
Net interest income after reversal/charge of allowance for impairment of amounts due from other banks, loans to customers and finance lease receivables		**2,923,377**	**1,905,521**
Fee and commission income	23	547,632	520,086
Fee and commission expense	23	(88,687)	(112,237)
Gains less losses from trading securities		231,710	122,836
Gains less losses from derivative financial instruments		21,958	11,599
Gains less losses from dealing in foreign currencies		60,289	28,227
Gains less losses from foreign currency translation		180,055	211,284
Gains less losses on sale of investment securities available for sale		158,238	284,654
Gains on sale of Eurobonds classified as amounts due from other banks and loans to customers		46,815	976,516
Other operating income	24	129,541	354,425
Other gains/(losses) from impairment and provisions	15, 18	247,214	(396,626)
Administrative and other operating expenses	25	(2,315,363)	(2,124,469)
Excess of acquirees' net assets over cost of investments	34	240,705	1,775,238
Profit before tax		**2,383,484**	**3,557,054**
Income tax	26	(400,453)	(509,922)
Profit for the year		**1,983,031**	**3,047,132**

Expobank Group
Consolidated statement of comprehensive income
For the year ended 31 December 2017

(in thousands of Russian rubles)	**Notes**	**2017**	**2016**
Profit for the year		**1,983,031**	**3,047,132**
Other comprehensive income/(loss)			
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods			
Unrealized gains/(losses) on investment securities available for sale, net of tax		50,341	(84,429)
Income tax effect	26	(10,068)	16,886
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
Revaluation of property and equipment, net of tax	13	36,002	27,857
Income tax effect	26	(7,200)	(5,571)
Other comprehensive income/(loss) for the year		**69,075**	**(45,257)**
Total comprehensive income for the year		**2,052,106**	**3,001,875**

Signed on behalf of the Management Board on 6 April 2018.

A.M. Sannikov
Chairman of the Management Board

G.M. Ulanova
Chief Accountant

(in thousands of Russian rubles)	Notes	Share capital	Share premium	Treasury shares	Unrealized gains on revaluation of investment securities available for sale	Revaluation reserve for property and equipment	Retained earnings / (accumulated losses)	Total equity
Balance as of 31 December 2015		**10,413,412**	**548,256**	**–**	**338,106**	**369,488**	**(2,683,005)**	**8,986,257**
Profit for the year		–	–	–	–	–	3,047,132	3,047,132
Other comprehensive (loss)/income for the year		–	–	–	(67,543)	22,286	–	(45,257)
Total comprehensive income for the year		**–**	**–**	**–**	**(67,543)**	**22,286**	**3,047,132**	**3,001,875**
Balance as of 31 December 2016		**10,413,412**	**548,256**	**–**	**270,563**	**391,774**	**364,127**	**11,988,132**
Profit for the year		–	–	–	–	–	1,983,031	1,983,031
Other comprehensive income for the year		–	–	–	40,273	28,802	–	69,075
Total comprehensive income for the year		**–**	**–**	**–**	**40,273**	**28,802**	**1,983,031**	**2,052,106**
Participants' interests purchased by the Group	21	–	–	(1,220,018)	–	–	–	(1,220,018)
Dividends to participants of the Group	21	–	–	–	–	–	(115,000)	(115,000)
Balance as of 31 December 2017		**10,413,412**	**548,256**	**(1,220,018)**	**310,836**	**420,576**	**2,232,158**	**12,705,220**

Signed on behalf of the Management Board on 6 April 2018.

A.M. Sannikov
Chairman of the Management Board

G.M. Ulanova
Chief Accountant

Expobank Group
Consolidated statement of cash flows
For the year ended 31 December 2017

(in thousands of Russian rubles)	Notes	2017	2016
Cash flows from operating activities			
Interest received		5,994,611	6,296,352
Interest paid		(2,971,817)	(3,653,933)
Fees and commissions received		592,338	520,086
Fees and commissions paid		(88,687)	(105,932)
Gains from trading securities		233,965	6,619
Gains from dealing in foreign currencies		60,289	41,212
Other operating income received		176,356	1,428,704
Administrative and other operating expenses paid		(2,208,181)	(2,019,370)
Income tax paid		(578,732)	(574,841)
Cash flows from operating activities before changes in operating assets and liabilities		**1,210,142**	**1,938,897**
Net (increase)/decrease in operating assets			
Obligatory reserve with the CBR		63,201	(98,535)
Trading securities		(1,116,439)	(3,781,643)
Amounts due from other banks		3,740,313	16,800,673
Loans to customers		(6,662,967)	21,749,083
Other assets		(74,841)	1,901,584
Net increase/(decrease) in operating liabilities			
Amounts due to other banks		(884,989)	(11,138,637)
Amounts due to customers		(6,773,362)	(2,289,029)
Debt securities issued		(411,386)	(158,820)
Other liabilities		(168,351)	609,492
Net cash (used in) / from operating activities		**(11,078,679)**	**25,533,065**
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	34	(2,923,517)	12,481
Purchase of investment securities available for sale		(5,639,801)	(12,672,965)
Proceeds from sale and redemption of investment securities available for sale		8,991,163	548,412
Proceeds from redemption of investment securities held to maturity		1,448,186	155,951
Purchase of property and equipment	13	(8,840)	(17,438)
Proceeds from sale of property and equipment		5,235	1,413,743
Purchase of intangible assets	14	(1,811)	(10,313)
Acquisition of investment property	12	–	(5,603)
Proceeds from sale of investment property		–	55,991
Net cash from / (used in) investing activities		**1,870,615**	**(10,519,741)**
Cash flows from financing activities			
Participant's interest purchased	21	(1,220,018)	–
Dividends paid to participants	21	(115,000)	–
Bonds issued that were purchased by the Group for subsequent resale	38	(542)	(1,916,351)
Proceeds from placement of previously purchased bonds	38	–	250,000
Net cash used in financing activities		**(1,335,560)**	**(1,666,351)**
Effect of exchange rate changes on cash and cash equivalents		94,976	(292,245)
Net (decrease)/increase in cash and cash equivalents		**(10,448,648)**	**13,054,728**
Cash and cash equivalents, beginning	7	19,901,538	6,846,810
Cash and cash equivalents, ending	7	**9,452,890**	**19,901,538**

Signed on behalf of the Management Board on 6 April 2018.

A.M. Sannikov
Chairman of the Management Board

G.M. Ulanova
Chief Accountant

The accompanying notes from 1 to 39 are an integral part of these consolidated financial statements.

1 Principal activities

These consolidated financial statements of Expobank Limited Liability Company (the "Bank"), Expo Capital Designated Activity Company, its structural entity, engaged in placement of the Bank's debt securities on Vienna Stock Exchange, and Bank na Goncharnoy (JSC), its subsidiary, collectively referred to as the "Group", have been prepared in accordance with International Financial Reporting Standards ("IFRS") for the year ended 31 December 2017. In August 2016, in accordance with the Irish legislation Expo Capital Limited changed its legal form and was renamed to Expo Capital Designated Activity Company.

The Bank is neither direct nor indirect shareholder of Expo Capital Designated Activity Company. Expo Capital Designated Activity Company is a special purpose company, established by the Bank exceptionally for raising funds through issue of the Bank's debt securities on the Vienna Stock Exchange, therefore it shall be consolidated.

The Bank is a commercial bank which is owned by participants whose responsibility is limited with their shares. The Bank was set up and operates in accordance with Russian regulations. As of 31 December 2017 and 31 December 2016, the Bank's shares were owned by:

Participant	2017 %	2016 %
Igor Vladimirovich Kim	68.9	66.6
German Alekseevich Tsoy	17.6	17.6
Kirill Vladimirovich Nifontov	2.7	2.7
MORELAM LLC	1.8	–
AVTOBAN Road Construction Company OJSC	–	8.8
Morelam Holdings Limited (Cyprus)	–	1.8
Oleg Igorevich Kirillov	–	1.1
Yuri Igorevich Koropachinsky	–	1.1
Other	0.2	0.3
Treasury shares	8.8	–
Total	**100.0**	**100.0**

As of 31 December 2017, members of the Board of Directors and Management Board controlled 89.2% of shares in the Bank (2016: 86.9%).

Principal activities

Business priorities of the Bank include comprehensive services for corporate clients and wealthy individuals, as well as mergers and acquisitions of banking assets. The Bank operates under general banking license No. 2998 issued by the Central Bank of Russia (CBR) on 6 February 2012 (supersedes license No. 2998 issued on 2 December 2008). The Bank is a member of the state deposit insurance program approved by Federal Law No. 177-FZ *Concerning Insurance of Household Deposits* Russian Banks dated 23 December 2003. The state deposit insurance system guarantees to pay a 100% compensation under deposits totaling up to RUB 1,400 thousand per one individual in case the CBR revokes the banking license or enforces a moratorium on payments.

On 1 December 2017, Expobank LLC purchased 100% of ordinary shares in JSCB Yapi Kredi Bank Moscow (JSC) from Yapi ve Kredi Bankasi A.S. Starting from December 2017, the Bank obtained control over financing and operating activities of the subsidiary. In January 2018, JSCB Yapi Kredi Bank Moscow (JSC) was re-registered as Bank na Goncharnoy (JSC).

On 1 April 2016, Expobank LLC purchased from the Royal Bank of Scotland Group a 100% interest in its Russian subsidiary the Royal Bank of Scotland CJSC (hereinafter, "RBS CJSC"). Starting from April 2016, the Bank obtained control over financing and operating activities of the subsidiary. In May 2016, RBS CJSC was re-registered as Expobank Finance JSC. On 1 August 2016, Expobank LLC was reorganized by merging with Expobank Finance JSC (Note 34).

The Bank's main office is in Moscow. As of 31 December 2017, the Bank had 5 branches (2016: 5 branches). All branches are located in the Russian Federation. The Bank's legal address is Russia 107078, Moscow, ul. Kalanchevskaya, 29, building 2.

1 Principal activities (continued)

Principal activities (continued)

The Bank also operates through its additional offices and operating outlets in the Russian Federation. As of 31 December 2017, the Bank had 11 offices (2016: 13 offices).

As of 31 December 2017, the Bank employed 619 people (2016: 555 people).

The Bank is rated by major rating agencies. In March 2018, the national rating agency ACRA confirmed the national credit rating of the Bank at BBB+ (RU) with a stable outlook. In October 2017, Fitch Ratings (the international rating agency) confirmed the international credit rating of the Bank at B+ with a stable outlook.

2 Basis of preparation

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

The Bank is required to maintain accounting records and prepare financial statements for regulatory purposes in accordance with Russian accounting and banking legislation and related instructions ("RAL"). These consolidated financial statements are based on these RAL accounting records and financial statements, as adjusted and reclassified in order to comply with IFRS.

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, trading and available-for-sale securities, derivative financial instruments, investment property, and buildings have been measured at fair value.

These consolidated financial statements are presented in thousands of Russian rubles ("RUB thousand"), unless otherwise indicated.

As of 31 December 2017, the official rate of exchange used for translating foreign currency balances was USD 1 = RUB 57.6002 (31 December 2016: USD 1 = RUB 60.6569) and EUR 1 = RUB 68.8668 (31 December 2016: EUR 1 = RUB 63.8111).

The consolidated financial statements are published on the Bank's official website at www.expobank.ru, as required by Russian legislation.

3 Summary of accounting policies

Basis of consolidation

Subsidiaries, which are those entities which are controlled by the Group, are consolidated. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights.

3 Summary of accounting policies (continued)

Basis of consolidation (continued)

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated in full; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, the accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses of a subsidiary are attributed to the non-controlling interests even if that results in a deficit balance.

If the Group loses control over a subsidiary, it derecognizes the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests, the cumulative translation differences recorded in equity; recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss and reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss.

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the acquirer measures the non-controlling interests in the acquiree, that are present ownership interests that entitle their holders to a proportionate share of the entity's net assets in the event of liquidation, either at fair value or at the proportionate share of the acquiree's identifiable net assets. Other components of the non-controlling interest are measured at acquisition date fair value. Acquisition costs incurred are expensed.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as of the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as of the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognized in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the consideration transferred over the Group's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

3 Summary of accounting policies (continued)

Business combinations (continued)

Acquisition of subsidiaries from parties under common control

Acquisitions of subsidiaries from parties under common control are accounted for using the pooling of interests method.

The assets and liabilities of the subsidiary transferred under common control are recorded in these consolidated financial statements at the carrying amounts of the transferring entity (hereinafter, the "Predecessor") at the date of the transfer. Related goodwill inherent in the Predecessor's original acquisition is also recorded in these consolidated financial statements. Any difference between the total book value of net assets, including the Predecessor's goodwill, and the consideration paid is accounted for in these consolidated financial statements as an adjustment to the shareholders' equity.

Financial instruments – key measurement approaches

Depending on their classification, financial instruments are carried at fair value or amortized cost as described below. These valuation techniques are described below.

Fair value

The Group measures financial instruments, such as trading and available-for-sale securities, derivatives and non-financial assets such as investment property, at fair value at each reporting date. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 32.

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

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

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

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

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

3 Summary of accounting policies (continued)

Financial instruments – key measurement approaches (continued)

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.

Amortized cost is the amount at which the financial instrument was recognized at initial recognition less any principal repayments, including accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortization 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 amortized discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying amounts of related items of 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 re-pricing 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 amortized over the whole expected life of the instrument. The present value calculation includes all fees and commissions paid and received between parties to the contract that are an integral part of the effective interest rate.

Initial recognition of financial instruments

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

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

Derecognition of financial assets

The Group derecognizes financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a pass-through arrangement while (i) also transferring substantially all the 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 restrictions on the sale.

Reclassification of financial assets

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

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

3 Summary of accounting policies (continued)

Reclassification of financial assets (continued)

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

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

Cash and cash equivalents

Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to insignificant changes in value. Cash and cash equivalents comprise interbank deposits with an original maturity of three months or less. The amounts that have any restrictions on use or placed for more than three months are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortized cost (Note 7).

Obligatory reserve with the CBR

Obligatory reserves with the CBR are carried at amortized cost and represent non-interest bearing deposits with the CBR which are not available to finance the Group's day-to-day operations. Accordingly, they are excluded from cash and cash equivalents for the purpose of the consolidated statement of cash flows.

Trading securities

Trading securities are financial assets, which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. within six months. Financial assets other than those meeting the definition of loans and receivables are permitted to be reclassified from financial assets at fair value through profit or loss only in rare circumstances arising from a single event that is unusual and highly unlikely to reoccur in the near term. Financial assets that would meet the definition of loans and receivables may be reclassified if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

Trading securities are carried at fair value. Interest earned on trading securities calculated using the effective interest method is presented in profit or loss for the year as interest income. Dividends are included in dividend income in other operating income when the Group's right to receive the dividend payment is established and it is probable that the dividends will be collected. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in profit or loss for the year as gains less losses on trading securities in the period in which they arise (Note 8).

Other securities at fair value through profit or loss

Other securities at fair value through profit or loss include financial assets that have been included in this category at initial recognition. Management classifies financial assets into this category only when (a) this classification eliminates or significantly reduces the accounting mismatch that would otherwise arise from measuring assets or liabilities or recognizing relevant gains and losses on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and relevant information is disclosed to and reviewed by key management personnel of the Group on a regular basis. Recognition and measurement of this category of financial assets is consistent with the above policy for trading securities.

Amounts 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 receivables due on fixed or determinable dates. Amounts due from other banks are carried at amortized cost (Note 9).

3 Summary of accounting policies (continued)

Loans and advances to customers

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

The Group classifies purchased Eurobonds (non-derivative financial instruments) that are not quoted in an active market as assets with fixed or determinable payments and recognizes them in loans and advances to customers. The Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

Loans and advances to customers are carried at amortized cost (Note 10).

Impairment of financial assets carried at amortized cost

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

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

- Any payment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- The borrower experiences a significant financial difficulty as evidenced by borrower's financial information that the Group obtains;
- The borrower considers bankruptcy or a financial reorganization;
- There is adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower;
- The value of collateral significantly decreases as a result of deteriorating market conditions.

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

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

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

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

3 Summary of accounting policies (continued)

Impairment of financial assets carried at amortized cost (continued)

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

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset fully or partially have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to profit or loss for the year (Note 10).

Repossessed collateral

Repossessed collateral represents financial and non-financial assets acquired by the Group in settlement of overdue loans. The assets are initially recognized at fair value and included in property and equipment, other non-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.

Credit-related commitments

The Group assumes credit related commitments, including letters of credit, financial guarantees and loan commitments. 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 originate a loan are initially recognized at their fair value, which is normally evidenced by the amount of fees received. This amount is amortized 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 loan arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying amount of the loan on initial recognition. At the end of each reporting period, financial guarantees are measured at the higher of (i) the unamortized balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of the reporting period.

Investment securities available for sale

This category 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.

Investment securities available for sale are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognized in profit or loss for the year. Other elements of changes in the fair value are recognized in other comprehensive income until the investment is derecognized or impaired, at which time the cumulative gain or loss is reclassified from other comprehensive income to profit or loss for the year.

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

3 Summary of accounting policies (continued)

Financial investments held to maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturity are 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 are not included in this classification. Held-to-maturity investments are subsequently measured at amortized cost. Gains and losses are recognized in profit or loss when the investments are impaired, as well as through the amortization process.

For held-to-maturity investments the Group assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognized in profit or loss.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, any amounts formerly charged are credited to the consolidated statement of comprehensive income.

Sale and repurchase transactions and securities lending

Sale and repurchase agreements ("repos") for securities which actually provide a lender's return to the counterparty are treated as lending transactions collateralized by securities. Securities sold under sale and repurchase agreements are continued to be recognized. Securities are not reclassified to a separate item of the statement of financial position. The corresponding liability is presented within amounts due to other banks (Note 16).

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

Promissory notes purchased

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

Investment property

Investment property is represented by land or buildings or parts of buildings held to earn rental income or for capital appreciation and which is not used by the Group or held for sale in the ordinary course of business. Property that is being constructed or developed or redeveloped for future use as investment property is also classified as investment property.

Investment property is initially recognized at cost, including transaction costs, and subsequently remeasured at fair value reflecting market conditions at the end of the reporting period. Fair value of the Group's investment property is determined on the base of various sources including reports of independent appraisers, who hold a recognized and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

Investment property that is being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value. Earned rental income is recorded in the consolidated statement of comprehensive income within other operating income. Gains and losses resulting from changes in the fair value of investment property are recorded in the consolidated statement of comprehensive income and presented within other operating income or other operating expenses.

Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with it will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to property and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

3 Summary of accounting policies (continued)

Goodwill

Goodwill is carried at acquisition cost less accumulated impairment losses, if any. Goodwill is tested for impairment at least annually or if there is any indication that it may be impaired. Goodwill is allocated to cash-generating units, or groups of cash-generating units, that are expected to benefit from the improvement of performance as a result of business combination. These units or groups of units are treated as the basis for goodwill accounting and do not exceed the operating segment. When an asset is disposed from a cash-generating unit to which goodwill has been allocated, relevant gains and losses on the disposal include the carrying amount of goodwill related to the disposed asset and are generally determined in proportion to the share of the disposed asset in the cost of the cash-generating unit.

Property and equipment

Property and equipment, excluding land and buildings, are stated at cost, restated to the equivalent purchasing power of the Russian ruble as of 31 December 2002 for assets acquired prior to 1 January 2003 less accumulated depreciation and allowance for impairment, where required.

Land and buildings of the Group are revaluated with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using the fair value at the end of the reporting period. Increases in the carrying amount arising on revaluation are recorded in other comprehensive income as gains on revaluation of property and equipment. Decreases that offset previous increases of the same asset are recognized in other comprehensive income and decrease the previously recognized revaluation surplus in equity; all other decreases are charged to profit or loss for the year. Subsequent increase in the carrying amount is offset against previously recognized impairment losses. In case positive revaluation exceeds previously recognized decrease in cost, this excess is recognized in other comprehensive income. The revaluation reserve for land and buildings included in other comprehensive income is taken directly to retained earnings upon realization of the gain on revaluation when the asset is written off or disposed of. When no market information about the fair value is available, the fair value is determined based on income approach.

Management reviewed the carrying amount of land and buildings, which was determined by independent appraisers in accordance with the revaluation model based on market information at the end of the reporting period. Management believes that sufficient market information is available to confirm the reviewed fair value determined based on market approach.

Costs of minor repairs and maintenance are expensed when incurred. Costs of replacement of significant parts of property and equipment are capitalized with subsequent write-off of the replaced part.

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

Gains and losses on disposals determined by comparing proceeds with carrying amount at the disposal date are recognized (in other operating income or expenses) in profit or loss for the year (Notes 13, 24, and 25).

Depreciation

Construction in progress is not subject to depreciation. Depreciation on other items of property and equipment is calculated using the straight-line method to write down the cost or revaluation to their residual values over their estimated useful lives:

	Useful lives (number of years)
Buildings	50
Computer equipment	5
Furniture and office equipment	10
Motor vehicles	10
Leasehold improvements	over the term of the underlying lease

3 Summary of accounting policies (continued)

Depreciation (continued)

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 assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting year (Note 13).

Intangible assets

All the Group's intangible assets have definite useful lives and primarily include capitalized software and software licenses.

Acquired computer software licenses are capitalized 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 expected. Capitalized costs include expenses related to activities of software programming team and the respective part of overhead expenses. All other costs associated with computer software (e.g., its maintenance) are expensed when incurred. Capitalized computer software is amortized on a straight-line basis over expected useful life of three years (Note 14).

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 recognized in profit or loss for the year (as rental expense in administrative and other operating expenses) on a straight-line basis during the lease term.

Amounts due to other banks

Amounts due to other banks are recorded when money or other assets are advanced to the Group by counterparty banks. Non-derivative financial liabilities are carried at amortized cost (Note 16).

Amounts due to customers

Amounts due to customers are non-derivative financial liabilities to individuals, state, public or corporate customers and are carried at amortized cost (Note 17).

Debt securities issued

Debt securities issued include promissory notes and bonds issued by the Group. Debt securities are carried at amortized cost.

Derivative financial instruments

Derivative financial instruments including foreign exchange contracts, interest swaps, as well as currency options and forwards, are carried at fair value.

All derivative instruments are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year (gains less losses on derivative financial instruments). The Group does not apply hedge accounting (Note 31).

Income tax

Tax expenses were recognized in the consolidated financial statements in accordance with legislation at tax rates and legislative provisions enacted or substantively enacted at the end of the reporting period. Income tax expense comprises current tax and deferred tax and is recognized in profit or loss for the year except if it is recognized in other comprehensive income or directly in equity because it relates to transactions that are also recognized, in the same or a different period, in other comprehensive income or directly in equity.

3 Summary of accounting policies (continued)

Income tax (continued)

Current tax is the amount expected to be paid to or recovered from the tax authorities in respect of taxable profits or losses for current and prior periods. Taxable profits or losses are based on estimates if consolidated financial statements are authorized prior to filing relevant tax returns. Taxes, other than income tax, are recorded within administrative and other operating expenses (Note 25).

Deferred income tax is determined using the balance sheet liability method for deferred tax losses and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for consolidated financial reporting purposes. 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 assets and liabilities are measured at tax rates enacted or substantively enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or deferred tax losses will be realized.

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

Uncertain tax positions

The Group's uncertain tax positions are assessed by management at the end of each reporting period. Tax liabilities are recorded when management believes that additional tax liabilities may arise, if tax position of the Group is challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted at 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 recognized based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Provisions for obligations and charges

Provisions for obligations and charges are non-financial liabilities of uncertain timing or amount. Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events. There is also the possibility of an outflow of economic benefits in settlement and the liability amount can be reliably measured.

Trade and other accounts payable

Accounts payable are recognized when the counterparty has fulfilled its obligations and are carried at amortized cost (Note 18).

Assets classified as held for sale

The Group classifies a non-current asset (or a disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the non-current asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable.

The sale qualifies as highly probable if the Group's management is committed to a plan to sell the non-current asset (or disposal group) and an active program to locate a buyer and complete the plan must have been initiated. Further, the non-current asset (or disposal group) must have been actively marketed for a sale at price that is reasonable in relation to its current fair value, and in addition the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification of the non-current asset (or disposal group) as held for sale.

3 Summary of accounting policies (continued)

Assets classified as held for sale (continued)

The Group measures an asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell. The Group recognizes an impairment loss for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell if events or changes in circumstance indicate that their carrying amount may be impaired.

Income and expense recognition

Interest income and expense are recognized for all debt bearing instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts (Note 22).

Fees and commissions pertaining to the effective interest rate include commissions paid or received from origination or acquisition of a financial asset or issue of a financial liability (e.g., commission for creditworthiness assessment, measurement or recognition of guarantees or collateral, settlement of instruments terms and conditions, and processing transaction documents). Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not classify loan commitments as financial liability at fair value through profit or loss (Note 23).

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 consequently recognized based on the asset's effective interest rate used to discount future cash flows in order to measure the impairment loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Syndicated loan fees are recognized as income when syndication is complete, and the Group does not retain a portion of the loan portfolio, or when the Group retains a portion of the loan portfolio at the same effective interest rate as other parties to the transaction have. Fee and commission income that relate to transactions on behalf of third parties, e.g. acquisition of loans, shares and other securities received in the course of such transactions are recorded upon transaction closure.

Foreign currency translation

The Group's functional and presentation currency is the national currency of the Russian Federation, Russian ruble.

Monetary assets and liabilities are translated into the Group's functional currency at the official exchange rate of the CBR 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 the Group's functional currency at year-end official exchange rates of the CBR are recognized in profit or loss for the year (as foreign exchange translation gains less losses). Translation at the year-end rate does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

Fiduciary assets

Assets 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 such transactions are shown in fee and commission income.

3 Summary of accounting policies (continued)

Offsetting of financial assets

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

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

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

Staff costs and related contributions

Salary expenses and contributions to the State Pension Fund and Social Insurance Fund and paid annual vacations and sick leaves, bonuses and non-cash benefits are accrued as the relevant services are rendered by the Group's employees. The Group has no legal or constructive obligation to make pension or similar benefit payments beyond defined contribution plan payments.

Segment reporting

Segments are reported in a manner consistent with the internal reporting provided to management to make operational decisions. Segments where revenue, financial performance or combined assets are ten percent or more of revenue, financial performance or combined assets of all segments of the Group are reported separately.

Changes in presentation of the consolidated financial statements

Comparative data for the year ended 31 December 2016 have been adjusted to conform to the format of presentation for the reporting period, as follows:

- Finance lease receivables were included in other assets in the consolidated statement of financial position.

	As previously reported as of 31 December 2016	Adjustment	After adjustment as of 31 December 2016
Consolidated statement of financial position			
Other assets	206,013	20,898	226,911
Finance lease receivables	20,898	(20,898)	–

- Allowance for impairment of finance lease receivables was reclassified from "Allowance for impairment of amounts due from other banks and loans to customers" to "Other impairment and provisions" in the consolidated statements of financial position.

	As previously reported as of 31 December 2016	Adjustment	After adjustment as of 31 December 2016
Consolidated statement of comprehensive income			
Allowance for impairment of amounts due from other banks and loans to customers	(754,632)	(28,016)	(782,648)
Other impairment and provisions	(424,642)	28,016	(396,626)

3 Summary of accounting policies (continued)

Changes in presentation of the consolidated financial statements (continued)

- The bonus related to retail lending transactions was reclassified from “Interest income” to “Other operating income” in the interim condensed consolidated statement of comprehensive income.

	As previously reported as of 31 December 2016	Adjustment	After adjustment as of 31 December 2016
Consolidated income statement			
Interest income	6,124,633	148,022	6,272,655
Other operating income	502,447	(148,022)	354,425

The adjustments affected the information disclosed in the consolidated statement of cash flows, Note 15 “Other assets”, Note 22 “Interest income and expense” and Note 24 “Other operating income”. The adjustments had no effect on information disclosed in other notes.

4 Significant accounting estimates and judgments in applying accounting policies

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

Impairment losses on loans to customers

The Group regularly reviews its loans to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. A 10% increase or decrease in the actual loss compared to the estimated loss would result in an increase or decrease in loan impairment losses of RUB 94,539 thousand (2016: RUB 126,818 thousand), respectively. Impairment loss on individually significant loans is determined based on the estimated amounts of discounted future cash flows on these loans considering loan maturity and sale of assets collateralized under the relevant loan. A 10% increase or decrease in the actual loss compared to the estimated future cash flows, which could arise from differences in amounts and timing of the cash flows, would result in an increase or decrease in loan impairment losses of RUB 87,247 thousand (2016: RUB 114,630 thousand), respectively.

Initial recognition of transactions with related parties

In the normal course of business the Group enters into transactions with related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgment is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgment is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 33.

4 Significant accounting estimates and judgments in applying accounting policies (continued)

Valuation of the Group's own land and buildings

The Group's land and buildings are recorded at fair value which is determined based on the valuation report prepared by an independent appraiser. The valuation is performed by an independent appraiser engaged in valuation of similar assets in a similar region and of the same category. The market value of property and equipment is determined based on the market approach, because information about offers to sell similar assets is available in the market (Note 13). If, based on the valuation, the fair value of the Group's premises increases or decreases by 10%, the carrying amount of these items of property and equipment will increase or decrease by RUB 160,560 thousand (before deferred tax recognition) as of 31 December 2017 (2016: RUB 135,510 thousand).

Fair values 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 32.

5 Adoption of new or revised standards and interpretations

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

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Group has provided the information for both the current and the comparative period in Note 38.

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

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

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

The amendments clarify that certain disclosure requirements in IFRS 12 apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified as held for sale or included in a disposal group. These amendments did not affect the Group's financial position or performance.

5 Adoption of new or revised standards and interpretations (continued)

Annual improvements 2014-2016 cycle (issued in December 2016)

These improvements include:

IFRS 1 First-time Adoption of International Financial Reporting Standards − deletion of short-term exemptions for first time adopters

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

IAS 28 Investments in Associates and Joint Ventures − clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice

The amendments clarify that:

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

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

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

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

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

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

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

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

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.

5 Adoption of new or revised standards and interpretations (continued)

Annual improvements 2014-2016 cycle (issued in December 2016) (continued)

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

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – changes in methods of disposal

Assets (or disposal groups) are generally disposed of either through sale or through distribution to owners. The amendment to IFRS 5 clarifies that changing from one of these disposal methods to the other should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification. The amendment must be applied prospectively to changes in methods of disposal that occur in annual periods beginning on or after 1 January 2016, with early adoption permitted.

6 New accounting pronouncements

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

IFRS 9 Financial Instruments

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

The Group plans to adopt the new standard by recognizing the cumulative transition effect in opening retained earnings on 1 January 2018 and will not restate comparative information. The Group is in the process of quantifying the effect of adoption of IFRS 9, however no reasonable estimate of this effect is yet available.

(a) Classification and measurement

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

- Instruments that are managed on a "hold to collect" basis are measured at amortized cost;
- Instruments that are managed on a "hold to collect and for sale" basis are measured at fair value through other comprehensive income (FVOCI);
- Instruments that are managed on other basis, including trading financial assets, will be measured at FVPL.

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

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

6 New accounting pronouncements (continued)

IFRS 9 Financial Instruments (continued)

(b) Impairment

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

For the purpose of IFRS provisioning, assets are divided into 4 stages:

Stage No. 1: Assets without a significant increase in credit risk and without indicators of impairment. The allowance is based on the ECL associated with the probability of default in the next twelve months.

Stage No. 2: Assets with a significant increase in credit risk and without indicators of impairment. The allowance is based on the ECL over the life of the asset.

Stage No. 3: Assets with a significant increase in credit risk and with objective indicators of impairment (objective indicators of impairment exist if the asset is considered a default asset as defined by the Bank). The allowance is based on the ECL over the life of the asset.

Stage No. 4: Purchased or originated credit-impaired (POCI) assets. The allowance is based on the ECL movements over the life of the asset.

Impairment is calculated using two main components: probability of default (PD) and loss given default (LGD). PD takes into account current and forecast macroeconomic factors (using regression models) and three probable scenarios (base case, negative and positive).

IFRS 15 Revenue from Contracts with Customers

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

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

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

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

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

6 New accounting pronouncements (continued)

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

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

IFRS 16 Leases

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

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

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

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

IFRS 17 Insurance Contracts

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

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

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

6 New accounting pronouncements (continued)

Transfers of Investment Property − Amendments to IAS 40

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

7 Cash and cash equivalents

(in thousands of Russian rubles)	**2017**	**2016**
Cash on hand	695,557	598,427
Cash balances with the CBR (other than obligatory reserve)	2,482,611	1,738,852
Correspondent accounts and overnight deposits with credit institutions	710,068	1,820,268
Settlement accounts with financial institutions	79,809	218,186
Reverse repurchase agreements with credit institutions up to 90 days	3,264,696	14,689,796
Deposits placed with CBR with an original maturity of less than three months	2,000,000	–
Loans issued to other banks with original maturities of less than three months	220,149	836,009
Total cash and cash equivalents	**9,452,890**	**19,901,538**

As of 31 December 2017, settlement accounts with financial institutions are represented by settlements with the National Clearing Center in the amount of RUB 65,770 thousand and settlements with payment systems in the amount of RUB 14,039 thousand (2016: settlements with the National Clearing Center in the amount of RUB 210,869 thousand, settlements with the National Settlement Depository in the amount of RUB 75 thousand, and settlements with payment systems in the amount of RUB 7,242 thousand).

Correspondent accounts and overnight deposits with credit institutions as of 31 December 2017 and 31 December 2016 are represented by placements with Russian and foreign credit institutions.

As of 31 December 2017, loans issued to other banks with original maturities of less than three months are represented by loans issued to a large foreign bank (2016: with large Russian and foreign banks) with a contractual interest rate of 8.25% p.a. (2016: from 0.1% to 11.0%) and maturities in January 2018 (2016: in January 2017).

As of 31 December 2017, reverse repurchase agreements with credit institutions up to 90 days are represented by deposits with Russian credit institutions placed for 11 to 30 days (2016: for 10 to 90 days) with a contractual interest rate ranging from 0.50% p.a. to 8.10% p.a. (2016: from 1.20% p.a. to 10.85% p.a.). These agreements are collateralized by federal loan bonds (OFZ) and bonds of large Russian banks and companies (2016: bonds of a Russian bank) with a fair value of RUB 3,518,695 thousand (2016: RUB 15,885,779 thousand).

7 Cash and cash equivalents (continued)

The Group assesses the quality of cash and cash equivalents on the basis of ratings assigned by Standard and Poor's and, where they are not available, on the basis of ratings assigned by Moody's and Fitch Ratings and adjusted in line with categories of Standard and Poor's based on the reconciliation table.

The table below provides an analysis of cash and cash equivalents, except for cash on hand, by credit quality as of 31 December 2017:

(in thousands of Russian rubles)	Cash balances with the CBR other than obligatory reserve	Correspon-dent accounts and overnight deposits with credit institutions	Settlement accounts with financial institutions	Reverse repurchase agreements with credit institutions up to 90 days	Deposits placed with CBR with an original maturity of less than three months	Loans issued to other banks with original maturities of less than three months	Total cash and cash equivalents, excluding cash on hand
Neither past due nor impaired							
- CBR	2,482,611	–	–	–	2,000,000	–	4,482,611
- A- to A+ rated	–	293,005	–	–	–	–	293,005
- BBB- to BBB+ rated	–	9,083	65,770	3,264,696	–	–	3,339,549
- B- to BB+ rated	–	366,866	14,039	–	–	–	380,905
- unrated	–	41,114	–	–	–	220,149	261,263
Total cash and cash equivalents, excluding cash on hand	**2,482,611**	**710,068**	**79,809**	**3,264,696**	**2,000,000**	**220,149**	**8,757,333**

The table below provides an analysis of cash and cash equivalents, except for cash on hand, by credit quality as of 31 December 2016:

(in thousands of Russian rubles)	Cash balances with the CBR other than obligatory reserve	Correspon-dent accounts and overnight deposits with credit institutions	Settlement accounts with financial institutions	Reverse repurchase agreements with credit institutions up to 90 days	Loans issued to other banks with original maturities of less than three months	Total cash and cash equivalents, excluding cash on hand
Neither past due nor impaired						
- CBR	1,738,852	–	–	–	–	1,738,852
- A- to A+ rated	–	299,119	7,099	–	–	306,218
- BBB- to BBB+ rated	–	645,429	210,869	14,562,109	504,447	15,922,854
- B- to BB+ rated	–	578,767	–	127,687	319,058	1,025,512
- unrated	–	296,953	218	–	12,504	309,675
Total cash and cash equivalents, excluding cash on hand	**1,738,852**	**1,820,268**	**218,186**	**14,689,796**	**836,009**	**19,303,111**

As of 31 December 2017, cash and cash equivalents for 4 largest counterparties amounted to RUB 4,050,935 thousand (2016: RUB 16,241,913 thousand) or 45.2% (2016: 81.6%) of the total amount.

Cash and cash equivalents, except for reverse repurchase agreements with credit institutions up to 90 days, are unsecured.

The analysis of cash and cash equivalents by structure of currencies and maturities, and the analysis of interest rates are presented in Note 28. Estimated fair values of each category of cash and cash equivalents are shown in Note 32. Information on related party transactions is disclosed in Note 33.

8 Trading securities

(in thousands of Russian rubles)	2017	2016
Corporate bonds	6,537,068	2,948,579
Bonds of the CBR	3,046,230	–
Bonds of banks	1,651,634	407,800
Bonds of state corporations	103,567	100,192
Federal loan bonds (OFZ)	–	6,592,841
Corporate shares	–	208,203
Bonds of subjects of the Russian Federation	–	15,074
Total trading securities	**11,338,499**	**10,272,689**

Corporate bonds are RUB-denominated interest-bearing securities issued by large Russian companies and traded in the Russian market. The analysis by maturity dates, annual coupon rates and yield to maturity is presented in the tables below.

Bonds of the CBR are represented by RUB-denominated interest-bearing debt securities issued by the CBR and traded in the Russian market. The analysis by maturity dates and annual coupon rates is presented in the tables below.

Bonds of banks are represented by RUB-denominated interest-bearing debt securities issued by Russian banks and traded in the Russian market. The analysis by maturity dates and annual coupon rates is presented in the tables below.

Bonds of state corporations are represented by RUB-denominated interest-bearing debt securities issued by Vnesheconombank and traded in the Russian market. The issuer of debt securities is not a commercial bank and its activities are regulated by special legislation. The analysis by maturity dates, annual coupon rates and yield to maturity is presented in the tables below.

Corporate bonds are represented by RUB-denominated interest-bearing securities issued by large Russian companies and traded in the Russian market.

Bonds of subjects of the Russian Federation are represented by RUB-denominated interest-bearing debt securities issued by regional authorities of the Russian Federation and traded in the Russian market. The analysis by maturity dates and annual coupon rates is presented in the tables below.

As of 31 December 2017, trading securities represented by corporate bonds, bonds of banks and the CBR, and bonds of state corporations were not restricted in use (2016: trading securities with a fair value of RUB 3,606,947 thousand were restricted in use according to the General Loan Agreement with the CBR with an overdraft limit of RUB 3,500,000 thousand. See Note 35).

The analysis of trading debt securities as of 31 December 2017 is as follows:

	Maturity		Annual coupon rate, %	
	from	to	from	to
Corporate bonds	June 2018	October 2027	7.70	13.50
Bonds of the CBR	January 2018	January 2018	7.75	7.75
Bonds of banks	January 2018	December 2018	8.90	10.90
Bonds of state corporations	October 2019	April 2021	9.75	9.80

The analysis of trading debt securities as of 31 December 2016 is as follows:

	Maturity		Annual coupon rate, %	
	from	to	from	to
Corporate bonds	March 2017	June 2021	9.50	13.25
Bonds of banks	January 2017	May 2018	10.15	10.90
Bonds of state corporations	October 2019	April 2021	9.75	9.80
Federal loan bonds (OFZ)	April 2017	May 2032	2.50	11.90
Bonds of subjects of the Russian Federation	May 2017	May 2017	7.99	7.99

8 Trading securities (continued)

The analysis of trading debt securities by credit quality as of 31 December 2017 is as follows:

(in thousands of Russian rubles)	BBB- to BBB+ rated	B- to BB+ rated	Not rated	Total
Corporate bonds	–	6,076,297	460,771	6,537,068
Bonds of the CBR	–	3,046,230	–	3,046,230
Bonds of banks	–	1,651,634	–	1,651,634
Bonds of state corporations	103,567	–	–	103,567
Total trading debt securities	**103,567**	**10,774,161**	**460,771**	**11,338,499**

The analysis of trading debt securities by credit quality as of 31 December 2016 is as follows:

(in thousands of Russian rubles)	BBB- to BBB+ rated	B- to BB+ rated	Total
Federal loan bonds (OFZ)	6,592,841	–	6,592,841
Corporate bonds	–	2,948,579	2,948,579
Bonds of banks	–	407,800	407,800
Bonds of state corporations	–	100,192	100,192
Bonds of subjects of the Russian Federation	–	15,074	15,074
Total trading debt securities	**6,592,841**	**3,471,645**	**10,064,486**

Credit rating is based on the rating assigned by Standard & Poor's (if such rating is available) or the rating assigned by Moody's or Fitch Ratings, which is converted to the nearest equivalent value on Standard & Poor's rating scale.

Trading securities are unsecured.

The analysis of trading securities by structure of currencies and maturities, and the analysis of interest rates are presented in Note 28.

9 Amounts due from other banks

(in thousands of Russian rubles)	2017	2016
Loans issued to other banks	573,588	–
Eurobonds of banks	58,868	2,629,612
Promissory notes of banks	–	23,377
Total amounts due from other banks	**632,456**	**2,652,989**
Less: allowance for impairment	(71)	(4,716)
Total amounts due from other banks	**632,385**	**2,648,273**

As of 31 December 2017, loans issued to other banks include a loan to a large Russian bank of RUB 573,588 thousand maturing in March 2018 and bearing a contractual interest rate of 3.5% p.a.

As of 31 December 2017, Eurobonds of banks are represented by interest-bearing debt securities denominated in foreign currency (USD), issued by large Russian banks (2016: USD).

The primary factor that the Group considers in determining whether amounts due from other banks are impaired is their past due status.

9 Amounts due from other banks (continued)

The analysis of movements in the allowance for impairment of amounts due from other banks during 2017 and 2016 is as follows:

	2017	2016
Allowance for impairment as of 1 January	**4,716**	**2,716**
(Reversal)/charge of allowance for impairment during the year	(4,645)	2,000
Allowance for impairment of amounts due from other banks as of 31 December	**71**	**4,716**

Amounts due from other banks are unsecured.

The analysis of amounts due from other banks by credit quality as of 31 December 2017 and 31 December 2016 is as follows:

(in thousands of Russian rubles)	2017	2016
Neither past due nor impaired		
- BBB- to BBB+ rated	–	714,307
- B- to BB+ rated	632,456	1,938,682
Total amounts due from other banks	**632,456**	**2,652,989**

Estimated fair values of each category of amounts due from other banks are shown in Note 32. The analysis of amounts due from other banks by structure of currencies and maturities, and the analysis of interest rates are presented in Note 28. Information on related party transactions is disclosed in Note 33.

10 Loans to customers

(in thousands of Russian rubles)	2017	2016
Large businesses	14,576,895	3,645,772
Medium businesses	5,878,389	9,489,472
Small businesses	3,610,200	1,370,030
Loans to individuals	2,950,154	1,278,907
Total loans and advances to customers before allowance for loan impairment	**27,015,638**	**15,784,181**
Less: allowance for loan impairment	(997,437)	(1,268,183)
Total loans and advances to customers	**26,018,201**	**14,515,998**

Loans issued by the Group are subdivided into:

- Loans to large businesses (annual revenue of more than RUB 3 billion);
- Loans to medium businesses (annual revenue from RUB 400 million to RUB 3 billion);
- Loans to small businesses (annual revenue of up to and including RUB 400 million), and loans that were issued under the regional business lending program which the Group had implemented before 1 January 2009;
- Retail loans – consumer loans issued to individual customers.

As of 31 December 2017, loans to individuals comprise accounts receivable under reverse repurchase agreements, which represent claims for repayment of funds under reverse repurchase agreements in the amount of RUB 18,788 thousand (2016: none).

10 Loans to customers (continued)

As of 31 December 2016, loans to large businesses comprise Eurobonds represented by interest-bearing debt securities denominated in foreign currency (USD, EUR), issued by large Russian and foreign companies in the amount of RUB 528,832 thousand.

The analysis of movements in allowance for loan impairment during 2017 is as follows:

(in thousands of Russian rubles)	Large businesses	Medium businesses	Small businesses	Loans to individuals	Total
Allowance for loan impairment as of 1 January 2017	**574,755**	**461,400**	**113,943**	**118,085**	**1,268,183**
(Reversal)/charge of allowance for impairment during the year	(276,045)	(337,355)	395,992	(1,630)	(219,038)
Write-off against allowance on sale of loans	–	(4,928)	(3,239)	(39,159)	(47,326)
Loans written off against allowance	–	(4,928)	(1)	(4,494)	(9,423)
Recovery of loans previously written-off	–	4,928	–	113	5,041
Allowance for loan impairment as of 31 December 2017	**298,710**	**119,117**	**506,695**	**72,915**	**997,437**
Individual impairment	–	40,594	397,206	45,573	483,373
Collective impairment	298,710	78,523	109,489	27,342	514,064
Allowance for loan impairment as of 31 December 2017	**298,710**	**119,117**	**506,695**	**72,915**	**997,437**
Total individually impaired loans (before allowance for impairment)	**–**	**500,497**	**486,544**	**60,276**	**1,047,317**

The analysis of movements in allowance for loan impairment during 2016 is as follows:

(in thousands of Russian rubles)	Large businesses	Medium businesses	Small businesses	Loans to individuals	Total
Allowance for loan impairment as of 1 January 2016	**75,844**	**174,753**	**163,999**	**146,427**	**561,023**
Charge/(reversal) of allowance for impairment during the year	498,911	291,323	23	(9,609)	780,648
Write-off against allowance on sale of loans	–	(4,676)	(30,999)	(18,733)	(54,408)
Loans written off against allowance	–	–	(19,080)	–	(19,080)
Allowance for loan impairment as of 31 December 2016	**574,755**	**461,400**	**113,943**	**118,085**	**1,268,183**
Individual impairment	513,255	57,310	64,576	79,313	714,454
Collective impairment	61,500	404,090	49,367	38,772	553,729
Allowance for loan impairment as of 31 December 2016	**574,755**	**461,400**	**113,943**	**118,085**	**1,268,183**
Total individually impaired loans (before allowance for impairment)	**513,255**	**57,310**	**427,833**	**93,068**	**1,091,466**

In 2017, the Group sold outstanding loans payable by individuals with a nominal value of RUB 2,485,450 thousand and an allowance for impairment of RUB 42,398 thousand for RUB 2,669,122 thousand (2016: RUB 1,880,472 thousand and an allowance for impairment of RUB 4,065 thousand for RUB 2,028,594) to a party that was not under common control. The Group is not exposed to non-payment risk as it provided no guarantee for the payment of interest and principal debt.

10 Loans to customers (continued)

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

	2017		2016	
(in thousands of Russian rubles)	**Amount**	**%**	**Amount**	**%**
Manufacturing	6,015,469	22.4	1,821,407	11.5
Residential construction	4,940,901	18.3	5,829,488	36.9
Wholesale and retail trade	4,406,549	16.2	1,569,459	9.9
Finance	3,646,435	13.5	1,449,454	9.2
Individuals	2,950,154	10.9	1,278,907	8.1
Infrastructure construction	1,098,384	4.1	617,541	3.9
Telecommunications	1,005,924	3.7	12,510	0.1
Services	1,000,155	3.7	1,610,775	10.2
Office and retail real estate	884,637	3.3	569,027	3.6
Mining industry	396,895	1.5	–	–
Transport and logistics	300,077	1.1	29,583	0.2
Oil and gas industry	250,000	0.9	688,937	4.4
Agricultural industry	82,096	0.3	135,501	0.9
Warehousing property	–	–	145,860	0.9
Other	37,962	0.1	25,732	0.2
Total loans and advances to customers (before allowance for loan impairment)	**27,015,638**	**100.0**	**15,784,181**	**100.0**

As of 31 December 2017, loans issued to 30 major borrowers amounted to RUB 20,453,478 thousand before deduction of allowance for loans impairment (2016: RUB 13,512,826 thousand), or 76% (2016: 86%) of the total amount of loans to customers.

The requirements to the level of loan collateralization are covered by the credit policy of the Group and depend on the type of transaction and the counterparty's credit risk exposure. The Group's priority activities include provision of loans secured by highly liquid collateral: cash (cash collateral accounts, promissory notes of the Bank, etc.), securities, real estate. No collateral can be provided under low-risk operations. The structure of the collateral and its level for certain loans are determined by authorized bodies of the Group (credit committees) in accordance with the credit policy.

The main types of collateral obtained are as follows:

- For financial market transactions, securities or cash;
- For commercial lending, charges over real estate properties, receivables and cash, guarantees of group entities and beneficiary owners;
- For retail lending, charges over motor vehicles, mortgages over residential properties, cash.

The Group regularly monitors safety of the collateral and its current market value under credit risk control procedures. In case of significant deterioration in the value of collateral, the Group requests additional collateral, if necessary.

The information on the loan portfolio by type of collateral as of 31 December 2017 is presented below:

(in thousands of Russian rubles)	**Large businesses**	**Medium businesses**	**Small businesses**	**Loans to individuals**	**Total**
Unsecured loans	9,626,494	2,537,079	1,388,058	382,182	13,933,813
Loans secured by:					
- cash deposits	415,117	992,185	115,905	–	1,523,207
- the Group's own promissory notes	1,062,659	42,146	7,358	–	1,112,163
- securities and interests in share capital	407,638	48,355	20	–	456,013
- items of movable property	101,662	–	27,344	2,210,443	2,339,449
- items of immovable property	2,963,325	2,258,624	2,004,110	357,529	7,583,588
- receivables under investment contracts	–	–	67,405	–	67,405
Total loans and advances to customers	**14,576,895**	**5,878,389**	**3,610,200**	**2,950,154**	**27,015,638**

10 Loans to customers (continued)

The information on the loan portfolio by type of collateral as of 31 December 2016 is presented below:

(in thousands of Russian rubles)	Large businesses	Medium businesses	Small businesses	Loans to individuals	Total
Unsecured loans	2,871,846	600,540	139,688	151,092	3,763,166
Loans secured by:					
- cash deposits	270,010	1,136,357	23,633	–	1,430,000
- the Group's own promissory notes	–	182,064	17,556	–	199,620
- securities and interests in share capital	510	996,212	196,355	–	1,193,077
- items of movable property	–	154,847	329,439	721,947	1,206,233
- items of immovable property	359,104	6,270,857	607,268	405,868	7,643,097
- receivables under investment contracts	144,302	148,595	56,091	–	348,988
Total loans and advances to customers	**3,645,772**	**9,489,472**	**1,370,030**	**1,278,907**	**15,784,181**

The disclosures above as of 31 December 2017 and 31 December 2016 show the lower of the carrying amount of the loan and collateral received; the remaining information is disclosed as unsecured loans. The carrying amount of loans was allocated based on the liquidity of assets received as collateral.

The analysis of loans by credit quality as of 31 December 2017 is as follows:

(in thousands of Russian rubles)	Large businesses	Medium businesses	Small businesses	Loans to individuals	Total
Neither past due nor impaired					
- Loans renegotiated in 2017	–	–	–	10,700	10,700
- Loans renegotiated in previous reporting periods	–	286,062	–	–	286,062
- Standard portfolio	14,576,895	5,091,830	3,123,656	2,845,042	25,637,423
Total neither past due nor impaired	**14,576,895**	**5,377,892**	**3,123,656**	**2,855,742**	**25,934,185**
Past due but not impaired					
- less than 30 days past due	–	–	–	21,918	21,918
- 31 to 90 days past due	–	–	–	12,218	12,218
Total past due but not impaired	**–**	**–**	**–**	**34,136**	**34,136**
Individually impaired loans					
- without delays in payment	–	500,497	–	–	500,497
- more than 90 days past due	–	–	486,544	60,276	546,820
Total individually impaired loans	**–**	**500,497**	**486,544**	**60,276**	**1,047,317**
Total loans and advances to customers (before allowance for loan impairment)	**14,576,895**	**5,878,389**	**3,610,200**	**2,950,154**	**27,015,638**
Less: allowance for impairment	(298,710)	(119,117)	(506,695)	(72,915)	(997,437)
Total loans and advances to customers	**14,278,185**	**5,759,272**	**3,103,505**	**2,877,239**	**26,018,201**

10 Loans to customers (continued)

The analysis of loans by credit quality as of 31 December 2016 is as follows:

(in thousands of Russian rubles)	Large businesses	Medium businesses	Small businesses	Loans to individuals	Total
Neither past due nor impaired					
- Loans renegotiated in 2016	–	785,359	21,712	9,265	816,336
- Loans renegotiated in previous reporting periods	–	–	–	19,026	19,026
- Standard portfolio	2,603,685	8,646,803	920,485	1,072,000	13,242,973
- Eurobonds	528,832	–	–	–	528,832
Total neither past due nor impaired	**3,132,517**	**9,432,162**	**942,197**	**1,100,291**	**14,607,167**
Past due but not impaired					
- less than 30 days past due	–	–	–	55,293	55,293
- 31 to 90 days past due	–	–	–	30,255	30,255
Total past due but not impaired	**–**	**–**	**–**	**85,548**	**85,548**
Individually impaired loans					
- without delays in payment	–	–	350,543	–	350,543
- 31 to 90 days past due	–	40,028	–	–	40,028
- more than 90 days past due	513,255	17,282	77,290	93,068	700,895
Total individually impaired loans	**513,255**	**57,310**	**427,833**	**93,068**	**1,091,466**
Total loans and advances to customers (before allowance for loan impairment)	**3,645,772**	**9,489,472**	**1,370,030**	**1,278,907**	**15,784,181**
Less: allowance for impairment	(574,755)	(461,400)	(113,943)	(118,085)	(1,268,183)
Total loans and advances to customers	**3,071,017**	**9,028,072**	**1,256,087**	**1,160,822**	**14,515,998**

Loans renegotiated during the period represent the carrying amount of renegotiated loans that would otherwise be past due or impaired.

Past due but not impaired loans mainly include secured loans, with the fair value of collateral covering past due interest and principal. Amounts recorded as past due but not impaired represent the whole balance of such loans, and not only past due amounts of certain payments.

An allowance was charged for the Group's loan portfolio in accordance with IAS 39 to cover losses from impairment identified and impairment which occurred in the reporting period but which was not yet identified as of the end of the reporting period. The Group's policy is to classify each loan as "neither past due nor impaired" until certain objective evidence of impairment is identified for a given loan. As a result of the application of this policy and the methodology for calculation of impairment of the portfolio, allowance for impairment may exceed the total final amount of individually impaired loans.

For the purpose of assessing the level of loan portfolio risks, identifying impairment and determining the amount of allowance, the Group relies on internal impairment criteria, and methodologies for assessment of counterparties' financial position and creation of allowances, which are consistent with the requirements of IFRS.

Estimated fair values of each category of loans to customers are shown in Note 32. The analysis of loans and advances to customers by structure of currencies and maturities, and the analysis of interest rates are presented in Note 28. Information on related party transactions is disclosed in Note 33.

11 Investment securities

Investment securities available for sale comprise the following:

(in thousands of Russian rubles)	2017	2016
Corporate bonds	3,566,762	8,126,104
Bonds of Russian banks	1,717,127	3,046,350
Bonds of state corporations	1,644,614	961,757
Corporate shares	1,092,485	957,714
Total unpledged investment securities available for sale	**8,020,988**	**13,091,925**
Corporate bonds	1,113,360	–
Bonds of Russian banks	621,980	–
Total pledged investment securities available for sale sold under direct repurchase agreements	**1,735,340**	**–**
Total investment securities available for sale	**9,756,328**	**13,091,925**

The analysis of debt securities by credit quality as of 31 December 2017 is as follows:

(in thousands of Russian rubles)	Corporate bonds	Bonds of banks	Bonds of state corporations	Total
Neither past due nor impaired				
- BBB- to BBB+ rated	1,029,669	–	–	1,029,669
- B- to BB+ rated	3,650,453	2,339,107	1,644,614	7,634,174
Total investment securities available for sale	**4,680,122**	**2,339,107**	**1,644,614**	**8,663,843**

The analysis of debt securities by credit quality as of 31 December 2016 is as follows:

(in thousands of Russian rubles)	Corporate bonds	Bonds of banks	Bonds of state corporations	Total
Neither past due nor impaired				
- BBB- to BBB+ rated	1,442,267	–	–	1,442,267
- B- to BB+ rated	6,683,837	3,046,350	961,757	10,691,944
Total investment securities available for sale	**8,126,104**	**3,046,350**	**961,757**	**12,134,211**

The fair value of investment securities available for sale is determined based on the current market price as of the end of operations on 30 December.

Credit rating is based on the rating assigned by Standard & Poor's (if such rating is available) or the rating assigned by Moody's or Fitch Ratings, which is converted to the nearest equivalent value on Standard & Poor's rating scale.

The primary factor that the Group considers in determining whether debt securities are impaired is their past due status. As of 31 December 2017 and 31 December 2016, the Group had no past-due debt securities available for sale.

As of 31 December 2017, investment securities available for sale are represented by bonds of Russian issuers and shares in a foreign bank with a fair value of RUB 9,756,328 thousand. See Note 32.

As of 31 December 2016, investment securities available for sale are represented by bonds of Russian issuers and shares of Russian and foreign banks with a fair value of RUB 13,091,925 thousand. See Note 32.

11 Investment securities (continued)

The analysis by maturity dates and annual coupon rates as of 31 December 2017 is presented in the table below:

	Maturity		Annual coupon rate, %	
	from	**to**	**from**	**to**
Bonds of banks	May 2018	April 2021	2.63	7.75
Corporate bonds	April 2018	May 2023	3.72	10.75
Bonds of state corporations	November 2018	July 2020	4.22	6.90

The analysis by maturity dates and annual coupon rates as of 31 December 2016 is presented in the table below:

	Maturity		Annual coupon rate, %	
	from	**to**	**from**	**to**
Bonds of banks	May 2017	December 2022	3.98	9.50
Corporate bonds	October 2017	May 2021	2.93	8.7
Bonds of state corporations	February 2018	July 2020	3.04	6.90

The analysis of investment securities available for sale by structure of currencies and maturities, and the analysis of interest rates are presented in Note 28. Information on related party transactions is disclosed in Note 33.

Reclassifications

Following the amendments to IAS 39 and IFRS 7 *Reclassification of Financial Assets*, during the second half of 2014 the Group reclassified investment securities available for sale, traded in an active market, to investments securities held to maturity due to the intention of the Group to hold them until maturity. The information about the reclassified assets is presented in the table below:

(in thousands of Russian rubles)	**2017**	**2016**
Carrying amount of reclassified assets as of 31 December	811,862	2,283,112
Fair value of reclassified assets as of 31 December	833,641	2,319,231
Fair value gains that would have been recognized on the reclassified assets in other comprehensive income for the year if the reclassification had not been made	14,137	101,109
Interest income	170,079	264,724
Losses less gains from sale of investment securities available for sale	(181,490)	(64,921)

Securities held to maturity comprise:

	2017	**2016**
Federal loan bonds (OFZ)	811,862	2,283,112
Total investment securities held to maturity	**811,862**	**2,283,112**

The analysis of debt securities by credit quality as of 31 December 2017 is as follows:

(in thousands of Russian rubles)	**Federal loan bonds (OFZ)**	**Total**
Neither past due nor impaired		
- BB- to BB+ rated	811,862	811,862
Total investment securities held to maturity	**811,862**	**811,862**

11 Investment securities (continued)

Reclassifications (continued)

The analysis of debt securities by credit quality as of 31 December 2016 is as follows:

(in thousands of Russian rubles)	Federal loan bonds (OFZ)	Total
Neither past due nor impaired		
- BBB- to BBB+ rated	2,283,112	2,283,112
Total investment securities held to maturity	**2,283,112**	**2,283,112**

Credit rating is based on the rating assigned by Standard & Poor's (if such rating is available) or the rating assigned by Moody's or Fitch Ratings, which is converted to the nearest equivalent value on Standard & Poor's rating scale.

The primary factor that the Group considers in determining whether debt securities are impaired is their past due status. As of 31 December 2017 and 31 December 2016, the Group had no past due debt securities held to maturity.

As of 31 December 2017, securities held to maturity represented by OFZ bonds with a fair value of RUB 424,716 thousand (31 December 2016: RUB 210,804 thousand) were restricted in use according to the General Loan Agreement with the CBR with an overdraft limit of RUB 3,500,000 thousand. See Note 35.

In 2017, OFZ bonds in the amount of RUB 953,607 thousand were reclassified from the portfolio of investment securities held to maturity to the portfolio of investment securities available for sale. The reclassification was performed 3 months before the maturity in accordance with IAS 39.

The analysis by maturity dates and annual coupon rates as of 31 December 2017 is presented in the table below:

	Maturity		Annual coupon rate, %	
	from	to	from	to
Federal loan bonds (OFZ)	March 2018	February 2019	5.00	7.50

The analysis by maturity dates and annual coupon rates as of 31 December 2016 is presented in the table below:

	Maturity		Annual coupon rate, %	
	from	to	from	to
Federal loan bonds (OFZ)	April 2017	February 2019	5.00	7.50

The analysis of investment securities held to maturity by structure of currencies and maturities, and the analysis of interest rates are presented in Note 28. Estimated fair values of investment securities available for sale are shown in Note 32. The information on related party transactions is disclosed in Note 33.

12 Investment property

The movements of investment property were as follows:

	Notes	2017	2016
Balance as of 1 January		**698,000**	**45,960**
Additions		–	5,603
Transfers from property and equipment	13	–	653,081
Transfers from other assets		–	6,568
Disposals		–	(48,360)
(Devaluation)/revaluation recognized in profit or loss		(11,000)	35,148
Balance as of 31 December		**687,000**	**698,000**

12 Investment property (continued)

As of 31 December 2017 and 2016, the amounts of fair value of investment property are based on results of a valuation performed by an independent certified appraiser.

	2017	2016
Rental income from investment property	36,004	48,551
Direct operating expenses (including repairs and maintenance) arising from investment property that generated rental income	(515)	(4,358)
Direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental income	(297)	(220)
Total gains less losses arising from investment property	**35,192**	**43,973**

The Group is not subject to any restrictions related to the sale of investment property or any contractual liabilities to buy, construct, develop, repair, maintain or improve any items of investment property.

13 Property and equipment

(in thousands of Russian rubles)	Notes	Land and buildings	Office and computer equipment	Furniture	Motor vehicles	Leasehold improve-ments	Equipment not put into operation	Total property and equipment
Cost or valuation as of 1 January 2016		**2,021,958**	**508,363**	**98,528**	**34,673**	**32,886**	**1,602**	**2,698,010**
Accumulated depreciation and amortization		–	(502,543)	(55,736)	(8,047)	(3,524)	–	(569,850)
Carrying amount as of 1 January 2016		**2,021,958**	**5,820**	**42,792**	**26,626**	**29,362**	**1,602**	**2,128,160**
Acquisition of a subsidiary bank		1,204,388	–	–	–	–	–	1,204,388
Additions		–	3,913	2,134	9,504	1,887	–	17,438
Disposals		(1,203,122)	(59,882)	(17,866)	(2,688)	(5,286)	–	(1,288,844)
Reclassifications		–	581	972	–	–	(1,553)	–
Depreciation and amortization	25	(45,459)	(6,455)	(9,631)	(8,702)	(999)	–	(71,246)
Accumulated depreciation of disposed property and equipment		15,707	57,431	13,861	1,817	13	–	88,829
Transfers to investment property	12	(655,924)	–	–	–	–	–	(655,924)
Accumulated depreciation of transferred assets	12	2,843	–	–	–	–	–	2,843
Recognition of revaluation through revaluation reserve		27,857	–	–	–	–	–	27,857
Recognition of impairment through profit or loss		(13,148)	–	–	–	–	–	(13,148)
Carrying amount as of 31 December 2016		**1,355,100**	**1,408**	**32,262**	**26,557**	**24,977**	**49**	**1,440,353**
Cost or valuation as of 31 December 2016		**1,355,100**	**452,975**	**83,768**	**41,489**	**29,487**	**49**	**1,962,868**
Accumulated depreciation and amortization		–	(451,567)	(51,506)	(14,932)	(4,510)	–	(522,515)
Carrying amount as of 31 December 2016		**1,355,100**	**1,408**	**32,262**	**26,557**	**24,977**	**49**	**1,440,353**
Acquisition of a subsidiary bank		241,999	12,091	2,853	6,271	–	–	263,214
Additions		–	2,965	883	4,011	981	–	8,840
Disposals		–	(3,078)	(340)	(1,902)	(8,805)	–	(14,125)
Reclassifications		–	49	–	–	–	(49)	–
Depreciation and amortization	25	(27,505)	(1,213)	(11,476)	(2,552)	(430)	–	(43,176)
Accumulated depreciation of disposed property and equipment		–	3,017	319	1,893	2,534	–	7,763
Recognition of revaluation through revaluation reserve		36,002	–	–	–	–	–	36,002
Carrying amount as of 31 December 2017		**1,605,596**	**15,239**	**24,501**	**34,278**	**19,257**	**–**	**1,698,871**
Cost or valuation as of 31 December 2017		**1,605,999**	**465,002**	**87,164**	**49,869**	**21,663**	**–**	**2,229,697**
Accumulated depreciation and amortization		(403)	(449,763)	(62,663)	(15,591)	(2,406)	–	(530,826)
Carrying amount as of 31 December 2017		**1,605,596**	**15,239**	**24,501**	**34,278**	**19,257**	**–**	**1,698,871**

Equipment not put into operation as of 31 December 2016 comprises office equipment and computers purchased, which require additional costs to be prepared for operation. Upon completion of the works, this asset was transferred to the respective category.

13 Property and equipment (continued)

The land and buildings were revalued to market value as of 31 December 2017 and 31 December 2016 by an independent firm of professional appraisers who have a recognized qualification and experience in valuation of similar property in terms of its location and category.

The market value is determined based on the comparable sales method. The market value of land and buildings is determined based on the price that a third party would pay for an item of property of similar quality and use. The market value of land and buildings was determined based on the information about sales and comparable properties offered in the market.

The carrying amount of the land and buildings as of 31 December 2017 includes the amount of RUB 525,720 thousand (2016: RUB 489,717 thousand), which represents the surplus from revaluation of the Group's buildings. Had the assets been carried at cost less depreciation, the carrying amount of land and buildings as of 31 December 2017 would have been RUB 1,079,876 thousand (2016: RUB 865,383 thousand).

The reconciliation of this amount with the carrying amount of buildings is as follows:

(in thousands of Russian rubles)	**31 December 2017**	**31 December 2016**
Land and buildings at revalued amount in the consolidated statement of financial position	1,605,596	1,355,100
Revaluation reserve presented within equity, before tax	(525,720)	(489,717)
Land and buildings at cost net of accumulated depreciation	**1,079,876**	**865,383**

14 Intangible assets

(in thousands of Russian rubles)	**Notes**	**Software and licenses**
Carrying amount as of 31 December 2015		**35,290**
Cost		
Balance at the beginning of the period		184,957
Additions		10,313
Disposals		(8,161)
Balance at the end of the period		**187,109**
Accumulated amortization		
Balance at the beginning of the period		149,667
Amortization charges	25	9,972
Disposals		(8,161)
Balance at the end of the period		**151,478**
Carrying amount as of 31 December 2016		**35,631**
Cost		
Balance at the beginning of the period		187,109
Additions		1,811
Disposals		(8,042)
Balance at the end of the period		**180,878**
Accumulated amortization		
Balance at the beginning of the period		151,478
Amortization charges	25	8,081
Disposals		(8,042)
Balance at the end of the period		**151,517**
Carrying amount as of 31 December 2017		**29,361**

14 Intangible assets (continued)

Additions of intangible assets mainly represent the software and licenses purchased by the Group during 2017 to ensure compliance with the new procedures implemented by the Group. During 2017, intangible assets in the amount of RUB 1,811 thousand were purchased for cash (2016: RUB 10,313 thousand).

15 Other assets

Other financial assets comprise:

(in thousands of Russian rubles)	Notes	2017	2016
Credit and debit card receivables		88,587	90,987
Guarantee deposits		30,000	13,000
Derivative financial instruments	31	5,775	12,985
Finance lease receivables		1,616	30,386
Receivables from the Deposit Insurance Agency		–	5,274
Other		8,696	1,635
Less: allowance for impairment		(6,310)	(9,488)
Total other financial assets		**128,364**	**144,779**

As of 31 December, net investment in leases comprises:

(in thousands of Russian rubles)	2017	2016
Gross investment in finance leases	1,616	31,911
Unearned future finance income on finance leases	–	(1,525)
Net investment in leases before allowance	**1,616**	**30,386**
Less: allowance for impairment	(1,585)	(9,488)
Net investment in leases	**31**	**20,898**

Movements in the allowance for impairment of other financial assets are as follows:

	2017	2016
Allowance for impairment as of 1 January	**9,488**	**65,094**
Reversal of allowance for impairment during the year	(2,836)	(28,016)
Write-off against allowance on sale of lease receivables	(342)	(27,590)
Allowance for impairment of other financial assets as of 31 December	**6,310**	**9,488**

In 2017, the Group sold finance lease receivables with a nominal value of RUB 342 thousand and allowance for impairment of RUB 342 thousand for RUB 2 thousand (2016: finance lease receivables with a nominal value of RUB 28,730 thousand and allowance for impairment of RUB 27,590 thousand for RUB 1,140 thousand).

The analysis of finance lease receivables as of 31 December 2017 is as follows:

	Not later than 1 year	Total
Gross investment in finance leases	1,616	1,616
Net investment in leases before allowance	**1,616**	**1,616**

15 Other assets (continued)

The analysis of finance lease receivables as of 31 December 2016 is as follows:

	Not later than 1 year	Later than 1 year and not later than 5 years	Total
Gross investment in finance leases	11,944	19,967	31,911
Unearned future finance income on finance leases	(1,039)	(486)	(1,525)
Net investment in leases before allowance	**10,905**	**19,481**	**30,386**

As of 31 December 2016, settlements with the Deposit Insurance Agency for the amount of RUB 5,274 thousand are represented by receivables recognized in relation to compensation to be paid for the deposits with the banks, which had their licenses revoked by the CBR.

As of 31 December 2017, credit and debit card receivables include security deposits for settlements with Master Card International in the amount of RUB 86,400 thousand (2016: RUB 90,987 thousand) and security deposits for settlements with Credit Union Payment Center Ltd. in the amount of RUB 2,187 thousand.

The analysis of other financial assets by credit quality as of 31 December 2017 is as follows:

(in thousands of Russian rubles)	Derivative financial instruments	Finance lease receivables	Credit and debit card receivables	Trade receivables	Other	Total
Neither past due nor impaired						
- BBB- to BBB+ rated	–	–	–	30,000	–	30,000
- B- to BB+ rated	–	–	88,587	–	–	88,587
- unrated	5,775	31	–	–	3,971	9,777
Total other financial assets	**5,775**	**31**	**88,587**	**30,000**	**3,971**	**128,364**

The analysis of other financial assets by credit quality as of 31 December 2016 is as follows:

(in thousands of Russian rubles)	Derivative financial instruments	Finance lease receivables	Receivables from the Deposit Insurance Agency	Credit and debit card receivables	Trade receivables	Other	Total
Neither past due nor impaired							
- A- to A+ rated	–	–	–	90,987	–	–	90,987
- BBB- to BBB+ rated	–	–	–	–	13,000	–	13,000
- unrated	12,985	20,898	5,274	–	–	1,635	40,792
Total other financial assets	**12,985**	**20,898**	**5,274**	**90,987**	**13,000**	**1,635**	**144,779**

The primary factors that the Group considers in determining whether accounts receivable are impaired are their overdue status and realizability of related collateral, if any. As of 31 December 2017, other financial assets include past due finance lease receivables of RUB 1,616 thousand (2016: none).

The analysis of other financial assets by structure of currencies and maturities is presented in Note 28. Information on the fair value of each category of other financial assets is disclosed in Note 32. Information on related party transactions is disclosed in Note 33.

15 Other assets (continued)

Other non-financial assets comprise:

(in thousands of Russian rubles)	**2017**	**2016**
Settlements with suppliers and contractors	33,077	31,497
Repossessed collateral	19,766	32,890
Taxes and social contributions prepaid	10,080	6,009
Prepayment for services	6,555	2,559
Uncollectible receivables	6,194	22,883
Other	9,370	9,177
Less: allowance for impairment of uncollectible receivables	(11,171)	(22,883)
Total other non-financial assets	**73,871**	**82,132**

In 2017, following the purchase of Bank na Goncharnoy (JSC), the Group acquired collateral of RUB 24,864 thousand previously repossessed as a result of non-payments (2016: received collateral of RUB 29,100 thousand as a result of non-payments). In 2017, the Group sold collateral with a carrying amount of RUB 37,235 thousand repossessed as a result of non-payments (2016: RUB 133,100 thousand).

The analysis of movements in allowance for impairment of other non-financial assets during 2017 and 2016 is as follows:

(in thousands of Russian rubles)	**2017**	**2016**
Allowance for impairment as of 1 January	**22,883**	**8,757**
(Reversal)/charge of allowance for impairment during the year	(10,519)	14,133
Other non-financial assets written off against allowance for impairment during the year	(1,193)	(7)
Allowance for impairment as of 31 December	**11,171**	**22,883**

16 Amounts due to other banks

(in thousands of Russian rubles)	**2017**	**2016**
Repurchase agreements with other banks	1,549,571	–
Deposits of other banks	1,258,113	1,565,882
Correspondent accounts and overnight deposits of other banks	146,036	285,331
Total amounts due to other banks	**2,953,720**	**1,851,213**

As of 31 December 2017, amounts due to other banks included liabilities in the amount of RUB 1,549,571 thousand under direct repurchase agreements with other banks maturing in January 2018 and bearing contractual interest rates of 0.40% p.a.

As of 31 December 2017, deposits of other banks include deposits of Russian and foreign banks in the amount of RUB 1,258,113 thousand maturing in January 2018 and bearing contractual interest rates from 0.58% to 6.95% p.a. As of 31 December 2016, deposits of other banks include deposits of foreign banks in the amount of RUB 1,565,882 thousand maturing in January 2017 and bearing contractual interest rates from 0.15% to 9.50% p.a.

The analysis of amounts due from other banks by structure of currencies and maturities, and the analysis of interest rates are presented in Note 28. Information on the fair value of each category of amounts due from other banks is disclosed in Note 32. Information on related party transactions is disclosed in Note 33.

17 Amounts due to customers

(in thousands of Russian rubles)	2017	2016
State and public organizations		
- Current/settlement accounts	1,122	7,421
- Term deposits	57,688	60,657
Legal entities		
- Current/settlement accounts	6,560,831	8,360,662
- Term deposits	6,444,864	6,794,381
Individuals		
- Current accounts / demand accounts	1,938,632	2,520,143
- Term deposits	28,285,178	30,901,701
Total amounts due to customers	**43,288,315**	**48,644,965**

State and public organizations do not include commercial enterprises owned by the state.

A breakdown of amounts due to customers by economic sector is as follows:

	2017		2016	
(in thousands of Russian rubles)	**Amount**	**%**	**Amount**	**%**
Individuals	30,223,810	69.8	33,421,844	68.7
Construction	3,250,502	7.5	2,239,462	4.6
Trade	2,841,598	6.6	2,172,005	4.5
Food industry	1,148,047	2.7	724,487	1.5
Consulting services	924,212	2.1	798,746	1.6
Real estate	879,529	2.0	969,611	2.0
Manufacturing	617,258	1.4	1,055,218	2.2
Non-for-profit organizations	599,558	1.4	96,882	0.2
Financial services	513,764	1.2	421,075	0.9
Transport	373,490	0.9	487,550	1.0
Services	372,431	0.9	912,452	1.9
Oil and gas industry	312,182	0.7	3,280,675	6.7
Logistics	250,579	0.6	551,039	1.1
Advertising and mass media	234,037	0.5	125,258	0.3
Telecommunications	86,549	0.2	164,946	0.3
Mining industry	9,081	–	359,109	0.7
Chemical industry	1,225	–	253,548	0.5
Other	650,463	1.5	611,058	1.3
Total amounts due to customers	**43,288,315**	**100.0**	**48,644,965**	**100.0**

As of 31 December 2017, amounts due to customers include the amount of RUB 155,004 thousand (2016: RUB 66,369 thousand), which is collateral for irrevocable obligations under letters of credit, as described in Note 30.

As of 31 December 2017, amounts due to 10 largest customers was RUB 8,119,864 thousand (2016: RUB 7,477,836 thousand) or 19% (2016: 15%) of the total amounts due to customers.

As of 31 December 2017, term deposits of legal entities in the amount of RUB 1,269,297 thousand (2016: RUB 760,991 thousand) represented collateral under corporate loans granted by the Group amounting to RUB 6,053,135 thousand (2016: RUB 2,437,578 thousand).

The analysis by structure of currencies and maturities, and the analysis of interest rates for amounts due to customers are presented in Note 28. Information on the fair value of each category of amounts due to customers is disclosed in Note 32. Information on related party transactions is disclosed in Note 33.

18 Other liabilities

Other financial liabilities comprise:

(in thousands of Russian rubles)	Notes	2017	2016
Deferred commission income on guarantees issued		44,706	–
Funds in settlement		219	–
Debit and credit card payables		75	257
Derivative financial instruments	31	70	1,386
Total other financial liabilities		**45,070**	**1,643**

The analysis of other financial liabilities by structure of currencies and maturities, and the analysis of interest rates are presented in Note 28. Information on the fair value of each category of other financial liabilities is disclosed in Note 32. Information on related party transactions is disclosed in Note 33.

Other non-financial liabilities comprise:

(in thousands of Russian rubles)	2017	2016
Provision for credit-related commitments	245,031	478,890
Accrued employee benefit costs	124,512	166,175
Settlements with suppliers and contractors	75,846	58,288
Taxes payable other than income tax	18,224	232,974
Other	28,019	24,274
Total other non-financial liabilities	**491,632**	**960,601**

The analysis of movements in the provision for credit-related commitments during 2017 and 2016 is as follows:

(in thousands of Russian rubles)	2017	2016
Provision for credit-related commitments as of 1 January	**478,890**	**68,381**
(Reversal)/charge of allowance for impairment during the year	(233,859)	410,509
Provision for credit related commitments as of 31 December	**245,031**	**478,890**

19 Debt securities issued

(in thousands of Russian rubles)	2017	2016
Deposit certificates	414,777	270,978
Promissory notes	119,710	620,373
Domestic bonds issued	924	1,466
Total debt securities issued	**535,411**	**892,817**

As of 31 December 2017, debt securities issued comprised RUB-denominated bonds in the amount of RUB 924 thousand (2016: RUB 1,466 thousand). The nominal value of bonds issued was RUB 924 thousand (2016: RUB 1,466 thousand). These bonds mature on 12 July 2019 (2016: 10 July 2017) and bear a coupon rate of 8.0% p.a. (2016: 10.5% p.a.).

As of 31 December 2017, the Group issued promissory notes with an aggregate nominal value of RUB 113,620 thousand (2016: RUB 650,316 thousand) maturing from December 2015 to August 2022 (2016: from June 2016 to January 2019) and bearing an interest rate ranging from 0% p.a. to 8% p.a. (2016: from 0% p.a. to 10.5% p.a.).

As of 31 December 2017, the Group issued saving certificates with an aggregate nominal value of RUB 403,226 thousand (2016: RUB 266,767 thousand) maturing from January 2018 to February 2019 (2016: from November 2015 to February 2019) and bearing an interest rate ranging from 6% p.a. to 11% p.a. (2016: from 7% p.a. to 14% p.a.).

20 Subordinated Eurobonds issued

In October 2015, the Group placed subordinated Eurobonds with a nominal value of USD 20,000 thousand bearing an interest rate of 8.0% and maturing in April 2021. These subordinated Eurobonds were issued by Expo Capital Limited registered in Ireland. As of 31 December 2017, the amortized value of subordinated Eurobonds was RUB 1,155,215 thousand (2016: RUB 1,212,854 thousand).

21 Share capital

As of 31 December 2017, the authorized, issued and fully paid share capital amounted to RUB 10,413,412 thousand (2016: RUB 10,413,412 thousand).

On 30 November 2017, the Group purchased a share of RUB 309,949 thousand held by a participant for RUB 1,220,018 thousand.

At the participants' meeting held in December 2017, the Bank made a decision to distribute its profit for the nine months ended 30 September 2017 totaling RUB 115,000 thousand between the participants. In 2016, the Group did not distribute its profit between the participants.

In accordance with Russian legislation, dividends may only be declared to the participants of the Bank from accumulated undistributed and unreserved earnings as shown in the Bank's financial statements prepared in accordance with RAL.

The Bank is a limited liability company. According to applicable Russian legislation, every participant of a limited liability company has the number of votes proportionate to the participant's interest in the company's share capital.

22 Interest income and expense

(in thousands of Russian rubles)	**2017**	**2016**
Interest income		
Loans to customers	3,122,413	3,733,610
Amounts due from other banks	893,754	1,106,801
Investment securities available for sale	311,904	300,975
Investment securities held to maturity	139,239	264,724
Interest income on financial assets not measured at fair value through profit or loss	**4,467,310**	**5,406,110**
Trading securities	1,083,732	866,545
Total interest income	**5,551,042**	**6,272,655**
Interest expense		
Term deposits of individuals	2,305,744	2,447,722
Term deposits of legal entities	426,939	626,951
Debt securities issued	58,642	140,888
Term deposits of other banks	41,908	310,917
Current/settlement accounts	18,115	58,008
Total interest expense	**2,851,348**	**3,584,486**
Net interest income	**2,699,694**	**2,688,169**

Interest income for 2017 comprises interest income in the amount of RUB 26,809 thousand (2016: RUB 24,279 thousand) recognized for impaired loans to customers.

23 Fee and commission income and expense

(in thousands of Russian rubles)	2017	2016
Fee and commission income		
- Settlement operations	246,173	212,227
- Guarantees issued	141,494	169,641
- Plastic cards operations	74,580	59,359
- Online banking services	40,454	28,209
- Cash operations	17,323	22,335
- Other	27,608	28,315
Total fee and commission income	**547,632**	**520,086**
Fee and commission expense		
- Settlement operations	76,083	94,416
- Cash operations	4,111	6,305
- Plastic cards operations	1,952	3,243
- Other	6,541	8,273
Total fee and commission expense	**88,687**	**112,237**
Net fee and commission income	**458,945**	**407,849**

24 Other operating income

(in thousands of Russian rubles)	2017	2016
Income from operating leases	47,638	54,903
Gain from sale of loans to customers	36,509	63,316
Gain from write-off of liabilities and unclaimed payables	16,442	7,211
Income from consulting and information services	12,026	17,576
Dividends received	6,143	769
Penalties for breach of agreements	628	6,822
Income from disposal of property	–	174,067
Other	10,155	29,761
Total other operating income	**129,541**	**354,425**

25 Administrative and other operating expenses

(in thousands of Russian rubles)	Notes	2017	2016
Staff costs		1,473,319	1,418,951
Contribution to the state deposit insurance system		155,651	182,538
Telecommunication and information services		107,764	36,759
Professional services		87,937	12,181
Rent expenses		87,310	102,628
Taxes other than income tax		87,093	119,191
Loss from disposal of property and write-off of low-value assets		75,469	70,690
Other expenses related to property and equipment		59,014	52,439
Business travel and related expenses		50,384	–
Depreciation of property and equipment and write-off of leasehold improvements	13	43,176	71,246
Expenses related to security services		18,919	19,144
Amortization of software and other intangible assets	14	8,081	9,972
Insurance		6,639	9,282
Advertising and marketing services		5,210	9,021
Other		49,397	10,427
Total administrative and other operating expenses		**2 315 363**	**2,124,469**

25 Administrative and other operating expenses (continued)

Staff costs include insurance contributions in the amount of RUB 250,899 thousand (2016: RUB 242,556 thousand), of which RUB 175,243 thousand (2016: RUB 162,748 thousand) represent contributions to the pension fund.

Information on related party transactions is disclosed in Note 33.

26 Income tax

Income tax expense recognized in profit or loss for the year includes the following components:

(in thousands of Russian rubles)	**2017**	**2016**
Current income tax expense	160,505	1,188,269
Deferred income tax expense/(benefit)	239,948	(678,347)
Income tax expense for the year	**400,453**	**509,922**

Deferred tax recognized in other comprehensive income is allocated as follows:

(in thousands of Russian rubles)	**2017**	**2016**
Revaluation of buildings	10,068	5,571
Net (losses)/gains from investment securities available for sale	7,200	(16,886)
Deferred income tax expense/(benefit) recognized in other comprehensive income	**17,268**	**(11,315)**

The current income tax rate applicable to the majority of the Group's 2017 income is 20% (2016: 20%). A reconciliation of theoretical tax expense with actual is as follows:

(in thousands of Russian rubles)	**2017**	**2016**
Profit before tax	**2,383,484**	**3 557 054**
Theoretical tax expense at the statutory rate (20%)	**476,697**	**711,411**
Tax effect of income or expenses which are not deductible for taxation purposes:		
- Non-deductible expenses	13,198	15,503
- Income on government securities taxable at different rates	(33,550)	(35,552)
- Other permanent differences	(7,751)	30,185
- Other differences	–	143,423
- Gain from excess of acquired subsidiaries' net assets over cost of investments, net of financial result from disposal of subsidiaries	(48,141)	(355,048)
Income tax expense for the year	**400,453**	**509,922**

As of 31 December 2017, the Bank's tax losses to be carried forward to future tax periods amount to RUB 27,135 thousand (2016: RUB 7,115 thousand) and have no expiry dates in accordance with the applicable tax legislation of the Russian Federation. Benefit of RUB 5,427 thousand (2016: RUB 1,423 thousand) related to the tax loss in the amount of RUB 27,135 thousand (2016: RUB 7,115 thousand) was recognized in deferred tax assets of the Group as of 31 December 2017.

26 Income tax (continued)

Differences between IFRS and Russian tax legislation give rise to temporary differences between the carrying amount of assets and liabilities for consolidated financial reporting purposes and for the purpose of income tax assessment. Detailed below are the tax effects of the movements in these temporary differences which are recorded at the rate of 20% (2016: 20%), except for income on government securities taxable at the rate of 15% (2016: 15%) and income on dividends taxable at the rate of 13% (2016: 13%).

(in thousands of Russian Rubles)	**31 December 2016**	**Reversed/ (charged) to profit or loss**	**Reversed/ (charged) directly to equity**	**Business combina-tions**	**31 December 2017**
Tax effect of temporary differences decreasing/(increasing) the tax base and tax losses carried forward					
Property and equipment	(276,038)	1,681	(7,200)	(48,643)	(330,200)
Intangible assets	6,322	(289)	–	–	6,033
Other financial and non-financial liabilities	123,706	(45,751)	–	724	78,679
Loans to customers	55,705	13,747	–	17,636	87,088
Allowance for loan impairment	49,421	12,812	–	–	62,233
Finance lease receivables	(678)	672	–	–	(6)
Amounts due from other banks	20,655	(19,699)	–	–	956
Investment securities held to maturity	(47,476)	24,039	–	–	(23,437)
Fair value of trading securities	42,329	31,792	–	–	74,121
Investment securities available for sale	173,387	(280,853)	(10,068)	1,784	(115,750)
Securities issued	(314)	314	–	–	–
Subordinated Eurobonds issued	(3,777)	886	–	–	(2,891)
Other financial and non-financial assets	109,884	16,697	–	3,414	129,995
Tax losses carried forward	1,423	4,004	–	–	5,427
Net deferred tax asset/(liability)	**254,549**	**(239,948)**	**(17,268)**	**(25,085)**	**(27,752)**
Recognized deferred tax asset/(liability)	254,549	(239,948)	(17,268)	(25,085)	(27,752)
Total deferred tax	**254,549**	**(239,948)**	**(17,268)**	**(25,085)**	**(27,752)**

The above net deferred tax assets were recognized by the Group in 2017.

26 Income tax (continued)

In the context of the Group's current structure and the Russian tax legislation, tax losses and current tax assets of certain companies of the Group may not be offset against current tax liabilities and taxable profits of other companies of the Group and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the same taxation authority.

(in thousands of Russian Rubles)	31 December 2015	Reversed/ (charged) to profit or loss	Reversed/ (charged) directly to equity	Business combina-tions	31 December 2016
Tax effect of temporary differences decreasing/(increasing) the tax base and tax losses carried forward					
Property and equipment	(264,820)	173,364	(5,571)	(179,011)	(276,038)
Intangible assets	12,620	(6,298)	–	–	6,322
Other financial and non-financial liabilities	44,219	79,487	–	–	123,706
Loans to customers	(283,881)	339,586	–	–	55,705
Allowance for loan impairment	(65,385)	114,806	–	–	49,421
Finance lease receivables	(653)	(25)	–	–	(678)
Investment securities available for sale	(119,930)	276,431	16,886	–	173,387
Investment securities held to maturity	(5,155)	(42,321)	–	–	(47,476)
Fair value of trading securities	71,190	(28,861)	–	–	42,329
Amounts due from other banks	(316,634)	337,289	–	–	20,655
Securities issued	51,499	(51,813)	–	–	(314)
Other financial and non-financial assets	59,794	50,090	–	–	109,884
Subordinated Eurobonds issued	(5,434)	1,657	–	–	(3,777)
Tax losses carried forward	387,457	(386,034)	–	–	1,423
Net deferred tax asset/(liability)	**(435,113)**	**857,358**	**11,315**	**(179,011)**	**254,549**
Recognized deferred tax asset/(liability)	(435,113)	857,358	11,315	(179,011)	254,549
Total deferred tax	**(435,113)**	**857,358**	**11,315**	**(179,011)**	**254,549**

The above net deferred tax liabilities were recognized by the Group in 2016.

27 Segment analysis

Operating segments are components of the company which are engaged in financial and business activities as a result of which they can receive profit or incur expenses. The results of their operating activity are regularly reviewed by the chief operating decision maker, and separate financial information is available on them. A person or a group of persons responsible for the allocation of resources and assessment of the company's performance may act as the chief operating decision maker. The functions of the chief operating decision maker are performed by the Chairman of the Management Board and executive directors from the Group's Board of Directors. The segment reporting is prepared using management accounting data which is based on the RAL accounting policy of the Group.

27 Segment analysis (continued)

(a) Description of products and services that generate income for the reporting segments

The Group is organized into the following main business segments:

- Corporate banking – this segment includes taking deposits and providing loans to corporate customers, small and medium businesses, and individual entrepreneurs, servicing settlement accounts of organizations, providing credit lines in the form of overdrafts, bank guarantees, documentary and factoring operations, conducting operations with promissory notes, exercising currency control, and conducting cash management operations.
- Retail banking – this segment includes providing banking services to individual customers to open and maintain settlement accounts, take deposits, service debit and credit cards, and provide consumer, mortgage and auto loans, making money transfers, conducting settlement operations, and managing cash, as well as operations under cession agreements related to loans to individuals.
- Treasury – this business segment includes operations with securities and currencies, interbank lending, repo transactions, correspondent accounts and swap transactions.

(b) Factors used by management to identify operating segments

The Group's segments represent strategic business units focusing on various customers. They are managed separately as every business unit requires specific marketing strategies and provides specific services to customers.

(c) Assessment of profit or loss, assets and liabilities of operating segments

Person responsible for making operational decisions analyzes financial information prepared in accordance with Russian regulatory requirements. This financial information in several aspects differs from the information prepared in accordance with the IFRS:

(i) Allowances for loans are recognized on the basis of management's professional judgment rather than on the basis of incurred losses model stipulated by IAS 39;

(ii) Fee and commission income from credit-related transactions is recognized immediately rather than in future periods using the effective interest rate method;

(iii) Income taxes are not allocated to segments;

(iv) Revaluation of property and equipment is performed in accordance with RAL accounting policy once a year;

(v) Property and equipment and intangible assets are not subject to impairment testing;

(vi) Group's liabilities related to payments to employees for unused vacations are not recognized.

Person responsible for making operational decisions assesses the results of segment activity in reliance on profit before tax.

27 Segment analysis (continued)

(d) Information on profit or loss, assets and liabilities of operating segments

Segment information on reporting segments for the year ended 31 December 2017 is presented in the table below:

(in thousands of Russian rubles)	**Corporate banking**	**Retail banking**	**Treasury**	**Total**
External income				
- Interest income	2,706,879	390,217	2,380,964	5,478,060
- Fee and commission income	464,255	112,622	2,235	579,112
Income from other segments				
- Interest income	(1,133,502)	3,030,172	(1,896,670)	–
Total income	**2,037,632**	**3,533,011**	**486,529**	**6,057,172**
Interest expense	(464,956)	(2,348,458)	(52,434)	(2,865,848)
Allowance for loan impairment	105,960	83,384	(10,627)	178,717
Depreciation and amortization	(34,946)	(40,922)	(9,812)	(85,680)
Fee and commission expense	(8,780)	(73,546)	(3,127)	(85,453)
Gains less losses from securities	–	–	490,984	490,984
Gains less losses from dealing in foreign currencies	–	–	225,185	225,185
Gains less losses from foreign currency translation	–	–	304,690	304,690
Administrative and other operating expenses	(901,059)	(926,787)	(222,836)	(2,050,682)
Segment results	**733,851**	**226,682**	**1,208,552**	**2,169,085**

(in thousands of Russian rubles)	**Corporate banking**	**Retail banking**	**Treasury**	**Total**
Total segment assets	22,710,741	3,856,643	40,471,048	67,038,432
Total segment liabilities	13,796,442	31,010,831	5,924,951	50,732,224

As of 31 December 2017, the Group had no contractual capital expenditure commitments for reconstruction of buildings and purchase of equipment.

27 Segment analysis (continued)

(d) Information on profit or loss, assets and liabilities of operating segments (continued)

Segment information on reporting segments for the year ended 31 December 2016 is presented in the table below:

(in thousands of Russian rubles)	Corporate banking	Retail banking	Treasury	Total
External income				
- Interest income	2,883,271	81,923	3,181,173	6,146,367
- Fee and commission income	489,013	63,569	–	552,582
Income from other segments				
- Interest income	(1,060,775)	3,217,908	(2,157,133)	–
Total income	**2,311,509**	**3,363,400**	**1,024,040**	**6,698,949**
Interest expense	(787,703)	(2,635,386)	(337,999)	(3,761,088)
Allowance for loan impairment	(368,482)	140,312	(240,638)	(468,808)
Depreciation and amortization	(113,620)	(129,387)	(25,631)	(268,638)
Fee and commission expense	(58,121)	–	(21,902)	(80,023)
Gains less losses from securities	–	–	1,592,639	1,592,639
Gains less losses from dealing in foreign currencies	–	–	45,677	45,677
Gains less losses from foreign currency translation	–	–	139,954	139,954
Administrative and other operating expenses	(420,423)	(478,761)	(94,841)	(994,025)
Segment results	**563,160**	**260,178**	**2,081,299**	**2,904,637**

(in thousands of Russian rubles)	Corporate banking	Retail banking	Treasury	Total
Total segment assets	14,617,859	2,120,571	48,826,683	65,565,113
Total segment liabilities	(16,598,574)	(33,912,594)	(2,732,087)	(53,243,255)

As of 31 December 2016, the Group had no contractual capital expenditure commitments for reconstruction of buildings and purchase of equipment.

Reconciliation of segment profit with profit before tax for the reporting year is presented below:

(in thousands of Russian rubles)	2017	2016
Segment profit	**2,169,085**	**2,904,637**
Excess of acquiree's net assets over the cost of investments	240,705	1,775,238
Reversal of RAL provisions and accrual of IFRS provisions	198,307	(750,832)
Adjustment of securities held to maturity to their amortized cost	(30,137)	40,847
RAL-to-IFRS adjustment of financial assets available for sale	(120,270)	167,136
Reversal of depreciation of property and equipment in accordance with IFRS depreciation rates	41,472	82,489
Amortization of fee and commission income	(12,959)	194,094
Amortization of intangible assets	1,588	75,003
Adjustment of gains less losses from securities	–	(315,141)
Write-offs of other assets	(118,484)	(81,665)
Other	5,422	182,363
Allocation of consolidated subsidiaries	8,755	(717,115)
Profit before tax	**2,383,484**	**3,557,054**

27 Segment analysis (continued)

(e) Analysis of income from products and services

The analysis of the Group's income from products and services is presented in Note 22 "Interest income and expense", Note 23 "Fee and commission income and expense" and Note 24 "Other operating income".

(f) Geographical information

The Group carries out a significant part of its operations, receives income and incurs losses, and has assets and liabilities within the territory of the Russian Federation.

28 Risk management

Risk taking is the essence of financial business, and risk exposure is a key condition for operating in this business. The Group's management believes the effective risk management system is a basis for financial stability and a key factor of the Group's competitive ability, which determines its level of profitability and shareholders' value.

The Group is exposed to main financial risks (credit risk, market risk, general interest rate risk, liquidity risk), as well as to operational, compliance, legal and reputational risks.

The primary objective of risk management is to maximize the Group's long-term shareholder value. The operational, legal and reputational risk management is intended to ensure proper functioning of internal policies and procedures in order to minimize operational and legal risks.

Risk management system

Board of Directors

The Board of Directors approves and monitors the implementation of the risk and capital management strategy, and controls risk exposure, compliance with the established risk limits, monitors implementation and effectiveness of the risk and capital management procedures.

Executive management bodies (Management Board, Chairman of the Management Board)

The executive management bodies are responsible for the implementation of the risk and capital management strategy, approve and ensure the implementation of the risk and capital management procedures, and control risk exposure.

Risk Management Function

The risk management function is responsible for risk management methodology development, risk identification, assessment and control at the level of individual transactions and the whole portfolio, including due diligence with respect to reports prepared by business units. The risk management function monitors the implementation of the strategy, policies and other procedures for risk and capital management, and presents risk reports to the business units, executive management bodies and Board of Directors.

The risk management function is supervised by a member of the Group's Management Board who is directly accountable to the Chairman of the Group's Management Board.

Business units

Business units are directly responsible for risk management on a daily basis: the owner of a business process is the owner of risks inherent in this business process. Business units identify, assess and control risks related to the transactions performed.

Internal Audit Function

The internal audit function performs regular reviews to monitor the implementation of the risk and capital management strategy, assesses the effectiveness of risk management procedures and checks how thoroughly the risk management methodology is implemented. The results of these reviews are communicated to the Board of Directors and the Management Board.

28 Risk management (continued)

Credit risk

Credit risk is the risk that the Group will incur financial losses because its counterparties fail to discharge their obligations in full or in part or when due.

The Group assumes credit risk due to credit operations and other operations exposed to credit risk.

The Group manages credit risk separately for each customer group (corporate customers, SME customers, individuals, financial institutions). Credit risk management comprises the following stages:

1. Risk identification

Risk identification is carried out during the stage of development and modification of loan products. At the risk identification stage, the Group identifies its exposure to credit risk, assesses the potential risk level and determines risk management methods.

Risk identification is carried out by employees of the risk management department.

2. Risk assessment

The Group assesses risk both at counterparties/transactions level and whole loan portfolio level. Risk associated with counterparties is assessed through internal PD (probability of default) assessment models (rating models) and models for assessment of losses in case of default.

Risk associated with loan portfolio is assessed using an extensive list of quantitative indicators (concentration ratios, transfer ratios, vintage curves, etc.).

Counterparty risks are assessed by employees of business units subject to obligatory independent control by risk management departments. Loan portfolio risk is assessed by employees of the risk management department.

3. Risk control

The Group uses the following instruments to control credit risk:

- Setting limits and control over compliance with limits;
- Taking measures on risk mitigation (collateral, insurance, risk-based pricing);
- Risk level monitoring (counterparties, portfolio);
- Taking early response measures;
- Reporting on risk level.

High-level limits (the Group's risk appetite) are set under risk management strategies and policies approved by the Board of Directors and the Management Board. Limits for separate counterparties and groups of related counterparties, concentration limits, etc. are set by decisions of collegial bodies (Board of Directors, Management Board, and Credit Committees) or the Group's authorized persons depending on the sum and type of a limit. Control over compliance with limits is carried out on a continuous basis by employees of business units and risk management department.

The primary way to mitigate credit risk is to secure counterparties' liabilities by a pledge of property. The value of the collateral is assessed by independent appraisers or by the Group's employees using internal assessment methods. Credit risk mitigation is also achieved through application of such instruments as insurance (of collateral, title or borrowers' lives) and risk-based pricing of loan products/transactions.

In order to update risk level assessment and implement early response measures, the Group regularly monitors financial position of counterparties (analyses financial statements and their business, etc.), updates assessments of internal credit ratings, monitors safety of the collateral and revaluates it, and monitors the risk level of the loan portfolio.

In case the Group reveals any evidence of risk increase, it develops and introduces early response measures in a timely manner: at the level of separate transactions – immediate financial monitoring, taking additional collateral, restructuring, etc., at the level of portfolio – review of limits, introduction of changes in loan products, etc.

Employees of risk management department prepare report on loan portfolio risk on a continuous basis and present it to business units and the Group's management in a timely manner.

28 Risk management (continued)

Credit risk (continued)

The information on the loan portfolio for large and medium businesses by credit ratings as of 31 December 2017 is presented below:

(in thousands of Russian rubles)	**Large businesses**	**Medium businesses**
Rating 3 counterparties	250,000	–
Rating 4 counterparties	3,927,467	69,662
Rating 5 counterparties	7,131,936	2,692,407
Rating 6 counterparties	3,267,492	2,615,823
Rating 8, 9, 10 counterparties (default)	–	500,497
Total loans and advances to customers (before allowance for loan impairment)	**14,576,895**	**5,878,389**
Less: allowance for impairment	(298,710)	(119,117)
Total loans and advances to customers	**14,278,185**	**5,759,272**

The information on the loan portfolio for large and medium businesses by credit ratings as of 31 December 2016 is presented below:

(in thousands of Russian rubles)	**Large businesses**	**Medium businesses**
Rating 3 counterparties	962,630	120,910
Rating 4 counterparties	310,139	135,501
Rating 5 counterparties	1,418,322	460,155
Rating 6 counterparties	441,426	8,614,081
Rating 7 counterparties	–	101,515
Rating 8, 9, 10 counterparties	513,255	57,310
Total loans and advances to customers (before allowance for loan impairment)	**3,645,772**	**9,489,472**
Less: allowance for impairment	(574,755)	(461,400)
Total loans and advances to customers	**3,071,017**	**9,028,072**

Below are the descriptions/characteristics of a scale of internal credit ratings applied by the Group to large and medium corporate counterparties:

Rating 1

Rating 1 counterparties are characterized by a very high ability to fulfill their obligations in time and in full. These counterparties are mainly the largest enterprises with a stable (leading) position in the market, including enterprises that operate internationally.

Rating 2

Rating 2 counterparties are characterized by a high ability to fulfill their obligations in time and in full. These counterparties are mainly the largest national enterprises with a leading position in the market.

Rating 3

Rating 3 counterparties are characterized by an adequate ability to fulfill their obligations in time and in full. These counterparties are mainly large national enterprises with an adequately stable position in the market.

28 Risk management (continued)

Credit risk (continued)

Rating 4

Rating 4 counterparties fulfill their obligations in time and in full, but negative changes of economic situation may lead to a decreasing ability to fulfill obligations in the medium term. These counterparties are mainly large and medium regional enterprises with a significant market share in their region.

Rating 5

Rating 5 counterparties fulfill their obligations in time and in full, but negative changes of economic situation are likely to lead to a decreasing ability to fulfill obligations adequately. These counterparties are mainly companies that operate in local markets and risk losing their position in business, e.g., when larger players enter the market. Besides, larger companies with aggressive financial policy are also included into this category.

Rating 6

Rating 6 counterparties fulfill their obligations in time and in full, but the ability to fulfill obligations adequately may decrease even in a favorable economic environment. This group mainly comprises small companies, whose market positions are vulnerable in case larger competitors enter the market (increase their market share). Larger companies with excessive debt burden or negative trends in business may also be included in this category.

Rating 7

Rating 7 counterparties (on a watch-list / pre-default) do not fall under criteria of default adopted by the Group, with the probability of default of at least 50% over a 1 year horizon.

Ratings 8, 9, 10

Rating 8, 9, 10 counterparties fall under criteria of default (impairment) adopted by the Group and differentiate between themselves in accordance with sources and possibilities of repaying their debt to the Group.

Market risk

Market risk is the risk that the Group will incur financial losses due to changes in market prices of financial instruments, including exchange and interest rates. Market risk comprises price, currency and interest rate risk.

Market risk arises from open positions in equity, debt, currency and interest rate financial instruments exposed to general and specific changes in the market.

The Group manages market risk centrally:

- Risk identification, assessment and control – employees of the risk management departments;
- Decision making in market risk management, including setting risk limits – the Board of Directors, Asset and Liability Committee;
- Management of open positions in financial instruments exposed to market risk – Treasury.

The Group opens positions in financial markets to develop customer business and manage liquidity. Opening of own speculative positions is not allowed.

Quantitative assessment of market risk is performed on a daily basis using Value-at-Risk methodology (“VaR”). VaR is a technique that estimates the potential losses that could occur on positions, which will not be exceeded over a specified period of time at a given confidence level. The Group uses the following parameters of VaR model: confidence level – 99%; period of time (projection horizon) – 10 working days; VaR valuation method – historical, using statistical data for the last 12 months.

28 Risk management (continued)

Market risk (continued)

Although VaR is a common tool in measuring market risk exposures, it has a number of limitations, especially in less liquid markets, which include the majority of the debt and equity instruments traded in Russia:

- The use of historical data as a basis for determining future events may not encompass all possible scenarios;
- A 10-day projection horizon 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 situations in which there is severe market illiquidity for a prolonged period;
- The use of a 99% confidence level does not take into account losses that may occur beyond this level. There is a 1% possibility that losses will exceed VaR;
- As VaR is only calculated on an end-of-day basis, it does not necessarily reflect exposures that may arise on positions during the trading day.

Price risk

Price risk is the risk that the Group will incur financial losses due to changes in market prices of financial instruments.

The Group manages price risk using the following instruments:

- Price risk assessment for open positions;
- Limitation of types of financial instruments, for which opening of positions is possible;
- Setting price risk limits and control over compliance with these limits;
- Diversification of portfolios.

As of 31 December 2017, VaR for the equity securities portfolio amounted to RUB 0 thousand (2016: RUB 30,271 thousand).

Currency risk

Currency risk is the risk that the Group will incur financial losses due to changes in exchange rates.

The Group manages currency risk using the following instruments:

- Currency risk assessment for open currency positions;
- Setting currency risk limits and control over compliance with these limits;
- Hedging currency risk using derivative financial instruments.

The table below presents sensitivities of financial result to reasonably possible changes in exchange rates applied at the end of the reporting period, whereas all other variables remain the same:

	As of 31 December 2017		As of 31 December 2016	
(in thousands of Russian rubles)	**Effect on profit or loss**	**Effect on equity**	**Effect on profit or loss**	**Effect on equity**
USD strengthening by 20.00% (2016: strengthening by 20.00%)	115,207	115,207	98,068	98,068
USD weakening by 20.00% (2016: weakening by 20.00%)	(115,207)	(115,207)	(98,068)	(98,068)
EUR strengthening by 20.00% (2016: strengthening by 20.00%)	(6,165)	(6,165)	4,798	4,798
EUR weakening by 20.00% (2016: weakening by 20.00%)	6,165	6,165	(4,798)	(4,798)
CZK strengthening by 20.00% (2016: strengthening by 20.00%)	23,581	23,581	18,871	18,871
CZK weakening by 20.00% (2016: weakening by 20.00%)	(23,581)	(23,581)	(18,871)	(18,871)

28 Risk management (continued)

Interest rate risk

Interest rate risk is the risk that the Group will incur financial losses due to changes in interest rates.

The Group is exposed to interest rate risk due to realization of trade operations with debt securities.

The Group manages interest rate risk using the following instruments:

- Interest risk assessment;
- Narrowing the gap between assets and liabilities by terms of revaluation of interest rates broken down by separate currencies;

As of 31 December 2017, VaR for the debt securities portfolio amounted to RUB 1,614,325 thousand (2016: RUB 1,487,764 thousand).

Liquidity risk

Liquidity risk is the risk that the Group will incur financial losses due to the Group's inability to meet its financial obligations in time, in full and at minimal cost.

Liquidity risk exists when the maturities of assets and liabilities do not match.

The Group manages liquidity risk centrally:

- Strategic management – the Assets and Liabilities Committee;
- Operative management – Treasury.

The Group uses the following liquidity risk management methods:

- Ensuring balanced structure of assets and liabilities in terms of maturities;
- Diversification of funding sources, focus on stable customer liabilities;
- Forming "liquidity cushion", which consists of highly liquid financial instruments with low level of credit risk;
- Stress-testing of liquidity risk and development of action plans in case of liquidity crisis;
- Projecting proceeds and payments, maintenance of payment position.

In order to control liquidity risk, the Group also calculates liquidity ratios on a daily basis in accordance with requirements of the CBR. The Group complied with all liquidity ratios requirements as of 31 December 2017.

Treasury receives information on financial assets and liabilities, and ensures an adequate portfolio of short-term liquid assets which primarily consists of short-term liquid trade securities, bank deposits and other interbank instruments in order to keep a sufficient level of liquidity within the Group.

Treasury controls daily liquidity position and carries out stress-testing based on different scenarios covering regular and more adverse market conditions on a regular basis.

The Group entered into a General Loan Agreement with the CBR to provide loans in the form of overdrafts with a limit of RUB 3,500,000 thousand secured by the collateral of securities (2016: RUB 3,500,000 thousand). As of 31 December 2017, in accordance with the agreement, securities held to maturity in the amount of RUB 424,716 thousand were blocked (2016: trading securities and securities held to maturity in the amount of RUB 3,606,947 thousand and RUB 210,804 thousand, respectively). As of 31 December 2017 and 31 December 2016, the overdraft was not used by the Group. See Notes 8, 11, 35.

The tables below show liabilities as of 31 December 2017 and 31 December 2016 by their remaining contractual maturities. The amounts disclosed in the maturity tables are the contractual undiscounted cash flows, including total loan commitments and financial guarantees. Such undiscounted cash flows differ from the amounts included in the statement of financial position since these amounts are based on discounted cash flows.

Financial derivative instruments are included in the tables at their payable/receivable contractual values, except when the Group assumes the derivatives position will be closed before maturity. In this case, derivatives are included on the basis of expected cash flows.

In cases when the amount payable is not fixed, the amount shown in the table is determined by the conditions existing as of the reporting date. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

28 Risk management (continued)

Liquidity risk (continued)

The table below presents maturity analysis of financial instruments as of 31 December 2017:

(in thousands of Russian rubles)	**On demand and less than 1 month**	**1 to 6 months**	**6 to 12 months**	**More than 12 months**	**Total**
Liabilities					
Amounts due to other banks	2,953,845	–	–	–	2,953,845
Amounts due to customers	18,360,266	15,265,914	6,736,255	3,858,387	44,220,822
Debt securities issued	59,919	10,207	434,567	50,719	555,412
Other financial liabilities	850	1,788	30,567	11,865	45,070
Subordinated Eurobonds issued	23,040	23,040	46,080	1,382,405	1,474,565
Total potential future payments for financial liabilities	**21,397,920**	**15,300,949**	**7,247,469**	**5,303,376**	**49,249,714**

The table below presents maturity analysis of financial instruments as of 31 December 2016:

(in thousands of Russian rubles)	**On demand and less than 1 month**	**1 to 6 months**	**6 to 12 months**	**More than 12 months**	**Total**
Liabilities					
Amounts due to other banks	1,851,511	–	–	–	1,851,511
Amounts due to customers	14,708,459	8,176,068	15,057,372	11,244,232	49,186,131
Debt securities issued	93,798	1,399,668	180,596	45,328	1,719,390
Other financial liabilities	1,643	–	–	–	1,643
Subordinated Eurobonds issued	24,263	24,263	48,526	1,552,817	1,649,869
Total potential future payments for financial liabilities	**16,679,674**	**9,599,999**	**15,286,494**	**12,842,377**	**54,408,544**

As of 31 December 2017 and 31 December 2016, all credit-related contingencies are included in “On demand and less than 1 month” category.

Amounts due to customers are classified in the above analysis by 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 to accrued interest.

28 Risk management (continued)

Liquidity risk (continued)

The Group does not use the above non-discounted maturity analysis to manage liquidity. Instead of this, as of 31 December 2017, the Group controls expected maturities and expected liquidity gap, which are reflected in the table below:

(in thousands of Russian rubles)	**On demand and less than 1 month**	**1 to 6 months**	**6 to 12 months**	**12 months to 5 years**	**More than 5 years**	**Total**
Assets						
Cash and cash equivalents	9,452,890	–	–	–	–	9,452,890
Obligatory reserve with the CBR	494,409	–	–	–	–	494,409
Trading securities	11,338,499	–	–	–	–	11,338,499
Amounts due from other banks	58,797	573,588	–	–	–	632,385
Loans and advances to customers	1,131,460	6,808,135	5,913,412	11,363,214	801,980	26,018,201
Investment securities available for sale	8,663,843	–	–	–	1,092,485	9,756,328
Securities held to maturity	–	153,697	459,897	198,268	–	811,862
Other financial assets	122,729	2,029	3,606	–	–	128,364
Total financial assets	**31,262,627**	**7,537,449**	**6,376,915**	**11,561,482**	**1,894,465**	**58,632,938**
Liabilities						
Amounts due to other banks	2,953,720	–	–	–	–	2,953,720
Amounts due to customers	18,341,234	14,957,019	6,431,048	3,559,014	–	43,288,315
Debt securities issued	59,909	9,993	419,583	45,926	–	535,411
Other financial liabilities	850	1,788	30,567	11,865	–	45,070
Subordinated loan	–	–	–	1,155,215	–	1,155,215
Total financial liabilities	**21,355,713**	**14,968,800**	**6,881,198**	**4,772,020**	**–**	**47,977,731**
Net liquidity gap as of 31 December 2017	**9,906,914**	**(7,431,351)**	**(504,283)**	**6,789,462**	**1,894,465**	**10,655,207**
Cumulative liquidity gap as of 31 December 2017	**9,906,914**	**2,475,563**	**1,971,280**	**8,760,742**	**10,655,207**	

28 Risk management (continued)

Liquidity risk (continued)

As of 31 December 2016, the analysis by the expected maturities is as follows:

(in thousands of Russian rubles)	**On demand and less than 1 month**	**1 to 6 months**	**6 to 12 months**	**12 months to 5 years**	**More than 5 years**	**Total**
Assets						
Cash and cash equivalents	18,884,453	1,017,085	–	–	–	19,901,538
Obligatory reserve with the CBR	530,179	–	–	–	–	530,179
Trading securities	10,272,689	–	–	–	–	10,272,689
Amounts due from other banks	–	2,108,923	22,361	516,989	–	2,648,273
Loans to customers	658,377	1,720,689	1,392,444	10,509,576	234,912	14,515,998
Investment securities available for sale	12,134,211	–	–	–	957,714	13,091,925
Securities held to maturity	–	396,750	–	1,886,362	–	2,283,112
Other financial assets	115,731	12,100	16,948	–	–	144,779
Total financial assets	**42,595,640**	**5,255,547**	**1,431,753**	**12,912,927**	**1,192,626**	**63,388,493**
Liabilities						
Amounts due to other banks	1,851,213	–	–	–	–	1,851,213
Amounts due to customers	16,117,990	8,097,165	14,069,276	10,360,534	–	48,644,965
Debt securities issued	39,459	777,468	65,627	10,263	–	892,817
Other financial liabilities	1,643	–	–	–	–	1,643
Subordinated Eurobonds issued	–	–	–	–	1,212,854	1,212,854
Total financial liabilities	**18,010,305**	**8,874,633**	**14,134,903**	**10,370,797**	**1,212,854**	**52,603,492**
Net liquidity gap as of 31 December 2016	**24,585,335**	**(3,619,086)**	**(12,703,150)**	**2,542,130**	**(20,228)**	**10,785,001**
Cumulative liquidity gap as of 31 December 2016	**24,585,335**	**20,966,249**	**8,263,099**	**10,805,229**	**10,785,001**	

Obligatory reserve with the CBR are classified as “On demand and less than 1 month” due to its monthly adjustment depending on the liabilities to be reserved.

In 2017 and 2016, the portion of the Group’s securities portfolio is classified as “On demand and less than 1 month”, as these securities are trading by their nature, and the management is convinced that this classification reflects the liquidity of securities correctly.

Eurobonds classified in amounts due from other banks and loans to customers were categorized as “On demand and less than 1 month”, as the Group may use this financial asset to raise funds during a short period of time.

As of 31 December 2017, securities purchased by the Group in the amount of RUB 13,667,682 thousand (2016: RUB 25,770,613 thousand) were included in the CBR’s lombard list.

Management believes that despite a substantial portion of amounts due to customers being on demand, the diversification of these deposits by number and type of depositors, and the past experience of the Group, indicates that these amounts provide a long-term and stable source of funding for the Group.

28 Risk management (continued)

Liquidity risk (continued)

Management assumes the matching or controlled mismatching of the maturities of assets and liabilities is fundamental to the management of the Group's business. 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 of activities, but can also increase the risk of losses.

The Group thoroughly monitors the negative cumulative liquidity gap. The Group assesses risk attributable to its activities, sets limits on high-risk operations and analyzes actual costs against budget, which helps to control expenses.

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

Interest rate risk

Interest rate risk is the risk of losses incurred due to unfavorable changes in interest rates on the financial assets, liabilities and off balance sheet items of the Group.

The Group is exposed to the interest rate risk as a result of its principal activity (i.e., placing funds at fixed interest rates) in amounts and for periods which differ from those of borrowings. Interest rate risk arises in the event of a sharp shift in interest rates or decrease in interest spread (gap), when the value of the Group's assets declines, and the cost of liabilities rises, and thus the margin decreases.

The interest rate risk management is aimed at mitigation of adverse impact of unfavorable changes in market interest rates on the Group's financial result by monitoring the mismatch in maturity of funds placed and borrowed at fixed rates, as well as by matching interest-sensitive assets and liabilities.

The Group manages interest rate risks of the bank portfolio using the following instruments:

- Interest risk assessment;
- Narrowing the gap between assets and liabilities by terms of revaluation of interest rates broken down by separate currencies;
- Mitigation of interest risk during development/modification of products.

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks but through a control framework and by monitoring and responding to potential risks the Group is able to manage the risks. Controls include segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

Compliance risk

Compliance risk is the risk that the Group will incur losses due to non-compliance with the legislation, internal documentation, standards of self-regulating organizations (if such standards and rules are mandatory for the Group), as well as resulting from the imposed sanctions and (or) other enforcement actions taken by supervision bodies. The Internal Control Function monitors the compliance risk exposure based on laws and regulations and the Bank's internal documents, in accordance with the documents regulating the activities of the Internal Control Function, in line with the approved work plan or as part of separate assignments.

29 Capital management

The Group's objectives when managing capital are: (i) to comply with the capital requirements set by the CBR and (ii) to safeguard the Group's ability to continue as a going concern. Compliance with the capital adequacy ratio set by the CBR is monitored using the daily reports outlining the calculation and the monthly reports signed by the Chairman of the Management Board and Chief Accountant of the Group. During 2017 and 2016, the Group complied with all externally imposed capital requirements.

The Group maintains an actively managed capital base to cover risks inherent in its business. The adequacy of the Group's capital is monitored in supervising the Group using the ratios established by the CBR.

The primary objectives of the Group's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholder value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to participants, return capital to participants or issue capital securities. No changes were made in the capital management objectives, policies and processes from the previous years.

CBR capital adequacy ratio

The CBR requires banks to maintain a capital adequacy ratio of 8% of risk-weighted assets, computed based on RAL. Capital adequacy ratios are calculated in accordance with RAL as ratios of core capital (N1.1), main capital (N1.2) and equity (capital) of a bank (N1.0) to risk-weighted assets. As of 31 December 2017 and 31 December 2016, the Bank's capital adequacy ratios exceeded minimum ratios set by the CBR.

30 Commitments and contingencies

Operating environment

The Russian Federation displays certain characteristics of an emerging market. Russian tax, currency and customs legislation is subject to varying interpretations and contributes to the challenges faced by banks operating in the Russian Federation.

The international sovereign debt crisis, stock market volatility and other risks may negatively affect the Russian financial and corporate sector. Management determined allowances for loan impairment considering current economic situation and year-end outlook and used the "incurred loss" model required by the applicable accounting standards. According to these standards, impairment losses resulting from past events shall be recognized and impairment losses that may result from future events shall not be recognized irrespective of the likelihood of such events. See Note 4.

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

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

Legal proceedings

From time to time and in the ordinary course of business, the Group is subject to legal actions. Based on its own assessment and recommendations of internal professional advisors, the Group's management believes that the related legal proceedings will not result in material losses for the Group, and, therefore, did not provide for such legal proceedings in its consolidated financial statements.

30 Commitments and contingencies (continued)

Taxation

Changes in tax legislation related to the reporting period ended 31 December 2017 had no significant effect on the Group's current tax reporting procedure.

Some provisions of the Russian tax, currency and customs legislation as currently in effect are vaguely drafted and are often subject to varying interpretations (which may apply to past relations), selective and inconsistent application and changes, which can occur frequently and, in some cases, at short notice. In view of the above, management's interpretation of such legislation as applied to certain transactions and activity of the Group, including with respect to the economic justification and documentary support of those transactions, may be challenged by the relevant authorities at any time in the future. It is therefore possible that transactions and accounting methods that have not been challenged in the past may be challenged in the future. As such, additional taxes, penalties and interest may be charged.

Interpretation of certain provisions of Russian tax legislation and the latest trends in judicial practice suggest that the tax authorities and courts may be taking a more assertive position in their interpretation and application of this legislation and reviewing tax returns. It is not possible to determine claim amounts for claims which may be, but have not actually been, filed, or to assess the likelihood of an adverse outcome.

Russian transfer pricing legislation allows Russian tax authorities to apply tax base adjustments and impose additional income tax and value added tax liabilities in respect of "controlled" transactions if the transaction price differs from the market price. Management believes that the Group fully complies with transfer pricing rules, and "controlled" transaction prices are consistent with market prices.

Tax field reviews of the accuracy of tax calculation and payment, which are conducted by the tax authorities, may cover three calendar years immediately preceding the year in which the decision to perform the tax review was taken. Under certain conditions, tax reviews may cover earlier periods.

As of 31 December 2017, the Group believes that its interpretation of the relevant legislation is appropriate and that its tax, currency and customs positions will be sustained.

Capital expenditure commitments

As of 31 December 2017 and 31 December 2016, the Group had no contractual capital expenditure commitments for reconstruction of buildings and purchase of equipment.

The Group is confident that future net revenues and funding will be sufficient to cover these or any similar commitments.

Operating lease commitments

Where the Group is the lessee, the future minimum lease payments under non-cancelable operating leases are as follows:

(in thousands of Russian rubles)	**2017**	**2016**
Less than 1 year	82,680	76,325
From 1 to 5 years	96,584	84,222
More than 5 years	215,484	126,152
Total operating lease commitments	**394,748**	**286,699**

Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to customers as required. Guarantees and 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.

In 2016, the Group provided trade financing services for corporate customers. Data concerning guarantees and letters of credit issued relate to this type of activity.

30 Commitments and contingencies (continued)

Credit-related commitments (continued)

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to undrawn loan commitments, the Group is potentially exposed to loss in an amount equal to the total unused commitments if unused amounts should have been used. However, the likely amount of losses is less than the total amount of 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. As of 31 December 2017, unused limits on guarantees amounted to RUB 2,094,590 thousand (2016: RUB 4,663,157 thousand), and unused credit lines amounted to RUB 3,448,274 thousand (2016: RUB 3,190,031 thousand).

Guarantees comprise:

(in thousands of Russian rubles)	Notes	2017	2016
Guarantees issued		6,353,854	6,565,427
Less: provisions for guarantees	18	(245,031)	(478,890)
Total		**6,108,823**	**6,086,537**

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

As of 31 December 2017, irrevocable letters of credit were collateralized by term deposits in the amount of RUB 155,004 thousand (2016: RUB 66,369 thousand). See Note 17.

Guarantees and letters of credit are denominated in the following currencies:

(in thousands of Russian rubles)	2017	2016
RUB	5,868,734	6,047,522
USD	218,776	34,062
EUR	21,313	4,953
Total	**6,108,823**	**6,086,537**

31 Derivative financial instruments

Derivatives have potentially favorable (assets) or unfavorable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The total fair values of derivative financial instruments can fluctuate significantly from time to time. The table below sets out fair values, at the reporting date, of currencies receivable or payable under foreign exchange forward contracts entered into by the Group. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the respective reporting date. The contracts are short-term in nature.

	2017			2016		
(in thousands of Russian rubles)	Notional or contractual amount	Contracts with positive fair value	Contracts with negative fair value	Notional or contractual amount	Contracts with positive fair value	Contracts with negative fair value
Forward transactions						
- sale of corporate bonds denominated in rubles	143,121	5,697	–	500,000	12,100	–
- purchase of USD against RUB	120,982	–	(22)			
- purchase of RUB against USD	109,482	64	–	12,180	49	–
- purchase of EUR against RUB	17,255	–	(48)	4,897	–	(47)
- purchase of RUB against EUR	13,787	14	–	1,074,006	–	(1,339)
- purchase of USD against EUR	–	–	–	274,202	836	–
Total derivative financial instruments	**404,627**	**5,775**	**(70)**	**1,865,285**	**12,985**	**(1,386)**

31 Derivative financial instruments (continued)

As of 31 December 2017, the Group does not expect to settle these forward contracts in cash on a net basis and therefore recognizes them in the consolidated statement of financial position as an asset at net fair value in the amount of RUB 5,775 thousand (2016: RUB 12,985 thousand) and a liability in the amount of RUB 70 thousand (2016: RUB 1,386 thousand). (See Notes 15 and 18).

32 Fair values of financial instruments

(a) Fair values of financial instruments carried at amortized cost

Fair values of financial instruments carried at amortized cost are presented below:

	2017			2016		
(in thousands of Russian rubles)	**Carrying amount**	**Fair value**	**Unrecognized gain/ (loss)**	**Carrying amount**	**Fair value**	**Unrecognized gain/ (loss)**
Financial assets						
Cash and cash equivalents	**9,452,890**	**9,449,977**	**(2,913)**	**19,901,538**	**19,877,598**	**(23,940)**
- Cash on hand	695,557	695,557	–	598,427	598,427	–
- Cash balances with the CBR	2,482,611	2,482,611	–	1,738,852	1,738,852	–
- Correspondent accounts and overnight deposits	710,068	710,068	–	1,820,268	1,820,268	–
- Settlement accounts with financial institutions	79,809	79,809	–	218,186	218,186	–
- Reverse repurchase agreements with credit institutions up to 90 days	3,264,696	3,261,886	(2,810)	14,689,796	14,670,231	(19,565)
- Loans issued to the CBR with original maturities of less than three months	2,000,000	2,000,041	41	–	–	–
- Deposits with other banks with original maturities of less than three months	220,149	220,005	(144)	836,009	831,634	(4,375)
Obligatory reserve with the CBR	**494,409**	**494,409**	**–**	**530,179**	**530,179**	**–**
Amounts due from other banks	**632,385**	**636,548**	**4,163**	**2,648,273**	**2,696,139**	**47,866**
- Eurobonds	58,797	59,190	393	2,625,911	2,674,338	48,427
- Deposits with other banks with original maturities of more than three months	573,588	577,358	3,770	–	–	–
- Promissory notes	–	–	–	22,362	21,801	(561)
Loans and advances to customers	**26,018,201**	**26,953,946**	**935,745**	**14,515,998**	**14,839,814**	**323,816**
- Large businesses	14,278,185	14,381,064	102,879	3,071,017	3,066,303	(4,714)
- Medium businesses	5,759,272	6,092,297	333,025	9,028,072	9,405,600	377,528
- Small businesses	3,103,505	3,241,428	137,923	1,256,087	1,271,600	15,513
- Individuals	2,877,239	3,239,157	361,918	1,160,822	1,096,311	(64,511)
Investment securities held to maturity	**811,862**	**833,641**	**21,779**	**2,283,112**	**2,319,231**	**36,119**
- Federal loan bonds (OFZ)	811,862	833,641	21,779	2,283,112	2,319,231	36,119
Other financial assets	**122,589**	**122,589**	**–**	**131,794**	**131,794**	**–**
- Credit and debit card receivables	88,587	88,587	–	90,987	90,987	–
- Trade receivables	30,000	30,000	–	–	–	–
- Finance lease receivables	31	31	–	20,898	20,898	–
- Guarantee deposits	–	–	–	13,000	13,000	–
- Receivables from the Deposit Insurance Agency	–	–	–	5,274	5,274	–
- Other	3,971	3,971	–	1,635	1,635	–
Total financial assets carried at amortized cost	**37,532,336**	**38,491,110**	**958,774**	**40,010,894**	**40,394,755**	**383,861**

32 Fair value of financial instruments (continued)

(a) Fair values of financial instruments carried at amortized cost (continued)

	2017			2016		
(in thousands of Russian rubles)	**Carrying amount**	**Fair value**	**Unrecognized gain/ (loss)**	**Carrying amount**	**Fair value**	**Unrecognized gain/ (loss)**
Financial liabilities						
Amounts due to other banks	**2,953,720**	**2,953,870**	**(150)**	**1,851,213**	**1,850,401**	**812**
- Correspondent accounts and overnight deposits	146,036	146,036	–	285,331	285,331	–
- Deposits of other banks	1,258,113	1,258,169	(56)	1,565,882	1,565,070	812
- Repurchase agreements with other banks	1,549,571	1,549,665	(94)	–	–	–
Amounts due to customers	**43,288,315**	**43,611,185**	**(322,870)**	**48,644,965**	**49,499,091**	**(854,126)**
- Current/settlement accounts of state and public organizations	1,122	1,122	–	7,421	7,421	–
- Term deposits of state and public organizations	57,688	57,688	–	60,657	60,657	–
- Current/settlement accounts of other legal entities	6,560,831	6,560,831	–	8,360,662	8,360,662	–
- Term deposits of other legal entities	6,444,864	6,511,901	(67,037)	6,794,381	6,884,527	(90,146)
- Current/demand accounts of individuals	1,938,632	1,938,632	–	2,520,143	2,520,143	–
- Term deposits of individuals	28,285,178	28,541,011	(255,833)	30,901,701	31,665,681	(763,980)
Other financial liabilities	**45,000**	**45,000**	**–**	**257**	**257**	**–**
- Deferred commission income on guarantees issued	44,706	44,706	–	–	–	–
- Funds in settlement	219	219	–	–	–	–
- Credit and debit card payables	75	75	–	257	257	–
Debt securities issued	**535,411**	**535,601**	**(190)**	**892,817**	**905,774**	**(12,957)**
Subordinated Eurobonds issued	**1,155,215**	**1,155,215**	**–**	**1,212,854**	**1,212,854**	**–**
Total financial liabilities carried at amortized cost	**47,977,661**	**48,300,871**	**(323,210)**	**52,602,106**	**53,468,377**	**(866,271)**

32 Fair value of financial instruments (continued)

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

For financial instruments carried at fair value, the levels in the fair value hierarchy into which the fair values are categorized are as follows:

	2017			2016		
(in thousands of Russian rubles)	**Quoted price in an active market (Level 1)**	**Valuation technique with inputs observable in markets (Level 2)**	**Significant unobservable inputs (Level 3)**	**Quoted price in an active market (Level 1)**	**Valuation technique with inputs observable in markets (Level 2)**	**Significant unobservable inputs (Level 3)**
Financial assets measured at fair value						
Trading securities	**1,016,405**	**10,322,094**	**–**	**6,434,532**	**3,838,157**	**–**
- Bonds of the CBR	–	3,046,230	–	–	–	–
- Federal loan bonds (OFZ)	–	–	–	5,390,447	1,202,394	–
- Bonds of banks	–	1,651,634	–	–	407,800	–
- Corporate bonds	962,961	5,574,107	–	735,690	2,212,889	–
- Bonds of state corporations	53,444	50,123	–	100,192	–	–
- Bonds of subjects of the Russian Federation	–	–	–	–	15,074	–
- Corporate shares	–	–	–	208,203	–	–
Investment securities available for sale	**8,663,843**	**–**	**1,092,485**	**11,684,179**	**450,032**	**957,714**
- Corporate bonds	4,680,122	–	–	8,126,104	–	–
- Corporate shares	–	–	1,092,485	–	–	957,714
- Bonds of Russian banks	2,339,107	–	–	2,596,318	450,032	–
- Bonds of state corporations	1,644,614	–	–	961,757	–	–
Other financial assets	**–**	**5,775**	**–**	**–**	**12,985**	**–**
- Derivative financial instruments	–	5,775	–	–	12,985	–
Total financial assets measured at fair value	**9,680,248**	**10,327,869**	**1,092,485**	**18,118,711**	**4,301,174**	**957,714**
Financial assets for which fair values are disclosed						
Cash and cash equivalents	9,229,972	–	220,005	19,045,964	–	831,634
Amounts due from credit institutions	–	–	636,548	–	–	2,696,139
Loans to customers	–	–	26,953,946	–	–	14,839,814
Investment securities held to maturity	–	833,641	–	736,252	1,582,979	–
Total financial assets for which fair values are disclosed	**9,229,972**	**833,641**	**27,810,499**	**19,782,216**	**1,582,979**	**18,367,587**
Financial liabilities at fair value						
Other financial liabilities	**–**	**70**	**–**	**–**	**1,386**	**–**
- Derivative financial instruments	–	70	–	–	1,386	–
Total financial liabilities measured at fair value	**–**	**70**	**–**	**–**	**1,386**	**–**
Financial liabilities for which fair values are disclosed						
Amounts due to the CBR and other banks	–	–	2,953,870	–	–	1,850,401
Amounts due to customers	–	–	43,618,056	–	–	49,499,105
Debt securities issued	–	–	535,601	–	–	905,774
Subordinated Eurobonds issued	–	1,155,215	–	–	1,212,854	–
Total financial liabilities for which fair values are disclosed	**–**	**1,155,215**	**47,107,527**	**–**	**1,212,854**	**52,255,280**

Management uses professional judgments to allocate financial instruments to a particular level of the fair value hierarchy. If observable inputs requiring significant adjustments are used in fair value measurement, this measurement is included in Level 2. Significant of used inputs are assessed for aggregated fair value measurement.

In 2017, the Group transferred trading securities in the amount of RUB 845,396 thousand from Level 1 to Level 2 of the fair value hierarchy due to a decline in market activity. These securities represent corporate bonds and bonds of state corporations.

32 Fair value of financial instruments (continued)

(b) Analysis by fair value hierarchy of financial instruments carried at fair value (continued)

In 2016, the Group transferred trading securities in the amount of RUB 1,884,778 thousand from Level 1 to Level 2 of the fair value hierarchy due to a decline in market activity. These securities represent bank and corporate bonds, and OFZ bonds.

In 2016, the Group transferred trading securities in the amount of RUB 289,598 thousand from Level 2 to Level 1 of the fair value hierarchy due to a rise in market activity. These securities represent corporate bonds, bonds of state corporations and corporate shares.

(c) Movements in Level 3 assets and liabilities at fair value

The following tables show a reconciliation of the opening and closing amount of Level 3 assets and liabilities which are recorded at fair value:

(in thousands of Russian rubles)	As of 1 January 2017	Gains/ (losses) recognized in other comprehen-sive income	Purchases	Sales	As of 31 December 2017
Assets					
Investment securities available for sale	957,714	134,771	–	–	1,092,485

(in thousands of Russian rubles)	As of 1 January 2016	Gains/ (losses) recognized in other comprehen-sive income	Purchases	Sales	As of 31 December 2016
Assets					
Investment securities available for sale	2,051,870	(263,492)	–	(830,664)	957,714

Losses recorded in profit or loss on investment securities available for sale, as presented in the tables above, are recorded in the consolidated statement of comprehensive income within losses net of gains from sale of investment securities available for sale and within losses net of gains from foreign currency translation.

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

As of 31 December 2017	Carrying amount	Valuation technique	Unobservable inputs	Range (weighted average value)
Investment securities available for sale				
Equity securities	1,092,485	Price/Equity	Value of underlying asset	Not applicable

32 Fair value of financial instruments (continued)

(c) Movements in Level 3 assets and liabilities at fair value (continued)

As of 31 December 2016	Carrying amount	Valuation technique	Unobservable inputs	Range (weighted average value)
Investment securities available for sale				
Equity securities	957,714	Price/Earnings	Value of underlying asset	Not applicable

The following table shows the quantitative information about sensitivity of the fair value measurement categorized within Level 3 of the fair value hierarchy to changes in significant unobservable inputs:

	31 December 2017		31 December 2016	
	Carrying amount	Effect of reasonably possible alternative assumptions	Carrying amount	Effect of reasonably possible alternative assumptions
Financial assets				
Investment securities available for sale	1,092,485	(54,624)	957,714	(61,142)

In order to determine reasonably possible alternative assumptions, the Group adjusted key unobservable model inputs as follows:

- For shares, the Group adjusted the average price/issuer's equity ratio (2016: price/earnings ratio) by decreasing it by 5 percentage points, which, in the Group's opinion, is within a range of possible alternative change of this ratio for other companies of the same industry bearing similar risks.

(d) Methods and assumptions applied in determining fair values

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. Fair value is best evidenced by the active quoted market price of a financial instrument. Where quoted market prices are not available, the Group uses valuation techniques. The fair value of unquoted fixed interest rate instruments was estimated based on future cash flows discounted at current interest rates for new instruments with similar credit risk and maturity.

The use of discount rates is subject to instrument currency and maturity and credit risk of the counterparty. The analysis of these rates is presented below:

	2017	2016
Amounts due from other banks		
Term deposits with other banks	0.0% per annum	1.1%-7.8% per annum
Loans to customers		
Large businesses	3.5%-10.5% per annum	5.9%-12.3% per annum
Medium businesses	4.1%-10.5% per annum	6.1%-12.3% per annum
Small businesses	5.5%-12.9% per annum	7.1%-15.5% per annum
Loans to individuals	0.0%-21.3% per annum	8.3%-22.0% per annum
Amounts due to other banks		
Correspondent accounts and overnight deposits of other banks	0.0% per annum	0.0% per annum
Deposits of other banks	0.0%-1.3% per annum	1.1%-9.8% per annum
Repurchase agreements with other banks	0.0% per annum	–
Amounts due to customers		
Term deposits of legal entities	0.2%-7.5% per annum	0.1%-9.6% per annum
Term deposits of individuals	0.1%-6.4% per annum	0.2%-7.6% per annum

33 Related party disclosures

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

For the purpose of related party disclosures, participants comprise entities or individuals owning, directly or indirectly, an interest in the share capital that gives them significant influence over the Group.

Other related parties comprise close relatives of individuals and key management personnel who can have influence on or can be influenced by such individuals in relation to transactions with the Group.

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

(in thousands of Russian rubles)	**Participants**	**Key management personnel**	**Other entities under common control**	**Other related parties**
Cash and cash equivalents	–	–	263,465	–
Investment securities available for sale	–	–	1,092,485	–
Loans to customers (contractual interest rate: 8.0%-17.0%)	–	10,309	72,103	17
Other non-financial assets	–	95	809	1
Amounts due to other banks (contractual interest rate: 0.6%-1.5%)	–	–	1,220,804	–
Amounts due to customers (contractual interest rate: 0.1%-11.4%)	2,562,259	244,546	160,308	101,416
Other non-financial liabilities	5,881	11,317	127	44

Income and expenses for 2017 arising from transactions with related parties are disclosed below:

(in thousands of Russian rubles)	**Participants**	**Key management personnel**	**Other entities under common control**	**Other related parties**
Interest income	14,761	4,240	1,938	22
Interest expense	(43,479)	(9,611)	(11,440)	(5,028)
(Charge)/reversal of allowance for loan impairment	(1,336)	(65)	(83)	5
Gains less losses from dealing in foreign currencies	72	181	9,183	29
Gains less losses from foreign currency translation	124,239	7,546	54,459	2,121
Fee and commission income	2,466	648	7,191	146
Fee and commission expense	–	–	(860)	–
Other operating income	12,948	70	9,600	–
Administrative and other operating expenses	(38,494)	(318,431)	(11,334)	(6,620)

Other rights and obligations under transactions with related parties as of 31 December 2017 were as follows:

(in thousands of Russian rubles)	**Participants**	**Key management personnel**	**Other entities under common control**	**Other related parties**
Guarantees issued by the Group	–	–	7,574	–
Guarantees received by the Group at the end of the year	3,500	67,275	46,308	1,184
Other contingencies	2,000	10,204	780	39

33 Related party disclosures (continued)

Aggregate amounts lent to and repaid by related parties in 2017 were as follows:

(in thousands of Russian rubles)	Participants	Key management personnel	Other entities under common control	Other related parties
Amounts lent to related parties during the year	563,836	113,657	4,138,022	1,358
Amounts repaid by related parties during the year	494,794	107,293	3,926,302	1,383
Transfers	(69,043)	–	69,043	–

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

(in thousands of Russian rubles)	Participants	Key management personnel	Other entities under common control	Other related parties
Cash and cash equivalents	–	–	285,849	–
Investment securities available for sale	–	–	957,714	–
Loans to customers (contractual interest rate: 14.0%-17.9%)	–	2,573	–	37
Other non-financial assets	–	90	3,595	–
Amounts due to other banks (contractual interest rate: 0.2%-9.5%)	–	–	1,705,312	–
Amounts due to customers (contractual interest rate: 0.0%-12.0%)	2,110,447	258,964	151,551	84,446
Debt securities issued	19,912	–	–	–
Other non-financial liabilities	6,920	17,304	97	29

Income and expenses for 2016 arising from transactions with related parties are disclosed below:

(in thousands of Russian rubles)	Participants	Key management personnel	Other entities under common control	Other related parties
Interest income	2,765	2,394	1,438	2,443
Interest expense	(83,622)	(16,572)	(37,886)	(14,428)
Allowance for loan impairment	–	(22)	–	(5)
Gains less losses/(losses net of gains) from dealing in foreign currencies	62	179	(26,176)	67
Gains less losses from foreign currency translation	243,992	42,257	392,394	13,036
Fee and commission income	1,327	687	42,176	211
Fee and commission expense	–	–	(950)	–
Other operating income	9,533	33	785	1,186
Administrative and other operating expenses	(39,938)	(362,299)	(10,090)	(6,503)

Other rights and obligations under transactions with related parties as of 31 December 2016 were as follows:

(in thousands of Russian rubles)	Participants	Key management personnel	Other entities under common control	Other related parties
Guarantees issued by the Group	–	–	7,574	–
Guarantees received by the Group at the end of the year	3,500	16,650	15,147	15,486
Other contingencies	2,000	72,906	–	14

33 Related party disclosures (continued)

Aggregate amounts lent to and repaid by related parties in 2016 were as follows:

(in thousands of Russian rubles)	Participants	Key management personnel	Other entities under common control	Other related parties
Amounts lent to related parties during the year	223,116	25,183	620,156	3,000
Amounts repaid by related parties during the year	223,119	45,131	907,656	609
Loans to non-related customers	–	347	–	2,391

On 30 November 2017, the Group purchased a share of RUB 309,949 thousand held by a related party for RUB 1,220,018 thousand.

Compensations to key management are presented below:

(in thousands of Russian rubles)	2017	2016
Short-term payments		
- Salaries	315,416	317,522
- Short-term bonuses	17,674	55,827
Total	**333,090**	**373,349**

Short-term bonuses are payable in full within twelve months after the period when management provided the respective services.

In 2017 and 2016, transactions with related parties were on an arm's length basis.

34 Business combinations

On 1 December 2017, Expobank LLC purchased 100% of ordinary shares in JSCB Yapi Kredi Bank Moscow (JSC) from Yapi ve Kredi Bankasi A.S. Starting from December 2017, the Bank obtained control over financing and operating activities of the subsidiary.

Name	Nature of business	Country of registration
Subsidiary		
JSCB Yapi Kredi Bank Moscow (JSC)	Commercial bank	Russian Federation

Key activities of the acquired bank include corporate lending, providing bank guarantees, raising deposits from legal entities and individuals, and servicing legal entities. JSCB Yapi Kredi Bank Moscow (JSC) was acquired mainly to implement the strategy aimed at consolidating bank assets.

34 Business combinations (continued)

For the purpose of preparing the consolidated financial statements, the fair value of the assets and liabilities of JSCB Yapi Kredi Bank Moscow (JSC) was determined at the acquisition date based on a report prepared by independent appraisers. The acquired assets and liabilities and gain from bargain purchase (negative goodwill) arising from the acquisition of JSCB Yapi Kredi Bank Moscow (JSC) are as follows:

	Fair value recognized on acquisition
Assets	
Cash and cash equivalents	360,282
Obligatory reserve with the CBR	27,431
Amounts due from other banks	1,816,706
Loans to customers	4,728,365
Investment securities available for sale	201,482
Prepayment for current income tax liabilities	9,000
Property and equipment	263,215
Other assets	29,159
Total assets	**7,435,640**
Liabilities	
Amounts due to banks	1,511,056
Amounts due to customers	2,271,772
Debt securities issued	90,332
Deferred tax liabilities	25,085
Other liabilities	12,891
Total liabilities	**3,911,136**
Total identifiable net assets	**3,524,504**
Transferred consideration	(3,283,799)
Excess of the fair value of acquiree's net assets over investment cost	**240,705**

In January 2018, JSCB Yapi Kredi Bank Moscow (JSC) was re-registered as Bank na Goncharnoy (JSC).

On 30 January 2018, the general meeting of the Bank's participants decided to reorganize Expobank LLC by merging it with Bank na Goncharnoy (JSC).

On 26 March 2018, Expobank LLC was reorganized by merging with Bank na Goncharnoy (JSC).

The net financial result of JSCB Yapi Kredi Bank Moscow (JSC) for the period from the acquisition date to 31 December 2017 had no significant effect on the Group's profit for 2017.

The amount of the Group's potential profit or loss for 2017 that would have arisen had the acquisition taken place in January 2017 was not disclosed as the IFRS financial statements of JSCB Yapi Kredi Bank Moscow (JSC) for the year ended 31 December 2017 were not prepared due to the reorganization in March 2018.

34 Business combinations (continued)

Analysis of cash flows on acquisition

Net cash acquired with the subsidiary (included in cash flows from investing activities)	360,282
Cash paid on acquisition (included in cash flows from investing activities)	(3,283,799)
Net cash outflow	**(2,923,517)**

On 1 April 2016, Expobank LLC purchased from the Royal Bank of Scotland Group a 100% interest in its Russian subsidiary RBS CJSC (General License No. 2594 issued by the CBR). Starting from April 2016, the Bank obtained control over financing and operating activities of the subsidiary.

Name	Nature of business	Country of registration
Subsidiary		
RBS CJSC	Commercial bank	Russian Federation

Key activities of the acquired bank include debt financing services to corporate customers, financial institutions, public sector and governmental authorities, as well as transaction services and risk management services. RBS CJSC was acquired mainly to implement the strategy for the consolidation of bank assets.

For the purpose of the consolidated financial statements, the fair value of assets and liabilities of RBS CJSC was determined at the acquisition date based on the report prepared by independent appraisers. The acquired assets and liabilities and gain from bargain purchase (negative goodwill) arising from acquisition of RBS CJSC are as follows:

	Fair value recognized on acquisition
Assets	
Cash and cash equivalents	2,470,824
Obligatory reserve with the CBR	135,642
Amounts due from other banks	10,141,160
Loans to customers	34,647
Property and equipment	1,244,048
Other assets	1,401,064
Total assets	**15,427,385**
Liabilities	
Amounts due to banks	564,231
Amounts due to customers	10,420,350
Deferred tax liabilities	179,010
Other liabilities	30,213
Total liabilities	**11,193,804**
Total identifiable net assets	**4,233,581**
Transferred consideration	2,458,343
Excess of the fair value of acquiree's net assets over investment cost	**1,775,238**

On 16 May 2016, the general meeting of the Bank's participants decided to reorganize Expobank LLC by merging it with RBS CJSC.

34 Business combinations (continued)

Analysis of cash flows on acquisition (continued)

In May 2016, following the decision of the sole shareholder, RBS CJSC was renamed into Expobank Finance JSC.

On 1 August 2016, Expobank LLC was reorganized by merging with Expobank Finance JSC.

Net cash acquired with the subsidiary (included in cash flows from investing activities)	2,470,824
Cash paid on acquisition (included in cash flows from investing activities)	(2,458,343)
Net cash inflow	**12,481**

35 Transferred financial assets not derecognized and assets held or pledged as collateral

The following table provides a summary of financial assets which have been transferred in such a way that part or all of the transferred financial assets do not qualify for derecognition:

		2017	
(in thousands of Russian rubles)	**Notes**	**Carrying amount of transferred financial asset**	**Carrying amount of associated liabilities**
Investment securities available for sale	11, 16	1,735,340	1,549,571
Total		**1,735,340**	**1,549,571**

As of 31 December 2017, claims under direct repurchase agreements in the amount of RUB 1,735,340 thousand represent securities which were sold under repurchase agreements and which can be sold or repledged by the counterparty according to contractual terms or established practice. Repurchase agreements were of short-term nature and were completed in due time before 25 January 2018.

As of 31 December 2016, the Group has no transferred assets not derecognized or assets held or pledged as collateral.

As of 31 December 2017, investment securities held to maturity in the amount of RUB 424,716 thousand (2016: trading securities and investment securities held to maturity in the amount of RUB 3,606,947 thousand and RUB 210,804 thousand, respectively) were blocked in accordance with the General Loan Agreement with the CBR with an overdraft limit of RUB 3,500,000 thousand (2016: RUB 3,500,000 thousand). As of 31 December 2017 and 31 December 2016, the overdraft was not used by the Group.

In addition, obligatory reserves with the CBR in the amount of RUB 494,409 thousand (2016: RUB 530,179 thousand) represent non-interest bearing deposits with the CBR which are not available to finance the Group's day-to-day operations.

36 Offsetting of financial instruments

The tables below show the effect of enforceable master netting agreements and similar agreements that do not result in an offset in the consolidated statement of financial position:

2017	Net amount of financial instruments recognized in the statement of financial position	Financial instruments not offset in the statement of financial position	Net amount
Financial assets			
Reverse repurchase agreements	18,788	(18,788)	–
Total	**18,788**	**(18,788)**	**–**
Financial liabilities			
Other financial instruments	(70)	–	(70)
Total	**(70)**	**–**	**(70)**

2016	Net amount of financial instruments recognized in the statement of financial position	Financial instruments not offset in the statement of financial position	Net amount
Financial liabilities			
Other financial instruments	(1,386)	–	(1,386)
Total	**(1,386)**	**–**	**(1,386)**

37 Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. See Note 28 "Risk management" for the Group's contractual undiscounted repayment obligations.

	As of 31 December 2017			As of 31 December 2016		
	Amounts expected to be settled/recovered			Amounts expected to be settled/recovered		
(in thousands of Russian rubles)	**Within 12 months after the reporting period**	**More than 12 months after the reporting period**	**Total**	**Within 12 months after the reporting period**	**More than 12 months after the reporting period**	**Total**
Assets						
Cash and cash equivalents	9,452,890	–	9,452,890	19,901,538	–	19,901,538
Obligatory reserve with the CBR	494,409	–	494,409	530,179	–	530,179
Trading securities	11,338,499	–	11,338,499	10,272,689	–	10,272,689
Amounts due from other banks	632,385	–	632,385	2,131,284	516,989	2,648,273
Loans and advances to customers	13,853,007	12,165,194	26,018,201	3,771,510	10,744,488	14,515,998
Investment securities available for sale	9,756,328	–	9,756,328	13,091,925	–	13,091,925
Securities held to maturity	613,594	198,268	811,862	396,750	1,886,362	2,283,112
Prepayment for current income tax liabilities	80,294	–	80,294	–	–	–
Intangible assets	–	29,361	29,361	–	35,631	35,631
Investment property	–	687,000	687,000	–	698,000	698,000
Property and equipment	–	1,698,871	1,698,871	–	1,440,353	1,440,353
Deferred tax assets	–	–	–	–	254,549	254,549
Other financial assets	128,364	–	128,364	144,779	–	144,779
Other non-financial assets	73,871	–	73,871	82,132	–	82,132
Total assets	**46,423,641**	**14,778,694**	**61,202,335**	**50,322,786**	**15,576,372**	**65,899,158**
Liabilities						
Amounts due to other banks	2,953,720	–	2,953,720	1,851,213	–	1,851,213
Amounts due to customers	39,729,301	3,559,014	43,288,315	38,284,431	10,360,534	48,644,965
Debt securities issued	489,485	45,926	535,411	882,554	10,263	892,817
Income tax liabilities	–	–	–	346,933	–	346,933
Deferred tax liability	–	27,752	27,752	–	–	–
Other financial liabilities	33,205	11,865	45,070	1,643	–	1,643
Other non-financial liabilities	491,632	–	491,632	960,601	–	960,601
Subordinated Eurobonds issued	–	1,155,215	1,155,215	–	1,212,854	1,212,854
Total liabilities	**43,697,343**	**4,799,772**	**48,497,115**	**42,327,375**	**11,583,651**	**53,911,026**

38 Changes in liabilities arising from financing activities

(in thousands of Russian rubles)	**Debt securities issued**	**Subordinated loans**
Carrying amount as of 31 December 2015	**1,290,580**	**1,452,835**
Purchase of bonds issued by the Group	(1,916,351)	–
Proceeds from placement of previously purchased bonds	250,000	–
Translation differences	–	(245,575)
Other	377,237	5,594
Carrying amount as of 31 December 2016	**1,466**	**1,212,854**
Redemption	(542)	–
Translation differences	–	(60,332)
Other	–	2,693
Carrying amount as of 31 December 2017	**924**	**1,155,215**

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

39 Events after the reporting period

On 30 January 2018, the general meeting of the Bank’s participants decided to reorganize the Bank by merging it with Bank na Goncharnoy (JSC). According to Article 53.3.1.4 of Federal Law No. 14-FZ *Concerning Limited Liability Companies* of 8 February 1998, in case of a merger, the interest in the acquiring company held by that company shall be redeemed. Therefore, the general meeting of the Bank’s participants decided to change the amount of the share capital as well. On 26 March 2018, changes No. 1 to the Bank’s charter, including the change in the amount of the share capital, were registered.

On 2 March 2018, the Analytical Credit Rating Agency (ACRA) assigned the BBB+ (RU) credit rating with a stable outlook to the Bank.